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**U.S.-JAPAN RELATIONS
AND THEIR IMPLICATIONS FOR EUROPE**

AN ANALYSIS OF POLITICAL AND ECONOMIC ASPECTS

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Acronyms

ANZUS	Australia – New Zealand – United States Security Treaty
APEC	Asia-Pacific Economic Co-operation
ARF	ASEAN Regional Forum
ASEAN	Association of South East Asian Nations
ASEM	Asia-Europe Meeting
CFSP	Common Foreign and Security Policy
CIS	Community of Independent States
EEA	European Economic Area
EMU	European Monetary Union
ERP	European Recovery Programme
EU	European Union
FDI	Foreign Direct Investment
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development (The World Bank)
IMF	International Monetary Fund
IT	Information Technology
ITA	Information Technology Agreement
LDP	Liberal Democratic Party
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organisation
OECD	Organisation for Economic Co-operation and Development
OSCE	Organisation for Security and Co-operation in Europe
SEATO	South East Asia Treaty Organisation
SFOR	Stabilising Force
UN	United Nations
UR	Uruguay Round
US	United States of America
WEU	Western European Union
WTO	World Trade Organisation

1. Introduction:

The Emergence of a Tri-Polar World Order

In the second half of the 1980s, it became increasingly clear that the *bipolar world order* that had characterised international relations in the four decades after World War II was becoming obsolete. The *ideological* and *military confrontation* between the capitalist West under U.S. leadership and the communist East around the Soviet Union had ceased, along with the *economic* and *political downturn* in the communist block and its *disintegration*. Today, the United States of America are the only *political and military* superpower able and willing to act on a global scale. *Politically*, the world order therefore is rather *unipolar* today.

However, along with the gradual decline of East-West confrontation, a shift in *global governance*¹ has taken place: *Military* and *political* aspects of power were losing significance, while *economic and technological* strengths became more and more important as the world economy was *globalising* and competition became fiercer. The *nation state* as an institution has lost power while the position of *economic actors*, in particular *multinational corporations*, has been strengthened. Subsequently, a *triad of economic hegemons* in their respective world regions was emerging.² The key players of this new world order are (*Western*) *Europe*, *Japan* and the *U.S.*

The purpose of this seminar paper is to review the *relations* between two of these key players, *Japan* and the *United States*, and the *implications* of their relationship for the third player, *Europe*. Accordingly, chapter 2 established the framework for further analysis by giving a brief overview on the evolution and character of the triad and on the *position* held by each of these three key players and the main variables shaping it. On this background, chapter 3 will analyse *political* relations between the U.S. and Japan while chapter 4 will deal with their *economic* relations, always with due regard to the implications for Europe. Chapter 5 will briefly summarise the main findings of the paper.

¹ The issue of global governance has been dealt with by, among others, DE PURY (1998); MESSNER (1998); NUSCHELER (1998); RAMPHAL (1998); THUROW (1996) and WEIDENBAUM (1993).

² The concept of the "triad" has mainly been developed by OHMAE (1985). It received much attention in literature; cf. VON BREDOW and JÄGER (1994) or LEUENBERGER and WEINSTEIN (1992).

2. The Evolution of the Triad: Europe, Japan and The United States of America

First, we will discuss the evolution of the present *tri-polar* world order with Europe, Japan and the United States as key players. We will then examine the role of each of these three key players.

2.1 The Development of the Present World Order

Towards the middle of the 1980s, it became increasingly clear that the confrontation between the *capitalist block* around the United States of America and Western Europe and the *communist block* around the Soviet Union was becoming obsolete, as the latter had not been able any more to keep pace with *technological and economic development* in the West. The attempt of the then Soviet Leader MIKHAIL GORBACHEV to *strengthen the socialist economies* through *political (glasnost)* and economic (*perestroika*) reform failed, and the *Soviet Union* as well as the *Warsaw Pact* rapidly disintegrated.

In *political and military* terms, the *decay of the Soviet Union* left a *vacuum*, which could only be filled by the *United States of America*, the superpower that emanated from the Cold War as the winner. Accordingly, the 1990s have been a decade where *U.S. military supremacy* had been unchallenged and where, therefore - despite the presence of some *regional powers* such as *China*³ or *Russia*⁴ - the United States could be regarded as *military hegemon on a global scale*. This *military leadership* goes along with a considerable *political weight* of the United States in world affairs.⁵

In *economic terms*, however, the situation has developed in a different way. America is not in a *hegemonic position*, but we are confronted with a *tri-polar structure*, where three *regional centres* dominate world economic activities. These regional centres are the *European Union*, *Japan* and the *United States of America*. These three regions have been the main *economic "winners"* of the end of the East-West confrontation. *First*, they have reaped a *peace dividend*

³ cf. BERNSTEIN and MUNRO (1997), pp. 18ff; CHRISTOFFERSEN (1996), pp. 1067ff and GLAUBITZ (1995), pp. 53ff.

⁴ cf. KARAGANOV (1995), pp. 10ff.

⁵ cf. CZEMPIEL (1997), p. 153; a critical view has been expressed by BLACKWILL (1995).

by *shifting resources* away from military expenditure to other productive purposes. *Second*, they have gained *access to new markets*, which has been the case in *Europe* - thanks to the emergence of *open market economies in Eastern Europe* - and in *South East Asia* – for instance in the case of *Vietnam*. The positions of these three players as market-oriented, flexible *centres of production and trade* have further been strengthened by the *regional* and *multilateral liberalisation of market access*.⁶

2.2 The Three Triad Players: Europe, Japan and the U.S.

2.2.1 Europe: Peace and Prosperity Through Integration

Two factors have shaped the *political* position of Europe during the last decade: the continuing drive for *integration in Western Europe* and, more recently, the *end of the division of Europe with Eastern Europe's integration* into the institutions of the West (NATO, EU). Both elements had a positive effect on the political weight of Europe.⁷ For the future, it will be important that the institutions of the European Union can be modernised to an extent that the EU keeps its *ability to act*. Besides institutional reform, this would require the *completion of the political union*, especially as far as a *Common Foreign and Security Policy* (CFSP) with the definition of *common goals* is concerned. This should then be complemented by *military structures*, possibly through further integration of the *Western European Union* (WEU) into the EU institutional system.

In *economic terms*, the European countries have been able to hold their position as a centre of world economic activities, despite the economic woes that have characterised key European economies throughout much of the 1990s. The completion of the *common market programme* in the early 1990s with the *free movement of goods*,⁸ *services*,⁹ *labour*¹⁰ and *capital*¹¹ has created a vast market of more than 300 millions consumers and has helped to end market

⁶ cf. LECLAIR (1998); FAINI and GRILLI (1997); ZIMMERMANN (1997); HAUSER and SCHANZ (1995); LANGHAMMER (1995), pp. 167ff; BUELENS (1992), pp. 124ff; NUNNENKAMP (1992) and LAWRENCE (1991).

⁷ cf. WEIDENFELD (1995), pp. 17ff.

⁸ cf. DAUSES (1997).

⁹ cf. ROTH (1993).

¹⁰ cf. HAILBRONNER (1996) and ROTH (1993).

¹¹ cf. HAHN and FOLLAK (1996).

fragmentation. This has increased *competition* throughout the European Union, which has further been strengthened thanks to *trade agreements* with non-EU countries, the *membership in the GATT/WTO mechanism* and a generally *non-protectionist environment* in some key European countries that have dominated EU foreign trade policy so far. This in turn has helped increase the *competitiveness* of European industries.¹²

Chances for on-going economic development are mixed. On the one hand, the *completion of the European Monetary Union* and *EU enlargement* give a perspective for *further competition* throughout Europe, which ought to have *stimulating effects on overall economic activities*. The *Euro* itself could yield additional gains to Europe in case it established itself as a leading world currency, increasing the economic and political weight of Europe on a worldwide basis, but in particular against the *US Dollar* and the *Japanese Yen*.¹³

However, considerable *risks* are also associated with further economic integration in Europe: The rigid structure of *labour markets* in most of continental Europe gives rise to concerns on the *social and political stability* in those regions that might be disadvantaged from increased competition. This could *threaten political stability* within the Union and induce politicians to seek *protection* from competitors from outside Europe. In addition to this, the *shift of power* from rather conservative and liberal governments to socialist governments in all major European countries within the last couple of years provokes some concerns: Will *liberalisation* and *competition* as *guiding concepts* of integration in the last decade be replaced by the *elimination of competition* through a misunderstood concept of *exaggerated "harmonisation"*, thereby damaging Europe's economic position?¹⁴ Unless this happens, Europe has good chances to stay among the world economic leaders.

2.2.2 Japan: The Weakest Element of the Triad

The *political role* of Japan in the post-war period has mainly been defined by its qualification as a *cornerstone* of the capitalist, democratic West in the Pacific Area. Its *political stability* - the *Liberal Democratic Party* (LDP) governed the country throughout the post-war period

¹² The economic aspects of European integration have been dealt with by, for instance, ARTIS and LEE (1997).

¹³ The potential of conflict of EMU has been dealt with by FELDSTEIN (1997).

¹⁴ Scenarios on future EU developments are depicted in BAK (1998).

until 1993 - combined with a *pacifist* and *U.S.-friendly foreign policy* and an enormous *economic strength* made it the most important *strategic ally* of the U.S. in the Asia-Pacific.

Its role has, however, changed after the end of the Cold War. *First*, the threat that emanated from the *Soviet Union* during the Cold War has gradually been reduced. This has, to some extent, reduced the role of Japan as an *outpost against communism* for the U.S., *modifying* also its *political weight*. *Second*, *China* - Japan's main challenger in East Asia - is opening up its markets to foreign trade and investment, making it an interesting trade partner for all major trading countries, including the U.S. Given the *difficult relations between Japan and China* and given the fact that China has - in the long run - more *potential* to become a leader in the region than Japan, the position of the latter in the region could be weakened.

In addition to its comparative *loss of importance in foreign policy terms*, the country has also been weakened by developments in *internal politics*. With the end of the Cold War, the importance of *political stability* in Japan had been reduced, along with *political discipline* and *LDP dominance* that had lasted four decades and that had found its end in 1993. Since this time, Japan has seen several changes in government. From the above, it can be summarised that Japan's *political position* within the triad is rather weak.¹⁵

The *economic* position of Japan after World War II has been one of economic strength and rapid development, comparable to the evolution in West-Germany. The *peace dividend* it could reap under *U.S. military protection* and the *gradual liberalisation of world trade* within the GATT after World War II allowed Japan to rapidly become an economic leader with a strong position not only in Asia but on markets worldwide. Japan was able to direct most of its investment into technology areas that were *close to consumer markets* building up a *competitive position* in these sectors and contributing to the *trade balance* surpluses with Europe and America.

However, the *deconstruction of the "Japanese Myth"* began at the end of the 1980s. The *bubble economy* that had emerged after the *Plaza Accord* of 1985 ended with a crisis of the financial system. Unlike in the case of other crises such as the oil price shock in the early 1970s, the Japanese economy did not prove resistant enough to cope with such development.

¹⁵ cf. POHL (1998a).

Economic woes have since been continuing: The growth rates of former decades have vanished, unemployment is on the rise, and the “Asian crisis” has further weakened the economic and financial position of Japan.¹⁶ Other factors added to this evolution. *First*, many features of the Japanese *industrial success* such as the *just in time principle (kanban)* or *continuous improvement mechanisms (kaizen)* have been successfully copied and implemented by industries in other areas of the world. *Second*, young Japanese have become less and less willing to sacrifice their lives to their company and their nation as did their parents. They want to participate in the wealth created, aspiring for better housing and more consumption - briefly for a *better lifestyle*. *Third*, *life-long employment* which had been normal in the key companies of a *keiretsu* is vanishing and undermining partly the stability that had been one of the foundations of Japanese success after the war. Combined with the *lack of adequate social security and pension systems* and the *unstable economic developments*, saving rates have remained very high, thereby *reducing consumption* and the *impact of several public expenditure programmes* during the last few years.

Maybe, the *role of culture* can explain in more detail, why the Japanese economy has lost so much ground: In today’s dynamic globalising economy that follows largely the lines of *American capitalism*, values such as *flexibility* to adapt to constant change, and the *efficient allocation of production factors* worldwide through *open and highly efficient markets* have become key factors of economic success, as displayed by the U.S. economy. The Japanese socio-economic system, however, is largely characterised by a *static* concept of *stability*, *seniority principles*, *allocation through networks rather than markets* and a highly *corporative character* of the economic system.¹⁷ These principles, that may have worked well in the *static industrial age*, may no longer be a valid recipe for future economic success.

In order to regain competitiveness, the Japanese will likely have to break up present *economic and political* structures and so-called *iron triangles* between politicians, bureaucrats and business leaders.¹⁸ Therefore, the country would, however, require a strong government, which it does not have right now. In the present situation, the *political and economic weaknesses* make Japan therefore the weakest element in the triad.

¹⁶ cf. FUKUI and FUKAI (1998), pp. 29ff; KREFT (1998), pp. 162ff; THE ECONOMIST (1998), pp. 17ff. with further references; OCDE (1997); MAY (1997) and KREFT (1995).

¹⁷ cf. YOSHIMATSU (1998) and ELI (1994).

¹⁸ The need for reform has also been discussed in LEUENBERGER (1995).

2.2.3 The United States: An Unchallenged Number One?

After the end of the cold war, the United States of America are the only superpower left. The demonstration of its *military power* during the Gulf War in 1991 or the recent “Desert Fox” raid against Iraq in December 1998 and its *diplomatic involvement* in former Yugoslavia have been demonstrations that the U.S. is the only country *able and willing* to act on a *global scale*.

In internal politics, the country is equally stable. Despite the (temporary?) weakening of political institutions due to recent affairs and scandals around the White House, we can tell from past experience that the U.S. political system is *stable* enough to fully keep its *political freedom to move* on the international level at any time.

In *economic* terms, the situation is brilliant, too: Despite the economic downturn that the U.S. experienced around the end of the 1980s, the present decade has been characterised by a *vigorous performance* of the U.S. economy. The U.S. has created millions of new jobs, two third of them in qualified segments of the labour markets with more-than-average earnings. It can look back on a decade of *sustained, strong and non-inflationary economic growth*, a modernised economy thanks to *flexible labour markets* and an extremely *efficient and large capital market*. The U.S. has established itself as a leader in *information technology*, and formerly depressed *U.S. regions* (“rust belt”) have recovered from their deep crisis in the 1970s and 1980s. The fact that the impressive economic recovery of the 1990s has been accompanied by a reduction of the formerly excessive *current account deficits* makes this success story look even more astonishing.¹⁹

All available economic indicators point into the same direction: The foundations for *sustained, non-inflationary economic expansion* are given and the *prospects for the U.S. economy* are bright for the end of this decade. Summarising what has been said, the U.S. can be regarded as the strongest element of the triad.

¹⁹ cf. ZUCKERMAN (1998), pp. 18ff; IMD (1998) and WORLD BANK (1998). KRUGMAN (1998) is more critical about U.S. economic performance. For data on recent economic performance, cf. OECD (1999) or WORLD BANK (1998).

3. U.S.-Japan Political Relations: Low Implications for Europe

This chapter will have a look at the evolution of *bilateral relations* between Japan and the United States in *political, non-economic areas* and at the implications for Europe.

3.1 U.S.-Japan Political Relations: A Strategic Alliance

After the capitulation of fascist Japan at the end of World War II, Japan rapidly became a *key ally* of the United States in the Pacific - much like West-Germany in Europe. As the single non-communist developed power in the region, it was a cornerstone in U.S. foreign policy - despite some resentment that had stayed from the confrontation in World War II.²⁰

The main basis for bilateral *political* relations are *Article 9* of the Japanese Constitution on the one hand as well as the *San Francisco Peace Treaty* and the *Security Treaty between the United States and Japan* on the other.²¹

In Article 9 of the Constitution, Japan has waived forever the right of any sovereign state to *declare war* upon any other country or to use or threaten to use *military force* as a means to regulate international disputes. Consequently, it has not built up military forces beyond what is deemed as absolutely indispensable for *self defence (Jietai)*.²²

The correlates of Article 9 have been the *San Francisco Peace Treaty* of 1951 which gave *sovereignty* back to Japan and which *ended American occupation*, as well as the *Security Treaty* between the United States and Japan that was concluded on the same day. It granted Japan *protection* from outside aggression, based on the *stationing of U.S. troops* in Japan. Japan was given the right to build up armed forces of its own as long as they remained *defensive in character* and as long as they would not pose a threat to other countries. The Security Treaty had been replaced by another treaty on co-operation and security in 1960 that has to be renewed every ten years. It provides for *regular bilateral consultations* on security issues and gives each party the right to demand immediate consultations if

²⁰ cf. MAYER (1994b), p. 183-185.

²¹ cf. MAUL (1994), p. 158f.

²² for recent data, cf. INTERNATIONAL INSTITUTE FOR STRATEGIC STUDIES (1998), p. 165f.

international peace or security are endangered in the Far East. Further on, the treaty includes a clause saying that it can be replaced by *measures of the United Nations* that maintain security and peace in the region.²³

In April 1996, the *guidelines* containing details of co-operation under the Security Treaty from 1978 have been revised. The new defence guidelines include rules for co-operation

- a.) under normal circumstances (i.e. in *peace times*),
- b.) in case of a *military attack* against Japan,
- c.) when significant danger for Japanese peace and security arises on account of situations in areas *near* Japan.

Rules for this last field of co-operation have been defined in more detail than they used to be in the 1978 guidelines. This does not come as a surprise when considered in the light of the reduction of the Soviet threat on the one hand and *China's aggressive foreign policy* and the *Korea dispute* on the other. However, the new guidelines have somewhat undermined the strictly pacifist orientation of Japanese foreign policy and they have been badly received by Japan's neighbours in the region.²⁴

Today, after the end of the Cold War, the importance of the Treaty for Japan remains high, due to the *deterrence of potential adversaries*. The *presence of U.S. armed forces* in the region is still widely recognised as a *factor of stability* in the Asia-Pacific Area. In addition to this, U.S. presence in the region will keep Japan from rebuilding large armed forces of its own which would be considered as a serious threat by its neighbours. Japan can thus reap a *peace dividend*, and is therefore often accused to ride on a *free ticket* on security matters.²⁵

However, *resistance* against the presence of U.S. forces is mounting. After U.S. forces had to leave the Philippines, the Japanese population has become less willing to tolerate the presence of U.S. forces as could be witnessed in the *Okinawa* referendum on the stationing of U.S. troops. Although troops were withdrawn from Okinawa, overall U.S. military presence in Japan will remain at basically the same levels as before.²⁶

²³ cf. MAUL (1994), p. 159ff and MAYER (1994a), pp. 183ff.

²⁴ cf. KLEMM (1998), p. 137 and PYE (1998), p. 100.

²⁵ cf. MAYER (1994b), p. 184.

²⁶ For an introduction to this debate, cf. KLEMM (1998), p. 137; HOSOKAWA (1998) and ELDRIDGE (1997).

3.2 Perspectives for future development: Modified Roles

The bilateral relationship between the U.S. and Japan remains one main *pillar of security* in the North Pacific. However, a (*regional*) *multilateralisation* might become seizeable in the future: If *China*²⁷ continues to gather political importance and if relations with between *Russia* and *Japan*²⁸ continue on the path to normalisation, the role of the present bilateral relationship might be lost in a *realpolitik* with Japan, China, Russia and the U.S. as *main actors*.²⁹ The foundation of the ASEAN Regional Forum (ARF)³⁰ in 1993 is another element that could point into a similar direction, shifting importance away from the U.S.-Japan relationship to a more multilateral and comprehensive approach for peace in the region, including also the *South East Asian Nations*, represented by *ASEAN*. However, it cannot yet be said whether this trend towards "multilateralisation" might lead to the *comprehensive multilateral security system* that had already been envisaged in the revised U.S.-Japan Security Treaty of 1960 and which could, one day, make the U.S.-Japan alliance obsolete.³¹

Although its significance seems to have declined due to the end of the Soviet threat, there is still considerable danger of *regional instability*. The continuous trouble between *North and South Korea*, the *tense relations between the People's Republic of China (PRC) and Taiwan* or *territorial disputes* regarding the resource-rich *Spratly Islands* in the South China Sea which involve several regional powers are examples of such disputes. Since the South China Sea is an economically important transport route, the U.S. has interest in keeping this transit route open. Finally, *China's future role* in the region is yet unclear.³²

From the above, we can conclude that the role of Japan as an ally of the United States in the region remains high for the U.S. - although the nature and origins of potential threats or conflicts have *changed* over time since the collapse of the Soviet Union.

²⁷ cf. GARRETT and GLASER (1997); CHRISTOFFERSEN (1996); p. 1067ff; GLAUBITZ (1995); SUZUKI (1995), pp. 59ff and GLAUBITZ (1994).

²⁸ cf. KLEMM (1998), p. 138.

²⁹ cf. KLEMM (1998), p. 142; THUROW (1996), p. 21 and SIMON (1996).

³⁰ cf. NARINE (1997).

³¹ see also STUART (1997), pp. 229ff.

³² cf. STUART (1997), pp. 229ff; NARINE (1997); BRZEZINSKI (1997); MAULL (1997); VAN WIE DAVIS, PARODI and REXFORD (1996) and KREFT (1995).

3.3 Implications for Europe: No Need to Worry

Europe is only peripherally concerned by the relations between Japan and the U.S. in areas related to *general policy* or *defence policy*. The reason for this is plain and simple: The *zones of interest and influence* that are covered by the U.S.-Japan political relationship are nowadays without geographic intersection with European interest spheres. While the U.S.-Japan relationship covers mainly the *Pacific Rim*, the European zones of interest remain – after the *end of colonisation* in Asia – mainly focused on the *European continent itself, the Mediterranean area, some areas in Northern and Central Africa* and the *Eastern Atlantic Rim*. Symmetrically, there are no zones of Japanese political or military influence within the area covered by European dominance.

European *security policy* is – as far as Western Europe is concerned – mainly based on the transatlantic *NATO partnership* with the United States and (increasingly) on the still rather weak European co-operation within the *Western European Union* (WEU), a military alliance in Western Europe.³³ Europeans will likely continue to rely on U.S. support in security matters for the foreseeable future, as the European Union is still unable to act concertedly on its own as the crises in former Yugoslavia have repeatedly shown.³⁴

From the above, it becomes clear that the *focal role* for security policy in the world – be it in the Atlantic or Pacific – rests on the U.S. In this respect, the only danger for Europe to be adversely affected by the U.S.-Japan relationship would be if the U.S. *shifted* parts of its foreign and defence policy efforts away from the transatlantic to the transpacific sphere. Although there may have been fears of such an evolution at the beginning of the Clinton administration, where the foreign policy focus of the U.S. lay heavily on its relationship with Asia,³⁵ such fears are rather ungrounded. Moreover, Europe remains a strategic *logistical base* for U.S. operations in the Near and Middle East and in the Mediterranean Rim. The continuing presence of U.S. troops in Western Europe remains, despite some downsizing after the end of the Cold War, a key factor in European security and U.S. foreign policy. And it continues to yield its *peace dividend* to the Europeans as long as the situation in

³³ cf. FERDOWSKI (1995), pp. 168ff.

³⁴ cf. BIERLING (1998), pp. 15ff; RACINE (1998), pp. 19ff; CZEMPIEL (1997), p. 145ff; LÜBKEMEIER (1997), pp. 71ff and KUPCHAN (1996), p. 96.

³⁵ cf. PETERSON (1994), p. 412.

Russia remains unstable and as long as there is a *potential terrorist threat* from *Northern Africa* or from the *Near and Middle East*.

Two main options are available for Europeans to *avoid marginalisation* through the U.S.-Japan relationship in the areas of *general* and *security policy*. Europeans can seek to improve *bilateral political relations* with each of the two other triad members. While such co-operation used to be limited on *economic issues* with regard to Asia, Europeans have recently discovered Japan as a *political dialogue partner*: In 1991, a common declaration of EU member states provided for *meetings on an annual basis*. In addition, several European countries have recently agreed with Japan on “common agendas” or “visions” for partnership. However, it remains open in how far these programmes will yield concrete results.³⁶ Similarly, a “Transatlantic Agenda” had been signed between the EU and the U.S. in late 1995 that should give new impetus to the *transatlantic partnership* between Europe and the U.S.³⁷

The second option, which seems to be preferable to such a *surge of bilateralism*, consists of fostering co-operation within *multilateral organisations* in order to minimise the danger of exclusion. Given the relatively *low interdependence* in most non-economic areas, co-operation would probably be limited on the resolution of *global environmental problems, internationally organised crime, peace-keeping actions* or *development assistance*. Such fields of world politics might be better tackled on the multilateral level, where *all* countries work closer together.³⁸ This would also encourage *worldwide acceptance* of such policies, thereby making their *implementation* more effective. On the other hand, *negotiation processes* in such multilateral organisations are often *lengthy*, results tend to be *watered down* and problems arise when countries *refuse to implement or execute* internationally defined rules.

The role of the *leading triad* powers for such multilateral co-operation must, however, not be underestimated. Leading regional powers should work together to give such multilateral fora the impetus necessary to reach objectives. This has become obvious in the area of

³⁶ cf. KLEMM (1998), p. 148ff.

³⁷ cf. VAN OUDENAREN (1996), pp. 49ff. See also KUPCHAN (1996) and KISSINGER (1995), pp. 20ff.

³⁸ cf. MESSNER (1998), pp. 19ff; NUSCHELER (1998), pp. 10ff and THUROW (1996), pp. 20ff.

multilateral economic co-operation (which will be the subject of the next chapter): The G7 meetings have often paved the way for actions that were later taken in fora such as the World Bank or the International Monetary Fund. Similarly, European integration has been a model for the GATT Uruguay Round on some issues.

This brings us finally to the field of economic relations, where interdependence between the three powers is much higher and where, therefore, U.S.-Japan relations have a higher impact on Europe.

4. U.S.-Japan Economic Relations: High Interdependence with Europe

As has already been pointed out, interdependence between the three triad powers is most pronounced in *economic terms*. Hence, intensive *co-operation* takes place within multilateral fora dealing with economic questions. The most prominent organisations in this respect are the *Bretton Woods Institutions* such as the International Monetary Fund (IMF), the World Bank (IBRD) and the World Trade Organisation (WTO),³⁹ as well as the Organisation for Economic Co-operation and Development (OECD) and the Group of Seven (G7).⁴⁰

4.1 U.S.-Japan Economic Relations: Subordination to Political Aims

While co-operation between the triad members has generally been harmonic in areas of *general policy*, conflicts have often arisen in *economic* and particularly *commercial relations*, which have at times brought these countries to the brink of *trade wars*.⁴¹

The same applies to the U.S.-Japan economic relationship. In addition to *disputes on certain categories of goods* such as agricultural goods,⁴² photographic film and paper,⁴³ alcoholic beverages⁴⁴ or semiconductors, there are also *structural problems* in U.S.-Japan trade relations: While benefiting from the increased *openness of markets in the other triad states*, Japan kept its own markets relatively closed. Although traditional measures of *import protection* such as excessive tariffs could not be used as a consequence of GATT-membership, the instruments used in the particular Japanese case stretched from partly ridiculous *administrative protectionism* to all kinds of "structural impediments" that were (and are still) rooted in the *corporative character* of the whole *economic system*. The result of this *neomercantilist* approach to trade with *de facto protectionism* at home and *open foreign markets* where Japanese competitiveness could be benefited from, was an overly *positive trade balance* towards all regions of the world, in particular vis-à-vis the U.S.⁴⁵ This *trade surplus*,

³⁹ The WTO is of particular importance for international economic relations; cf HAUSER and SCHANZ (1995).

⁴⁰ for an overview, see VOLZ (1998).

⁴¹ The most recent dispute is on the EU import regime for bananas between the EU and the U.S.

⁴² WTO case WT/DS76.

⁴³ WTO case WT/DS44.

⁴⁴ WTO case WT/DS11.

⁴⁵ cf. MAYER (1994a), p. 330f. and MAYER (1994b).

in turn, has been used for *capital exports*: Japan financed much of the U.S. *current account deficits* of the 1980s. The surplus has also been used for *foreign direct investment (FDI)* which served both purposes: secure *supplies* for Japanese industry, particularly from East and South East Asia, where Japan has acquired economic dominance, and secure *access to overseas markets* all over the world, including the U.S. This Japanese dominance has often caused *anti-Japanese feelings* in public opinion, particularly in the United States.⁴⁶

4.2 Perspectives for Future Development: Increasing Rivalry

When looking at the 1990s from today's perspective, we can clearly distinguish two changes in U.S.-Japan economic relations, which both led to a *shift of power* from Japan to the U.S.

First, the severe *economic crisis* that has characterised Japan through much of the 1990s (and other Asian countries toward the end of this decade) has deconstructed the "Asian myth".⁴⁷ The *neomercantilist model* of Japanese trade and economic policy has clearly failed to yield the results it brought in former decades. *Second*, the "American way" of doing business through *allocation within free and well-functioning markets* has worked brilliantly in the United States, reconfirming the vigour of the *American economic model*.⁴⁸ With continuing *liberalisation* and *globalisation*, this model increasingly sets the *rules* for the other triad members. The former economic supremacy of Japan compared to the U.S., which the Japanese had even sometimes explained on *racist* grounds, has ended.

It is, of course, yet too early to say whether present U.S. supremacy in economic terms will be more sustainable than Japanese supremacy proved to be in the past.⁴⁹ However, there are no signs of a significant change in the relative positions as far as the foreseeable future is concerned. Some *basic mechanisms* that made work "Japan Inc." so well in the past are changing, and Japan has not yet found a new economic (and political) identity.⁵⁰ This on-going *identity crisis* in Japan and underlying structural problems do not raise expectations for

⁴⁶ cf. MAYER (1994b), p. 185ff.

⁴⁷ cf. THE ECONOMIST (1998); FUKUI and FUKAI (1998), pp. 29ff; JUNKER (1998), pp. 175ff and KREFT (1998), pp. 161ff.

⁴⁸ cf. ZUCKERMAN (1998).

⁴⁹ critical views have been expressed by KRUGMAN (1998).

⁵⁰ cf. HIRSH and KEITH (1997).

changes in relative positions during the foreseeable future. Japan's position is further weakened by the fact that it is surrounded by countries large enough in *resource terms* and ambitious enough on a *political and economic level* to be willing to break Japan's still dominant position in the Eastern Pacific. With the decline of *economic power and political cohesion* in Japan, the United States' readiness to tolerate an uneven trade balance may further decline, thereby keeping *economic relations tense*.

4.3 Economic implications for Europe: Avoiding Marginalisation

As has already been pointed out, interdependence in economic areas between all triad members is high, and conflicts are rather the rule than the exception. Europe's relationship with both other angles of the triad is rather difficult, too: In addition to disputes on certain *categories of goods*, such as *agricultural trade*,⁵¹ all three regions have repeatedly pursued *strategic trade policies*.⁵² Famous trade disputes between Europe and other triad members include the U.S.-E.U. disputes on trade in *civil aircraft (Airbus)*⁵³ and, more recently, on E.U. import restrictions on *bananas*.⁵⁴ Trade relations between Japan and the E.U. have been strained by Japan's high *exports of automobiles and consumer electronics* to Europe.⁵⁵

As far as *U.S.-Japan relations on the economic or economic policy level* are concerned, there is at present no danger that an *alliance Washington-Tokyo* could evolve to the detriment of Europe, as economic interests in Japan and in the U.S. are too divergent.

There have been fears in the first years of the Clinton administration that Japan and the United States could move closer together and build up a huge trade bloc through their commitment to the *Asia-Pacific Economic Co-operation (APEC)*⁵⁶ that could leave Europeans out in the rain. But such fears have proved groundless in the past and will probably not be justified in the future:

⁵¹ WTO cases WT/DS26 and WT/DS27.

⁵² cf. SIEBERT (1997); HASSE and SCHÄFER (1994); RODE (1993) and BLETSCHACHER and KLODT (1992).

⁵³ cf. MCINTYRE (1992).

⁵⁴ WTO case WT/DS27.

⁵⁵ cf. KLEMM (1998), p. 138; KREFT (1998), p. 171.

⁵⁶ cf. ZIMMERMANN (1996), pp. 37ff; CHING (1995); RAJAN (1995); BOLLARD and MAYES (1994). On Japan's role in APEC, see DENG (1997), pp. 353ff and HIEMENZ (1991).

First, APEC is – unlike the European Union – a *business-driven, voluntary* approach to trade liberalisation. It is not an inward-looking regional trade bloc and does therefore not fall within the scope of Art. XXIV GATT. APEC’s approach to liberalisation is *unilateral, voluntary* and *non-discriminatory*. Its members have agreed to establish *free trade* and *investment* in the region by 2010 for developed member countries and by 2020 for developing member countries. APEC perceives itself as a “WTO plus”, *contributing to multilateral trade liberalisation*.⁵⁷ Therefore, given the character of liberalisation within APEC, Europeans do not need to fear that APEC activities would endanger their access to APEC member markets.

Second, the 21 APEC member states, including, inter alia, the U.S., Chile, China, Japan, Indonesia, Mexico, Russia and Vietnam would be far too different (economically, politically and culturally) to be able to reach consensus necessary for the *creation of strong common institutions*. The fact that APEC countries agreed on using the *WTO dispute settlement mechanism* to resolve their trade disputes is not only a sign of APEC’s commitment to multilateral liberalisation but also a sign of its own *weakness*. From this perspective, APEC is not really a threat to the European position in the world economic system.⁵⁸

Third, the strong Asia-Pacific orientation of the Clinton Administration with regard to economic policy in its first years (along with the *negligence of the transatlantic partnership*)⁵⁹ has weakened during the last years, especially in the light of the recent *Asian crisis*. Americans know about the importance of Europe. As an economically sound world region with consolidated democracies and a large market, *Europe* will keep its strategic importance for the U.S. well into the next century.

However, there are some conclusions that Europe might want to draw from the fact that there is at least a strong *desire* to build economic alliances in the Asia-Pacific. It has two possible reaction strategies to encounter such efforts.

⁵⁷ One APEC initiative – the *removal of tariffs on information technology in the region* – has even led to the conclusion of the Information Technology Agreement (ITA) under the auspices of the WTO. The ITA provides for the elimination of tariffs on IT products between participating WTO member states.

⁵⁸ cf. GALLANT and STUBBS (1997); APEC (1994) and ZIMMERMANN (1996), pp. 37ff with further references.

⁵⁹ cf. PETERSON (1994), p. 412.

One response would consist of seeking closer ties with each of the other triad partners through *bilateral channels*. Based on the experience with HENRY KISSINGER'S management of international relations, there is some evidence that the best way to strengthen one's own position within a *triangle of power* is to seek stronger ties with both other angles, thereby weakening the relationship between these two poles. Judged from this perspective, Europe has been in the past a victim of America's *focal and moderating role* in international relations.

Such a bilateral approach would therefore include the creation of a *transatlantic free trade area*, involving the EU/EEA and NAFTA member countries.⁶⁰ As *political relations* between much of Europe and the United States have been generally good during the last five decades and since we may suppose much more *cultural affinity* between America and Europe than between Japan and the U.S., Europeans might seek to benefit from these "privileges". Similarly, European countries might want to seek *closer relations with Asian countries*. Such co-operation would not need to be limited on Japan but would include other Asian countries. A first channel for such a "bilateral" dialogue between Europe and Asia exists within the Asia-Europe Meeting (ASEM) that takes place on a biennial basis since 1996.⁶¹

A second, *economically* more promising response, would be the *strengthening of the multilateral mechanisms*, in particular the *WTO system*.⁶² So far, *empirical studies* on trade liberalisation point mostly into the same direction: *concerted, multilateral and non-discriminatory* trade liberalisation on a *global scale* remains highly preferable to the creation of numerous regional agreements, due to the fact that there is no *trade diversion*.⁶³ The institutional foundations for such a process have been laid with the successful conclusion of the GATT Uruguay Round (UR) and the subsequent creation of the *World Trade Organisation* (WTO).

⁶⁰ cf. PRESTOWITZ, CHIMERINE and SZAMOSSZEGI (1996) and KUPCHAN (1996).

⁶¹ involving the 15 EU member states and the ASEAN members, China, Japan and South Korea; cf. KLEMM (1998), p. 144 and pp. 148ff.

⁶² cf. HAUSER and SCHANZ (1995).

⁶³ The concept of trade diversion that occurs when trade barriers are lowered only on a *discriminatory* basis (with negative effects on welfare) has first been studied by VINER (1950). There is some evidence that these findings also apply to trade liberalisation in the Pacific Rim; cf. ZIMMERMANN (1996), pp. 43ff with further references; LEWIS, ROBINSON and WANG (1995); MARTIN and YANAGISHIMA (1995); MARTIN, PETRI and YANAGISHIMA (1994) as well as YOUNG and CHYC (1994). On the regionalism-multilateralism debate in general, see FAINI and GRILLI (1997), SERRA et al. (1997); BUELENS (1992) and LAWRENCE (1991).

5. Conclusions: Towards A Multilateral World Order

The purpose of this paper has been to review the *relationship between Japan and the United States of America* and the implications of this relationship for Europe. Both *political and economic implications* of this relationship have been taken into account.

It has been shown that the *bipolar world order* with a communist Soviet Union and its allies on the one hand and a capitalist United States with its Western European allies on the other has been replaced. The new world order is, at present, rather *unipolar in political and military terms* with the focal role of the *United States* as single superpower left after the Cold War. In economic terms, however, a *tripolar world order* has evolved. The key players of this *triad* are *Europe, Japan* and the *United States of America*.

The role of Japan as a *political* ally of the United States has changed to some extent after the Cold War, however without too much reducing the importance of their relationship. While the U.S. needed Japan during the Cold War as an important ally in the Pacific Area in order to *contain communism* in the Soviet Union, China and parts of South-East Asia, Japan's importance as the United States' *military ally* remains high today on account of the *regional instability*. Similarly, Japan continues to rely on the *military protection* through the United States since other regional powers, especially China, have apprehensions to become superpowers.

As the *geographic zones of influence* that are covered by the U.S.-Japan political and military relationship do not intersect with European zones of interest, the implications of their relationship in these areas remain rather low for Europe. Open political questions that still require co-operation by all three partners such as global environmental problems or organised crime are best tackled by *multilateral fora* such as the U.N and its affiliate institutions; a *bilateral approach* to such issues can therefore not be recommended.

With regard to *economic questions*, especially as far as *trade* is concerned, the situation is different: All three key players compete directly in the *struggle for economic supremacy*. This becomes particularly obvious when industries perceived as *strategic* are at stake. Generally, trade relations between these three partners have been rather tense over time. Recently, there

have been movements for free trade and investment in the Asia-Pacific within APEC, involving Japan and the U.S. However, for a variety of reasons, the emergence of an *APEC trade bloc* that could harm European interests need not be feared.

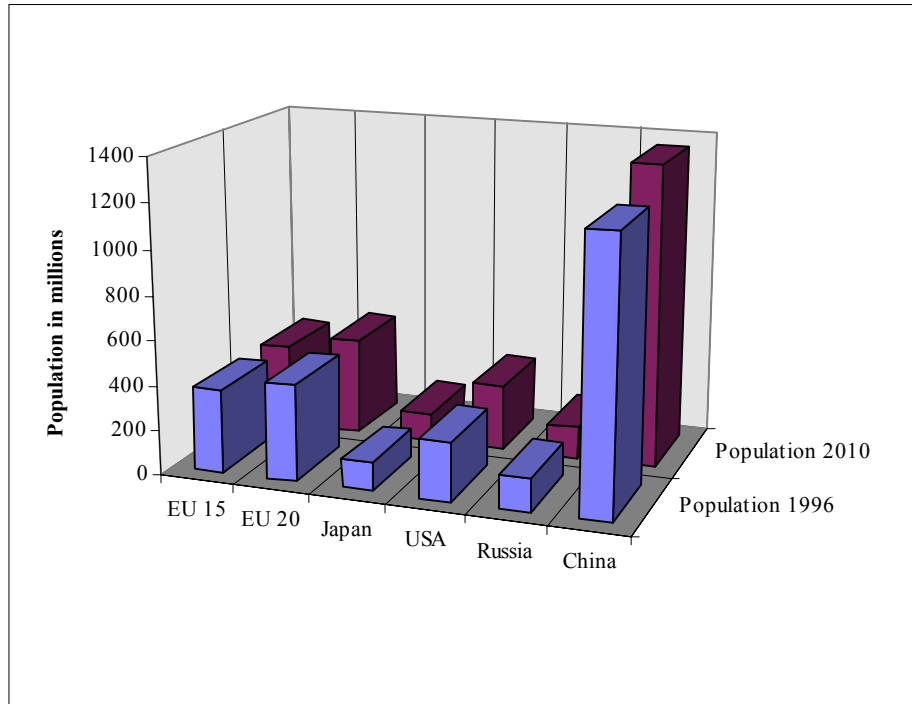
In case, however, Europe should be adversely affected by increasing *transpacific bilateralism*, Europeans should be prepared to react. Two strategies are available: One would be the improvement of *bilateral relations* with each of the other two triad members, thereby weakening their mutual relationship (“*Kissinger approach*”). This option would, however, be feasible only if Europe is able and willing to act in a *concerted manner*.

A more promising approach for Europe would be to help *multilateral fora* gain importance and contribute to co-operation on that level. Such a multilateral approach would also best reflect the *shared responsibility* of the triad members, now becoming even more evident through the introduction of the *Euro* which created also a “triad” of leading *world currencies*.

Despite the interest that the *emergence of the triad* and the relationship between its players has raised, I believe that the triad that now governs international (economic) relations will be replaced by a *multipolar world order* in the long run - especially if economic progress in *China, India* and *Latin America (Brasil)* would lead to the emergence of further *economic and political* poles.

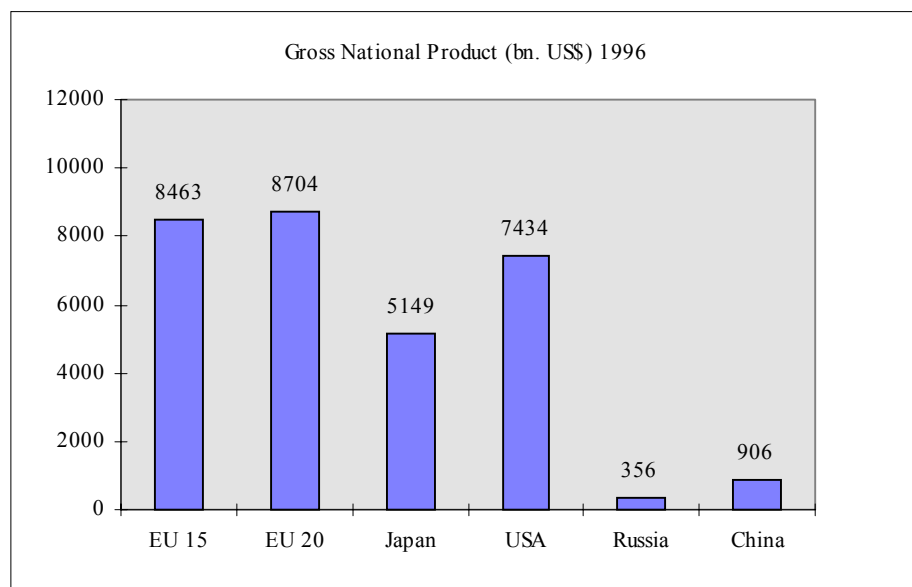
Appendix

I. Population statistics



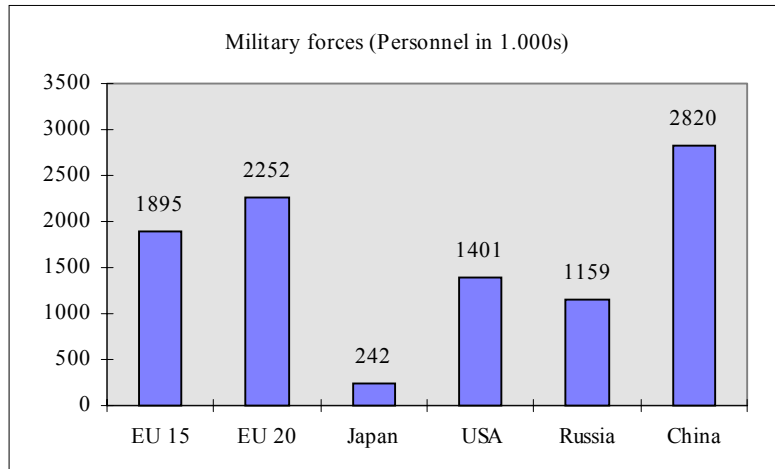
Source: WORLD BANK (1998)

II. Gross National Product (current prices)



Source: WORLD BANK (1998)

III. Military Forces



Source: INTERNATIONAL INSTITUTE FOR STRATEGIC STUDIES (1998)

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