

The Heritage Foundation **Background**

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STARTING OVER AT THE U.S.-JAPAN SUMMIT

(Updating *Background* Update No. 215, "Changing the Subject at the U.S.-Japan Summit: Security Is Now More Important Than Trade," February 9, 1994)

Japanese Prime Minister Tomiichi Murayama's January 11 visit to Washington offers Bill Clinton a much-needed second chance to devise a workable policy toward Japan. His first try was ill-conceived, poorly executed, and ultimately unsuccessful. By badgering Japan to agree to numerical trade targets, the Clinton Administration not only has failed to resolve the longstanding trade dispute with Japan, but also has missed a golden opportunity to work more closely with the reformers who, like many in the U.S., want a more open Japanese economy. The best way to resolve this trade dispute without harming the valuable strategic relationship between the U.S. and Japan is for the Clinton Administration to drop its managed trade policies toward Japan and to form an alliance with Japanese who want broader economic change.

Clinton's Japan Policy: A Rushed Political Job. The Clinton Administration came to office committed to building a new U.S.-Japan relationship. The Administration argued that the existing relationship resembled an out-of-balance three-legged stool standing on security, politics, and economics. The economic leg of this stool, Clinton contended, had to be extended and strengthened to restore proper equilibrium to the relationship. Originally conceived as but one element in a three-part strategy, the trade and economic dimension nevertheless rapidly expanded in terms of time and effort to become almost the entirety of the Clinton Administration's approach to Japan. By focusing so much on trade, Clinton did not restore balance to his three-legged stool; he created a new imbalance, downplaying important political and security elements of the U.S.-Japan relationship.

Clinton's new Japan policy culminated in something called the New Economic Framework. Cobbled together in Tokyo in July 1993, it was a rush job. The Framework negotiations were essentially short-term in nature, geared to make good on the President's promise to produce results in politically sensitive economic sectors such as autos, auto parts, and computers. From the very beginning the negotiations over the New Economic Framework were marked by a high degree of mutual suspicion and distrust. In October 1994, under pressure of U.S. trade sanctions, the Framework talks concluded with a last-minute, all-night effort which produced minimum results. In effect, both governments called a time out in the increasingly frustrating and contentious talks and agreed to kick the can down the road.

U.S. Needs A New Approach. Progress on America's and Japan's respective economic agendas is important if the two countries are to sustain and build support for their strategically important relationship. The issue is not whether Japan should become a more open, consumer-oriented society, but whether the Clinton Administration's policies offer the best hope for producing the desired results. The meager results of the Framework talks thus far argue for de-emphasizing differences on trade strategy and emphasizing in-

stead the commonality of political, security, and even economic interests. In other words, the U.S. needs to take a broader strategic approach to Japan.

What the Numbers Tell. To start, there is no need for the U.S. to place such a heavy emphasis on trade policy in defining its relationship with Japan. When it came to office, the Clinton Administration alleged that the Japan policies of previous Administrations had failed to produce trade results. The numbers, however, tell a different story. From 1987 through 1991, the U.S. trade deficit with Japan fell from \$57 billion to \$43 billion; total exports to Japan rose by 113 percent, and U.S.-manufactured exports rose by 64 percent.

The reasons for the decline had less to do with trade negotiations than with the fact that Japan's economy was booming and pulling in American goods and services. The deficit began to go up again when Japan's economy went into recession in the early 1990s.

Indeed, the President's own Council of Economic Advisers estimates that even with near total victory in the Framework negotiations, the trade deficit would still hover between \$40 billion and \$50 billion. If this is the case, it makes little sense to focus so much on trade negotiations. It makes even less sense to adopt numerical trade targets and other so-called objective indicators of freer trade. Instead, the main focus of U.S. policy should be on urging Japan to deregulate and liberalize its entire economy. This would produce the economic growth needed to stimulate Japanese demand for U.S. goods and to reduce the trade imbalance with the United States.

This strategy would build on the growing trend inside Japan toward more deregulation and economic liberalization. By working with reformers instead of against them in contentious trade talks, the Clinton Administration could get real results. Rather than being cast as the external force demanding change in Japan, the U.S. should work with Japan's reformers to bring internal pressure to bear on Japan's bureaucracy. The result would be a more open Japanese economy.

Centerpiece of Security. However, de-emphasizing trade negotiations is only one part of this new approach to Japan. The other is to rediscover the strategic importance of the U.S.-Japan relationship, an alliance based on a congruence of national interests. Both America and Japan want an open international trading system and peaceful international change. Both countries also need to prevent the domination of East Asia by a hostile power. Across the globe, Japan has backed U.S. diplomatic initiatives: democracy in Central America, economic development in the Caribbean basin, the peace process in the Middle East, democracy and economic reform in the republics of the former Soviet Union, building the Asia-Pacific Economic Cooperation forum into an institution for regional trade liberalization, sending peacekeepers to Cambodia, and supporting U.S. diplomacy to end North Korea's nuclear weapons program.

At the same time, the U.S.-Japan alliance serves as the centerpiece of the Asian-Pacific security system and the foundation of its stability and economic dynamism. This is of direct and immediate importance to U.S. economic well-being and national security. Beyond the Western Hemisphere, America's largest markets are in Asia. Last year, trans-Pacific trade totaled \$361 billion, which is over 50 percent greater than trans-Atlantic trade. And Asia's economies are the fastest-growing in the world.

For Japan, Northeast Asia is a tough neighborhood. The Korean Peninsula remains a conventional, and potentially nuclear, flashpoint. China faces a daunting political transition when Deng Xiaoping dies. And the process of democratization and economic reform in Russia promises to be both protracted and perilous.

To meet these challenges, the U.S. and Japan must stand together. But they cannot do this if they are constantly bickering over negotiations which have done little to correct the existing trade imbalance. By focusing so much on trade negotiations, the Clinton White House has overlooked the value of the alliance and its importance to U.S. regional and global interests. Statements of the strategic importance of Japan have been confined largely to the State Department, which is now largely irrelevant to making Japan policy. That privilege has been reserved primarily by the White House, the United States Trade Representative, and the

Departments of Commerce and Treasury, none of which has demonstrated a deep understanding of the strategic relationship between the U.S. and Japan.

To get back on track, the Clinton Administration should revive the U.S.-Japan Global Partnership initiative, which was begun by President George Bush and then-Prime Minister Kiichi Miyazawa in the Tokyo Declaration of January 1992. The Global Partnership is both a framework for political and economic cooperation between the U.S. and Japan and an action plan to strengthen the U.S.-Japan alliance. Using the Tokyo Declaration as his guide, President Clinton should begin to reconstruct and refocus U.S.-Japan relations. Thus, in the meeting with Prime Minister Murayama, President Clinton should:

- ✓ **Reaffirm the U.S.-Japan Global Partnership initiative and the commitments of the Tokyo Declaration.** The Tokyo Declaration committed the U.S. and Japan to cooperate in shaping a post-Cold War international order based on “shared principles of political and economic freedom, democracy, the rule of law, and respect for human rights.” It also committed both countries to “taking effective measures to address factors underlying economic friction, with a focus on issues in their trading and investment relations.” The key is that the Tokyo Declaration puts the issue of trade in a strategic context. It recognizes that progress in trade makes little sense if it irreparably severs the strategic ties linking the U.S. and Japan.
- ✓ **Appoint a binational U.S.-Japan Commission to report on how best to implement the provisions of the Tokyo Declaration and the Global Partnership initiative.**
- ✓ **Highlight the U.S.-Japan alliance and its continuing relevance to both countries’ security interests.** Even in today’s post-Cold War world, the alliance represents a congruence of national interests. It serves as the cornerstone of stability and security in the Asia-Pacific region. This fact needs to be at the heart of U.S. policy toward Japan.
- ✓ **Shift the spotlight of the U.S.-Japan relationship away from trade negotiations.** Instead, the U.S. should focus more on urging the Japanese to deregulate and liberalize their economy. America will have powerful allies inside Japan. Taking this approach will be far more productive than badgering the Japanese over trade targets and other indicators. The Clinton approach thus far has produced only politically motivated stonewalling inside Japan.

Over the past two years, the Clinton Administration has spent much time and energy trying to build a new framework for the U.S.-Japan relationship, one firmly attached to what it calls a “results-oriented” trade policy. This approach has failed. President Clinton has the opportunity in the upcoming summit meeting with Prime Minister Murayama to start over. The first step is to recognize the central importance of the U.S.-Japan alliance to the strategic interests of the United States. U.S. trade relations with Japan are very important, but not more so than the relationship itself.

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