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US-JAPAN TRADE FRICTION IN THE POST-COLD WAR ERA: ISSUES AND RAMIFICATIONS

INTRODUCTION

Friction between the US and Japan is not a new phenomenon in the realm of their trading practices. It has its past history and traditions. It emerged and developed in three stages: the period of selective trade issues until the early 1970s; politicized friction covering wider trade and economic issues until the late 1980s; and the era of economic conflicts with strategic implications after the end of the Cold War in the 1990s.¹ The dispute was initially generated when the US asked Japan to reduce her textile market in the US in the late 1960s. The plea was rejected by the then Japanese Prime Minister Y. Sato. The acrimonious relationship between the two economic superpowers based on trade issue, however, persists even today after the climactic global changes for the last few years. This friction in the post-Cold War era paves the way for rethinking the traditional postures shown by both Japan and United States. Eluding the expectations of the apparent sea-change in the immediate post-Cold War era, power politics, conflict of interests and idea of global dominance seem to prevail over the paradigms of international relations. As a matter of fact, the orbit of US-Japan trade relations is presently passing through crossroads.

1. See, for further exposition, Kenichiro Sasae, "Rethinking Japan-US Relations", *Adelphi Paper* 292, December 1994, p.32.

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Although both the countries had reached a partial trade accord on October 1, 1994,² and then struck a face saving last-ditch deal in their car trade dispute on 28 June, 1995,³ generating some momentum of cooperation, the fact remains that in the post-Cold War era both the economic powers had gone on the brink of trade war twice in less than last two years. Japan was threatened once by the draconian super 301 provision and then by imposition of 100% duties on Japan-made luxury cars. Japan still remains in the so-called watch list of unfair traders by the US. Japan itself is also gradually becoming assertive and taking independent decisions in economic, political and military affairs. The end of the Cold War has also contributed its part by reducing the strategic importance of Japan to the US and bringing the US-Japan trade tensions to the forefront in a way that did not happen earlier.⁴ Against this backdrop, a number of questions may be raised : How did the US-Japan trade friction develop over the years? What are the issues behind the trade friction between the two nations? In what ways both the nations tried to resolve the conflict at various times? What are the stakes shared by both Japan and the US? What is the impact of this friction over the US-Japan bilateral relationship as well as on the global context?

An attempt would be made to address all these questions in the paper. The paper is divided into four sections. Section One looks briefly into the background of the trade friction with special emphasis on issues and nature of the problem in US-Japan trade relations. Section Two deals with both the underlying issues in conflict and the cooperative dimension based on their bilateral negotiation process.

2. *The Bangkok Post*, October 2, 1994.

3. *The Financial Express*, June 30, 1995.

4. E Sridharan, "Japan's Changing Political Economy, Domestic Roots of Changing International Relations", *Economic and Political Weekly*, September 10, 1994, p.2424.

Section Three highlights the impact of this dispute at bilateral and multilateral levels with particular focus on the former, the last section delves into the analysis of their common stakes.

1. BACKGROUND OF THE FRICTION

1.1 Japan's External Dependence in the Post-War Period

Casting off 250 years of rigid isolation when Commodore Matthew Perry sailed a squadron of US naval ships into Japan's waters in 1853 for opening the trade relationship, the Japanese reacted swiftly and eventually transformed their island nation from a feudal to a modern state.⁵ It heralded an atypical bilateral relationship between the US and Japan originally based on trade issues. Since the end of the World War II, this has been developed as a unique example of dependent or unequal, if not patron-client, relationship. Both the countries forged an extraordinary relationship as the US Ambassador Mike Mansfield called: 'the most important single bilateral relations, bar none'.⁶ The concept of vertical relations and the psychology of dependence coupled with unbalanced relationship have given it a distinctive character. It was based within a hierarchial framework, that is, in terms of superiority and inferiority. It can best be described *amae* or the **psychology of dependence**.⁷ The track record of their bilateral interactions during the early years of the Cold War shows how strong the Japanese *amae* must have been with respect to America. Consequently, it leant heavily on the protective arm of the US. Following World War II, Japan found itself completely cut off from mainland Asia, placed under American surveillance and protection as a sort of prisoner-cum-protege. In fact, Japan's post-War

5. *Time*, April 13, 1987, p.15.

6. Shibusawa Masahide, *Japan and the Asia Pacific Region*, Croom-Helm, London and Sydney, 1984, p.163.

7. Hiroshi Kitamura, "Psychological Factors in Friction Between Japan and America", *Japan Review of International Affairs*, Vol. 8, Number 3, Summer 1994, p.206.

relations with the world were developed primarily under the direct or indirect auspices of the US, as the San Francisco Peace Treaty, various reparation agreements and its mode of entry into a number of international organizations, would attest. This had established a dependent relations which was broadly seen in three dimensions: economic, politico-strategic and cultural with much more weight on economic dependence.

The subsequent resounding economic success what the Japanese public happily called *jimmu boom*,⁸ throughout the late 1950s and the 1960s magnified its vulnerability and reinforced its dependence on the US. It generated a severe clash between feelings of dependence on the US and resentment against her. In addition, domestically, defeat in World War II and the adoption of the post-War Peace Constitution forced Japan to de-emphasize foreign policy and to concentrate instead on building trade and economic relations. As a result, the recovery and expansion of the Japanese economy and trade in the post-War period was heavily influenced by the US. Following the so-called 'Nixon Shocks' commonly known in Japan in the early 1970s, a new era of interdependence and partnership began to develop in their relationship. The US was no longer willing or able to play the role of mentor or protector towards its Asian allies, particularly Japan. The Nixon Administration unveiled a new Asian policy, as expressed in the Guam Doctrine. In his foreign policy report to Congress in February 1972, President Nixon declared:

We recognize that some of our action during the past year placed the Japanese Government in a difficult position. We recognize that our action have accelerated the Japanese trend toward more autonomous policies. We regret the former but could not do otherwise. We welcome the latter as both inevitable and desirable - inevitable because it reflects the reality of

8. "Jimmu boom" means the greatest economic boom since the mythical founding of Japan by Jimmu in 660 B.C., for further details, see, Edwin O Reischauer, *Japan: The Story of a Nation*, New York, 1974, p.249.

Japanese strength in the 1970s - desirable because it is a necessary step in the transformation of our relationship to the more mature and reciprocal partnership required in the 1970s.⁹

Whatever the new policy pronouncements, the fact remains that Japan's rapid expansion of power (especially in comparison to the power of the US) which was made possible by the closeness of the relationship, has put Americans on guard. This has actually produced friction between the two nations in many fields, including trade, investment, technology, finance and culture.

Apart from the US, Japan's dependence on the rest of the world is also remarkable. From systemic point of view, it can be argued that while Japan was maintaining political isolation in the post-War era, it developed economic dependence with the non-American countries and regions, particularly with Europe and the Asia-Pacific region. This dependence also contributed largely to the economic development of Japan.

1.2 Gradual Rise of US Concerns

The honeymoon of dependence relationship between the two countries did not last long. Japan's rapid economic growth, coupled with the two countries' increasing divergence of views in the Cold War Asia, brought into play the historical pattern of relationship. The momentous shift of US Asian policy at the end of the 1960s accelerated the process. Frustrated by growing trade deficits with Japan, annoyed by the unexpected inroads of Japanese exports into politically sensitive markets and resentful of Japan's perceived 'free riding', the US had become worried about the future economic role of Japan. It may be mentioned here that till date Tokyo's economic success has reached a craving position. It is reflected in its rise into

9. *Op.cit.* pp.68-69.

the position of the second largest economy of the world, a leading manufacturing power house and foreign investor, largest Overseas Development Agency(ODA) donor, largest creditor and the world's biggest pool of financial and investment funds.¹⁰ As a matter of fact, for the US, it became clear as far back as in January 1968, when Japan refused an American request to purchase mid-term US treasury bonds as part of a scheme to defend the weakened dollar. At that time, largely owing to the prolonged war in Vietnam, the American economy was suffering from the persistent trilemma of slow growth, inflation, and growing unemployment. Added to this was the so-called 'textile wrangle' which began in May 1969 when Japan again refused to comply with American request to take necessary steps to restrict the exports of textiles to the US. The refusal of such extraordinary request, even though citing rather self-righteously the principle of free trade, by the mentor state, had caused difficulties in US-Japan relationship. Later the textile dispute ended with the US concession on Okinawa. But the US began to feel that its relations with Japan had been too one-sided and it was about time that Japan be made to pay a price, however modest, for its alliance with the US.

Following the 1970s and onward the Western nations including the US, began to consider Japan as a new source of anxiety and insecurity. As Japan out-performed other global front-runners including the US, it came to be regarded as a "threat" to the structural *status quo*, particularly to the hegemony of the U.S. Politicians in the US and Europe began to speak routinely of the Japanese threat. Thus, Japan's economic success has engendered increasing concerns in the US and its protective trade and economic policies came under severe criticism to a great extent because of the fact that the openness of the post-War international economic, trading and financial systems have been amongst the strongest pillars on which Japan's rapid economic

10. Iftekhharuzzaman, "Japan's Role in South Asia and Bangladesh: A Critical Overview", *Biiss journal*, Vol. 16, Number 1, 1995, p.6.

expansion was based.¹¹ The obvious manifestation of the growing concerns has been seen in a persistent anti-Japanese feeling, termed as Japan-bashing in the US society, and the *vice versa*.

Since the demise of the Cold War, some well-meaning analysts observe that US-Japan ties are much deeper than the Cold War antagonism to the former Soviet Union. In the formulation of new strategic objectives at the global level, the US foreign policy experts placed Japan and Germany as the new rivals in this new era. A public opinion poll was held in the US asking which was more serious threat to its future : the Soviet military or the Japanese economy. The result surprised the Japanese : the two-thirds of American polled saw Japanese economic competitiveness more dangerous.¹² It reveals the changing American perception about her sources of security threat. The concern has reached its apex when the Clinton Administration, essentially for domestic reasons, pointed to the Japanese economic threat when seeking NAFTA's passage through Congress. More substantially, the unleashing of trade row once again in the post-Cold War era has cemented this view and ensured an antagonistic trade relations between Japan and US, which demands special significance.

2. COLLABORATION OR CONFRONTATION?

2.1 The Issues in Conflict

The core of trade friction is not just the impact of Japan's surpluses or short-term output and employment but the fear of its gaining an irreversible lead in strategic technologies that leads to high-volume production and require large R&D outlays possible only with large sales revenues. The contentious issues which still remain as sources of tenacious trade friction would be mentioned from their respective viewpoints.

11. *Ibid.* p. 7.

12. *Op.cit.* pp.33-34.

On the American Side: The American view towards trade rift with Japan has been reflected in the comment of Roger C. Altman, Deputy Secretary of the Treasury for the Clinton Administration:

...Rather the tension arises from two fundamental and related developments: changed American priorities and pronounced drag of the Japan's huge current account surplus on global demand, economic expansion, and job creation.¹³

The US emphasizes on a number of factors. **First**, the perennial US-Japan trade imbalance which now stands at \$59.3 billion is regarded as one of the root causes of US-Japan trade conflict. The U.S. trade deficit with Japan rose from \$15.8 billion in 1981 to \$59.4 billion in 1993. The deficit with Japan is the largest among all U.S. trading partners, accounting for 78 per cent of the over-all U.S. trade deficit in the first half of 1991. So, it has become a compelling factor for the US to reduce the deficit by opening up the American market in Japan. Ironically, while Japan was primarily concerned with redressing the chronic deficits in the bilateral trade with US, the latter at that time, countered Japan by preaching that the trade imbalance should be looked at not solely on a bilateral basis, but as a multilateral problem, involving the balance with other countries.

Second, the US puts stress on the question of market access. Although both the countries believe in liberal and free trade policy, resort to protectionism often casts a shadow over their operational policies including the issue of market access. This issue became prominent in the early 1980s in US trade policy when the US started to think that it could no longer afford to 'turn the other cheek' and 'accept lost export opportunities.' Then America launched vigorously 'A Market Opening Initiative'¹⁴ by passing new trade acts. For exam-

13. Roger C. Altman, "Why Pressure Tokyo?" *Foreign Affairs*, May/June 1994, p.02.

14. Stephen D. Cohen, "The US Trade Act: A Market Opening Initiative", *Economic Impact*, Vol. 2, Number 59, 1989, p.24.

ple, the 1988 Omnibus Trade Competitiveness Act which introduced the so-called Super 301 provision,¹⁵ according to which the US administration would be obliged to act in cases of unfair trade practices. It was widely criticized by many trading partners of America because of aggressive and unilateral elements injected into this Act.

Nevertheless, as the Japanese economic policies are very much resistant to the outside world, the US enjoys relatively better position with regard to the opening of their respective domestic markets. Coming to power Clinton took the issue and began pressing Japan to open its market for American products. It was stressed by US Under Secretary of the Treasury Larry Summers that **the export activism is centerpiece of US trade policy**.¹⁶ And now it has evolved from one committed to multilateralism under its leadership, to a policy based on a triumvirate of multilateralism, regional agreements, and unilateral action.¹⁷ The US Government argues that Japan is maintaining structural barriers against imports which is termed as protectionism. The phenomenal success of Japan for the last forty years is considered by the US as the aggressive, imaginative but often highly protected industrial growth.¹⁸

Third, the bureaucratic politics is very strong in Japan which obstructs the growth of decisive and dynamic leadership. In Japan five ministries and one agency (Ministry of International Trade and Industry, the Ministry of Finance, the Ministry of Agriculture and Forestry, the Ministry of Transportation, and the Ministry of Construction, and the Economic and Planning Agency) make up the economic bureaucracy.¹⁹ It becomes most evident when the Japanese

15. *Op. Cit.*

16. Speech by US Under Secretary of the Treasury, *USIS*, November 1994.

17. Stephen Wolcock, "Trade and Market Access Issues in US-EC Relations", *Paradigms* Vol. 7, Number 2, Winter 1993, p.131.

18. *Far Eastern Economic Review*, June 20, 1991, p.58.

19. Robert A. Scalapino, *The Foreign Policy of Modern Japan*, University of California Press, 1977, p.229.

Prime Minister comes from a weak faction or coalition government and this bureaucratic rivalries creates a hassle in formulating rational and realistic policy. The fragile political system in Japan adversely influenced by the frequent changes of Government contributes to the increasing power of the bureaucrats. The utter failure of Clinton's trade policy towards Japan demonstrated the power of bureaucracy in Japan. **Fourthly**, President Clinton came to power with a lot of promises to change the traditional US-Japan relations for reducing the trade deficit. Clinton's 'result-oriented' approach to change the relationship made the whole Administration very tough on Japan. With a very aggressive line Clinton uttered: "I am concerned not only about how much we sell but about what we sell".²⁰ He is deeply concerned about the inadequate market access for American firms, products and investors in Japan. From a political point of view, the Clinton Administration has created the impression that opening the Japanese market will greatly reduce the trade imbalance, which is proved to be domestically popular.

On the Japanese Side : Ever since the friction started, Japan has always considered it as the result of the managed trade pursued by America. The former Japanese Prime Minister Hosokawa identified the whole approach of Clinton in Washington on February 11, 1994 as a symbol of managed trade. The 'voluntary' curb of Japanese motor car exports to the US in 1981, the semiconductor agreement of 1986, the agreement in 1987 are the reverberations of managed trade practiced by the US long ago. Managed trade means the setting out 'numerical targets' or so-called 'objective criteria' for seeking access to markets. It is contrary to the spirit of free trade. To the US it is like magic *mantra* which could make national problems disappear. The Japanese leadership is very much critical of this unfair mechanism.

20. *The Bangladesh Observer*, July 12, 1993.

Secondly, since the end of World War II, both the nations developed an unequal relationship making the USA as big brother and Japan as a little brother. Almost on every occasion whether related to security or trade, Japan yielded to the demands of the US. Particularly, foreign policy of Japan for the last four decades was heavily influenced by the US policies. This type of external pressure or *gaiatsu* created the spectre of growing animosity towards the US in Japan. Past experiences, such as promise of a specific share of the Japanese market to US in 1986 and other foreign semiconductor manufacturers, have taught them (Japanese) that the pattern of *gaiatsu* compromise does not always bring the most desirable results. With the end of the Gulf War the so-called America-bashing has come to the forefront of Japanese culture. It was in the line with the public sentiment that the Japanese people no longer want to buckle down under pressure from the US.

Thirdly, American trade deficit with Japan is rather influenced by its overall current account balance which is determined by macroeconomic factors, namely, the level of aggregate demand in relation to output (or equivalently the relation between saving and investment), as well as the degree of international capital mobility. It becomes clear while comparing some salient macroeconomic factors both the countries possess. While in the US the private saving and investment rates have been 7.4% and 5.9% respectively for 1984-90, in Japan those were 12.0% and 9.9% respectively.²¹ The Japanese Economic Planning Agency has correctly argued that the root cause of trade imbalance is macro-economic, the US savings rates must be raised and the US fiscal deficit must be reduced. So, the savings and spending behaviour of the US must be corrected to reduce trade deficit with Japan, as argued by the Japanese. **Fourthly**, the

21. Stephen Golub, "Is Trade Between the US and Japan Off Balance"?, *Finance and Development*, Vol. 31, Number 3, September 1994, p.57.

Japanese public opinion has been in a little bit of reversing mood. They want to place US-Japan relationship on a plane of mutual respect. Not dictation but consultation should be the principle of dealing with Japan. They want to stand up and to assert their new self-image at the global level for which they are prepared to say 'No' to any state if it undermines Japanese dignity and interests. Besides, the weak coalition structure of the Japanese Government is hindering any decisive step for easing the conflict. All these factors in combination led to the dangerous confrontational situation in the realm of US-Japan relationship.

2.2 Negotiation Process

The issues of conflict as mentioned above create a number of policy dilemmas and controversies for both the nations. Particularly, the dilemma of collaboration or confrontation has been placed at the centre of US-Japan bilateral trade relations. However, the policy responses in the real world by the two economic giants, so far, clearly reflect that despite their continuous search for cooperative and peaceful mechanisms for resolving trade disputes, they did not rule out the punitive measures against each other in some cases. Nevertheless, the bargaining process they underwent almost routinely in every conflict has been unique in the sense that both US and Japan demonstrated to the world that they were willing and able to solve difficult issues through dialogues. Particularly Japan's policy, so far, has been to agree to bilateral accords or Voluntary Export Restraints (VERs). Rarely has it retaliated or demanded compensation.²²

There were also some attempts to solve the friction within the framework of multilateralism. For instance, the doctrine of **trilateralism** as a manifestation of multilateral initiative had come across in the process of negotiation. This doctrine advanced by the

22. *Op.Cit.* p.2424.

Trilateral Commission, an organization that was launched in 1973, was welcomed by Japan as a possible means of strengthening its position, particularly *vis-a-vis* the US. They grew out of the perceived need for the three industrialized democracies, namely the US, Japan, and West Europe, to join together in dealing with the problems, that affected all their regions. For Japan, multilateral dialogue was certainly a chance to help balance its relationship with the USA. Later Japan was invited to participate in the Seven-member Economic Summit in December 1975.²³

However, these multilateral fora were not always successful in bringing US-Japan trade friction to a healing point. Hence the bilateral framework of negotiation combined with unilateral persuasion have been the main instruments to diffuse trade tensions. For example, responding to American aggressive unilateral market penetration approach, the Japanese government took a series of market opening measures during the first half of the 1980s. In 1980, it announced the national goal of reducing external imbalances through domestic demand-oriented growth, structural economic reforms and market opening measures, following the recommendation of PM Nakasone's advisory committee (The Maekawa Report).²⁴

A. Trade Accords : It has been observed that the bilateral accords always play a crucial role in managing trade relations between these two economic superpowers. Wherever crisis arises, they undergo serious negotiation process that generally results in the signing of trade accords. The trade pacts are signed not in package formula rather on individual commodity categories. Interestingly, in many cases these bilateral accords, even though the outcomes of long-drawn negotiation process, are short-lived. Accords are signed with fanfare and later they face embryonic demise. On July 10, 1993, the

23. *Op. Cit.* p.164.

24. *Op. Cit.* p.33.

former PM of Japan K Miyazawa and US President Bill Clinton announced an agreement on a framework for easing the trade tensions between the two countries. Through this trade pact Japan agreed to accept "objective criteria" in assessing how accessible its markets were. But in the Washington Summit held in February 1994, this framework agreement produced no result and ultimately it caused another breakdown of negotiations with the US. Thus, the bilateral trade accords rather linger the trade friction. Sometimes, it also affirms the view held by some Asian and European governments that the trade pacts following tremendous unilateral pressure benefit the US at other countries' expense.

B. Structural Remedy: In search of solution to this perennial conflict, the US and Japan had been patronizing the '*Structural Impediments Initiative*' (SII) Talks started in May 1989.²⁵ Although it was an attempt within bilateral framework, in real sense, it could bring substantial changes in their trade policies. The motivation lying behind this initiative between Japan and the US is how to devise new grounds for change. SII is the first and probably unprecedented exercise in managing bilateral economic relations in the sense that it attempts to resolve bilateral economic and trade issues through structural angles to supplement macroeconomic policy and exchange rate adjustment.²⁶ The major subjects covered by the SII discussion are shown in Table 1.

Although the SII talks provoked fierce debates on both sides and exposed main problem areas, the potential changes induced by SII are important and wide-ranging. Unlike the previous trade talks focused on specific commodities, such as textiles in the 1960s, and automobiles in the 1980s, the SII talks took a broad view of markets.

25. Leonard J. Schoppa, "Gaiatsu and Economic Bargaining Outcomes", *International Organization*, Vol. 47, No. 3, p.356.

26. *Look Japan*, October 1990, pp.8-9.

And the talks were a two-way street, where Japan or the US alone was not considered responsible for trade friction. However, the track record for solving the dispute on structural basis is disappointing

Table 1 : SII In Brief

	JAPAN	U.S.
Top of the List	Raise public works spending	Reduce the federal budget deficit and the government's outstanding debt
New Legislation	Releasing more land for development and curb high land price	Measures to increase low U.S. savings level
Anti-trust Laws	Fair Trade Commission to take a more active role in monitoring of and taking action against anti-competitive practices; increase fines	Reduce uncertainty treatment of joint ventures; reform product liability laws to contribute to national uniformity
Deregulation	To speed the process of opening of large stores to open the distribution system abolish a law under which the government can restrict foreign direct investment	
Long-Term Competitiveness		Lower cost of capital to facilitate long-term investment more federal funding for R&D improvements in education system
Others	Increase number of patent examiners; survey and publicize domestic/foreign price gaps	More programs to promote exports; export deregulation to communist countries

Source: *Look Japan*, October 1990, pp. 8-9

because there were least two limitations to the effectiveness of the SII: a long lead time; and the magnitude of deliverable reform mechanisms.

Despite various attempts of solving the trade dispute within bilateral or multilateral or structural framework, Washington is obsessed with the view that Japan is different and special predatory exporter, and an exclusionary importer must be dealt with as an outlaw, what Jonathan Rauch has called an 'outnation' with tough external *gaiatsu* pressure and targets to restrain exports and expand imports.²⁷ This obviously reflects origin of confrontational approach by the US against Japan. It is worth noting that by 1992, three distinct policy lines were developed within the US: the essential agenda for US economic reconstruction, the intellectual debate about the American interest in alliance with Japan over a long-term and wider perspective, and the call for managed trade coupled with resurgence of a unilateral and confrontational approach. The two conflicting parties then resort to such measures that include the elements of confrontation. Especially 'negotiation under threat' syndrome has come on the surface with deeper implications for confrontational approach. Tit-for-tat sanctions and circulating statements of warning occupy the agenda of bilateral interactions. The reason may be the fact that despite the bilateral nature of the agreements signed for removing the crisis, in reality, these are the products of aggressive unilateralism. An instance may be the U.S.-Japanese Semiconductor Trade Agreement of 1986 that was signed between the U.S. Trade Representative and MITI on July 31, 1986²⁸. During the trade tussle following the end of Washington Summit in February 1994, Japan and the US began to fire fresh shots in their trade dispute accusing each other of violating the spirit of fair trade. Later the Clinton Administration published an annual report of foreign barriers to trade. Of the 281-page report, more than 40 pages were devoted to Japan,

27. Jagdish Bhagwati, "Samurais No More", *Foreign Affairs*, May/June 1994, p.8.

28. Stephan Haggard and Chung in Moon [ed.] : *Pacific Dynamics: The International Politics of Industrial Change*, Westview Press 1989, pp. 148-150.

detailing a bilateral trade surplus and a current account surplus. It also accused Japan of importing relatively fewer manufacturing goods than any other country in the Group of 7. In a sharp response to the US report, Japan accused the US in a draft for annual report of building up an entire arsenal of unfair trade practices. The draft strongly criticized US trade policies that aim to set up so-called numerical targets for sales, describing them as a breach of the spirit of GATT.²⁹ In the settlement of trade dispute, taking the recourse to unilateralism was viewed by Japan as a measure amounting to retreat in the commitment to multilateralism. In the case of US-Japan trade relations it has always generated the prospect of bilateral confrontation, sometimes termed as 'trade war'.

3. RAMIFICATIONS: BILATERAL CONTEXT

Persistent trade friction tends to generate widespread controversies in bilateral relations ushering in an era of uncertainty having wider repercussions transcending bilateral ties. In this new and difficult stage both the nations can simultaneously be closer and more distant. This could pose a challenge for the future US-Japan alliance and the overall bilateral relations. This actually emanates from the tendency on the part of US to breakaway from the intense focus given in the Cold War period on European and Soviet affairs, and for Japan to break away from the excessive dependence on America. This clearly calls for the need to locate new focusses in the conduct of their external relations, which has become much more difficult as they are still allies and partners in the world. In such a backdrop, the critical aspects of the possible impact of trade friction on their bilateral relationship may be outlined in what follows.

Economic Warfare: Japan has pumped huge capital into North America, especially in the USA. During 1985-1989, 40.8 per cent of

29. *The Bangladesh Observer*, July 19, 1994.

Japanese foreign investment was in North America.³⁰ The Japanese are not only setting up manufacturing facilities, but they are also obtaining prestigious golf courses and valuable real estate, including Rockefeller Centre in New York. In addition, US direct foreign investment in Japan is increasing over the years (\$21 billion in 1990 to \$26.2 billion in 1992). Despite chronic deficits Japan is the second largest trading partner of the US.³¹ Besides, as the overarching security concerns precipitated by the common threat from the erstwhile Soviet Union are a thing of the past, a prospect for collision of capitalist interests has been looming over the global economic horizon. Given their economic interdependence and clash of parochial national economic interests, the most explicit impact of persistent trade row between the two economic superpowers is distinctly focused on the economic aspect of their bilateral relations. It has been observed that the trade talks often ended in failure almost in every case, threatening to spark a trade war. Economy has become easy target of trade friction. It ranges from temporary shock in the stock market to long-term trade and investment policies. US trade sanctions could be met head-on by Japanese retaliation and trade would spiral downward. This imminent economic warfare would further deepen the ongoing economic rivalry between the two nations which would saddle consumers and business in both countries with higher prices and slower growth.

Strategic Landscape: The existing variety of economic and trade strains will certainly develop a serious political concern which might damage the stability of relations between the US and Japan - an outcome with major implications for strategic dimension of their relationship. Because both sides, particularly the USA, have been using increasingly strong pressure tactics. Moreover, as Tokyo wants

30. *Op.Cit.*

31. *The World Almanac and Book of Facts 1994*, New Jersey, 1994, pp.117,184.

to adopt a new version of security doctrine in the post-Cold War Era what it calls 'comprehensive security,' emphasizing the linkages among security, economics, and politics,³² naturally any crisis centred on trade dispute could imperil the whole idea of comprehensive security. In fact, within the interlinkages of politico-security-economic variables crisis in trade relationship must spill over to security relations. Reducing US-Japan ties to merely trade relationship will certainly undermine healthier political and military relationship. If the US so clearly mistrusts Japan on trade, will the Japanese continue to trust the US on security?³³ Thus, the deteriorating economic atmosphere has begun to erode the outer edge of the mutual trust on which the security alliance depends - as illustrated by the polemics over the FS-X project.³⁴ Furthermore, this would provoke nationalistic feelings in Japan that would have long-term strategic implications for US-Japan relations. Consequently, the whole gamut of relationship may be paralysed in the dramatically less hostile circumstances of the post-Soviet era. On the part of Japan, the reality is that it is still greatly dependent on US nuclear umbrella. Particularly the East Asian security environment along with the absence of peace treaty between Japan and Russia could make Japan rethink her relationship with US in more constructive way.

Cultural Horizon: In the post-Cold War era we are witnessing surge of anti-Americanism and anti-Japanism in the name of America-bashing or Japan-bashing respectively. This psychological warfare is considerably distorting the prevailing reliable friendship image. It has a great impact on almost every issue related to trade and security. In a report "**Japan: 2000**" commissioned by CIA in 1991, Japan was characterized as a racist society aiming for world economic

32. Olsen Edward, "Target Japan as America's Economic Foe", *Orbis*, Fall 1992, p.499.

33. *Time*, February 28, 1994, p.12.

34. *Op.Cii.* p.32.

domination.³⁵ Hence trade tussle is undoubtedly an unwelcome development for both the nations. It appears to be that now-a-days, people from different corners in both the nations are engaged in discovering the 'Japan threat theory' or 'America threat theory.' A new breed of American intellectual revisionist literature on Japan has recently been developed and propagated by 'chrysanthemum club' in the US.³⁶ Their views attracted much attention in both countries after long years of trade and economic debates. In the same way, in a background of rising anti-Americanism in Japan the famous writer Shintaro Ishihara wrote a great book: *The Japan that Can Say No* depicting emerging psycho-cultural distance between the two nations. On the other hand, Huntington's theory suggests that there will be civilizational conflicts among the major global civilizations-Western, Confucian, Japanese, Islamic, Hindu, Slavic-Orthodox, Latin American, and possibly African civilizations.³⁷ Particularly, clashes may occur in cultural fault lines around the unique Asia-Pacific global setting. In any case, this phenomenon, reinforcing the already existing irritants, is sure to deteriorate their bilateral relationship.

Old Game of *Gaiatsu*: Another important implication of trade friction, particularly for Japan is the revival of the old game of *gaiatsu*. As mentioned earlier, Japanese foreign policy and trade policy were always influenced by the pressure from the US. It has been very much evident when decisions over trade issues *vis-a-vis* the US have been made. For instance, within the context of SII Talks, the US exerted a great deal of pressure on Japan to implement reforms in a range of areas identified by the US Government as structural barriers to the expansion of American exports to Japan. Moreover, in the aftermath of failure at most of the US-Japan trade negotiations, talks of US trade

35. *Op.Cit.* pp.493-95.

36. *Far Eastern Economic Review*, December 5, 1991, pp.47-48.

37. Samuel P Huntington, "The Clash of Civilizations", *Foreign Affairs*, Summer 1993, pp. 22-49.

sanctions against Japan were very much in the air. What happened after the failure of historic summit between Bill Clinton and Morihiro Hosokawa would bear testimony to it. Under the tenacious threat of sanctions by reviving the super 301, the trade talks between the nations went on. It reveals that for Japan, trade friction would always engender the reality of *gaiatsu* with negative implications for US-Japan economic relations.

A New Assertion in Japanese Political Thinking: On September 27, 1994, Japan asked formally for a permanent seat on the UN Security Council. This may be seen as the most significant reflection of its searching for self-image in the post-Cold War era. Now it has become an accepted fact that Japan, a non-Western capitalist nation, seeks greater role in world affairs. Taking the advantage of the opportunities induced by the drastic changes in the post-Cold War era, Japan is trying to register a vigorous role in the world. A new self-image of Japan has been taking shape in this new era of international relations. Japan could not only sustain her economic strength but also she would be superpower of the 21st century. Capturing the reconsidered values, notions and paradigms in the post-bipolar world, it is safe to mention that no country of Japan's stature could be denied of her legitimate hopes and aspirations of assuming global status and responsibility simply for not having enough guns. Besides, Japan has its unique brand of capitalism. Its economy is stronger than it looks and it is still growing. Unemployment and inflation are minimal, the savings rate is high and Japan is the only OECD country running a budget surplus. Yen-dominated investment, trade, and assistance have made the new structure of global economic relations centred on interdependence and economic priorities.

The pattern of Japan's relations with America plays a critical and catalytic role in articulating future Japan. Against this background, combined with the realities of trade dispute, Japan would not risk the economic warfare with the US, as it could even jeopardize her

economic superpower status. But despite her economic ascendancy, in order to establish Japanese rightful status in the world or to create a sort of Pax-Amerippon, Japan need to give much more weight on her relationship with America.

3.2 RAMIFICATIONS: MULTILATERAL CONTEXT

As the US and Japan become more and more central to world economic activity, the repercussions of any precipitated actions by them would have awesome implications for economic stability and prosperity of the rest of the world as well. An attempt would be made in this section to shed some light on this issue.

Asia-Pacific region: In the short-term perspective Asia-Pacific countries may well benefit from Japan's discomfiture. Korean and Taiwanese companies could exploit the damage that high yen is causing to Japanese competitiveness. Southeast Asian subsidiaries of Japanese firms will do more exporting to the USA due to lower costs, while corporate Japan pursues all conceivable ways of reducing its surplus. But the long-term impact on this region will be highly disadvantageous. This is why almost all the countries in this region reacted sharply to the failure of the Washington Summit. Australia, Malaysia, Thailand and India expressed their concerns and took a critical stance regarding the US move, particularly with regard to the style of handling the dispute. It is also true that those states are also critical about Japanese trade practices. However, for America, Japan may seem to be the villain, for the time being, but the US has other trading partners in Asia whose trade is as lopsided and which have much more obvious barriers to imports than does Japan. China is the prominent case with which the US is at odds on trade issues, especially on intellectual property rights. Korea is still an almost closed market for items such as cars. Insofar as the East Asian economies are closely linked with Japan as supplier of capital and intermediate goods and the US being the buyer of last resort for end

products, any action against Japan will have eventual knock-on effect. This would not be as great now as ten years ago, when a higher proportion of Asian exports went to US markets, and before non-Japanese Asian brand names established themselves in the West. But it is still a very real concern for both the countries, particularly for Japan.

In this context of their trade friction, both the US and Japan might look beyond bilateral trade linkages which has already been reflected on the growing dependence on this region. In the recent time, a changing trend in US-Japan trade relationship in terms of new directions of their exports and imports is being observed. The fundamental aim of Japanese trade policy in the present context is to steer trade to Asia-Pacific region by reducing its dependence on Western markets. Similarly, the US, having failed to reduce her dependence on Japanese market, she is now jumping to the Pacific Rim by slimming down herself from the South America, Central America, and even from European markets. American exports to the Pacific Rim has been increased from 4.6 per cent in 1992 to 11.6 per cent in 1993, while imports from this region decreased from 16.0 per cent to 8.8 per cent in the corresponding years³⁸. Japan's Asian tilt appears to be more profound. In 1985 Japan exported a third more to America than it did to Asia. Now it exports a quarter more to Asia than to America; and nearly three times as much to Asia as Europe.³⁹ So the current trade dispute between the two nations could impede their stable trade and economic relations with this region, unless both the parties seek to resolve the friction genuinely.

Trans-Atlantic Trade Relations: Since the end of World War II, the US and West European countries developed a very close trade relations, even though there was conflict at various times. The

38. *International Businessweek*, July 5, 1993, p.12.

39. *The Economist*, April 22, 1995, p.18.

US-Japan trade friction in the post-Cold War era has wide-ranging implications for trans-Atlantic trade relations due to the pattern of triangular trade relations between the US, European Union (EU) and Japan. This was clearly demonstrated in the reactions of European Union against recent car trade squabble between the US and Japan. European Trade Commissioner, Leon Brittan, had criticized Washington's plan to hit Japanese Luxury cars with 100 per cent import duties. He asserted, "In practice it would be the Americans who benefit at the expense of European manufacturers of cars and car parts".⁴⁰ This EU stance could come as a blow to trans-Atlantic trade relations at a time when the two sides had been trying to strengthen them. Moreover, the recent trade talks between Japan and EU held in Paris against the backdrop of US-Japan trade friction has reflected its negative implications for the future of trans-Atlantic trade relations. During the meeting they discussed their strategy towards the US and threatened US trade sanctions against Japan.

Global Trade Regime: With launching of World Trade Organization (WTO) in January 1995 under the world trade treaty negotiated over seven years in the old Uruguay's Round, a new and real prospect for establishing a sound global trading system for promoting free trade at the global level would come into being. This could make the whole international trade relations transparent enough to contribute to the economic development of the world, in real sense. The WTO has a dispute settlement procedure under which countries involved in trade disputes agreed to avoid unilateral action and seek solutions through it, at first in consultation and then by agreeing to adjudication by a neutral expert panel. The role of this newly-emerged global trade body has become crucial when Japan formally lodged a complaint in the face of recent US threat of sanctions under its jurisdiction. Japan entirely wanted to solve this bilateral trade dispute

40. *The Bangladesh Observer*, May 18, 1995.

under this multilateral body. On the other hand, the US also announced to bring broad-based unfair trade case against Japan before the WTO unless agreement is reached. Meanwhile, both the nations have signed a last-minute deal over auto and auto-parts issues on 28 June, 1995. However, it reveals that multilateral solution to the bilateral problem has been gaining ground in the post-Cold War period despite American insistence on traditional unilateral pressure.

Against such positive developments in global trade regime, the bilateral drift in American trade policy *vis-a-vis* Japan might generate widespread concern among the global trading partners-developed or developing. In the words of Leon Brittan, "This is not the way to solve trade disputes. These measures(sanctions), if implemented, would be contrary to US obligations under WTO."⁴¹

The questions is : What are the reasons behind their concern? **The first** and foremost concern is the probable negative impact on world trade regime. The gains achieved so far through GATT would be undermined and the prospect for global free trade regime would become bleak. **The second** factor of concern is the US resort to bilateralism with unilateral pressure tactics at the time of growing world wide attention to multilateralism. Negating the substantive developments regarding global trading system achieved in the last few years, the US again exercised the same tactics in settling disputes with her trading partners, which has become much more evident in the case of Japan. For instance, following the signing Semiconductor Agreement of 1986 by the U.S. and Japan, the European Community (now European Union) began to object strenuously to the agreement, claiming that it would had violated the fair trade rules of the GATT.⁴² **The third** factor of concern is the shifting importance to economic regionalism. As the developing countries still lag behind in nurturing

41. *The Daily Star*, June 1, 1995.

42. *Op. Cit.* p.149.

or gaining fruits of international trade through solid regional trading arrangements, regionalism will only grow in strength in different parts of the globe. With the formal operation of North Atlantic Free Trade Association (NAFTA) since January 1, 1994, the US is on the way to restructuring her trade relations. Here the US dispute with Japan could add another point to justify her interests about NAFTA. Last not the least, the Southern countries, especially the least developed countries, could be adversely affected by the frictional trade relationship between the US and Japan. The areas to be affected are aid, trade and investment.

4. COMMON GROUNDS FOR RESOLVING THE FRICTION

The US-Japan ties need to be recast, less in bilateral terms and more in terms of resolving common global issues. It would be detrimental for both nations as well as the rest of the world for the relationship to bog down in the whole process of bilateral parochialisms manifested in the various forms of Japan-bashing and America-bashing⁴³. Primarily, important mutual interests and shared values - a stable but flexible world order - maintenance of an East Asian balance of power, an open international economy, and a commitment to democracy have enabled the two countries to forge a unique relationship despite great differences in history, geography and culture. So, both the nations should be aware of the limits arising from negative impact of this trade friction on their bilateral ties and interdependent nature of global economic relations. The US and Japan must recognize that their economic status obliges them to work together toward maintaining and consolidating global economic order. The former Japanese Prime Minister Toshiki Kaifu put it correctly:

43. Takashi Inoguchi, *Japan's Foreign Policy In An Era of Global Change*, Pinter Press, 1993, p.92.

Our country intends to shift its own economy to a structure that is in harmony with the rest of the world, to contribute healthy growth in the world economy, and to play an active role in the process of creating new rules for international economic activity.⁴⁴

The US as the sole superpower in the post-Soviet era must recognize that the successful conclusion of the Uruguay Round of multilateral trade talks has certainly defined a vast area of no-man's land beyond the extreme of domestic compulsion which brings her to a wider horizon of global commitment. Hence the Clinton Administration has been, to some extent, destined to walk on the tight rope or to maintain sensitive balance between domestic compulsions and global commitment.

In a manifestation of declaratory policy, both the nations call for global partnership for achieving their national interests as well as global economic stability. It was clearly non-existent in the '50s, '60s and '70s. With the growing economic interdependence and sweeping changes in the global strategic environment, the major trading partners at the systemic level are simply unable to discard the idea of collaborating with each other. Hence the critical areas of their common stakes are quite clear.

Multinational Economy: This is the age of multinational economy arising from the reality of technological revolution and the growing interdependence around the world. The rapid expansion of global trade, increasing international capital flows, internationalisation of production for taking the advantage of lower costs, and the overriding influences of international financial institutions have been contributing substantially to the growth of multinational economy. This trend, developed in the post-War era, has made the advancement of national economy greatly dependent on external factors. Capital, in the form of foreign direct investment (FDI) or international investment

44. Toshiki Kaifu, "Japan's Vision", *Foreign Policy*, Number 80, Fall 1990, p.38.

began to flood abroad in an unprecedented manner. More so, the sudden collapse of 'command economy' model in the erstwhile Soviet Union and Eastern Europe had led to the globalization of market economy which has profound impact on world economic structure. Against such a backdrop, the ascendance of multinational economy as the heart of global economic structure could play a deterrent role in diffusing tensions between the two nations.

Maintenance of Economic Interdependence: Large corporations, engaged in businesses ranging from the manufacture of high technology consumer or capital goods to the extraction, refining, and marketing of petroleum have established networks of affiliates throughout the world. During the heyday of the Cold War, the Third World countries committed to establish a new international economic order had forced the industrialized West to initiate some fundamental changes to their economic policies. Changes are mainly reflected in resource transfers, labour migration, technology transfers, trade patterns, and the practices of international financial institutions. This development has had far-reaching consequences for the global patterns of trade and production, for the flow of labour, capital, technology, and for the conduct of government policies. A complex web of interdependence in global economic relations both at bilateral and multilateral levels has been spawned and it continues to thrive over the years with momentum. This has made economic policy interdependence a definite feature of the international setting.⁴⁵

Having common attributes like technology-dependence and post-industrial culture, interdependence between Japan and the US has deepened considerably over the past few decades. Now it can be seen in nearly every aspect of relations: trade, finance, commerce, education, research, tourism, and even in the rising incidence of marriage between Japan and America. The economic interdependence

45. Aziz Ali Mohammad, "Industrial and Developing Country Policy Linkages", *Finance and Development*, September 1994, p. 52.

has got prominence over all other aspects. The extent of their trade relations and level of investments particularly by the Japanese in the U.S. show how much the two economic superpowers count on each other for their own national development. Moreover, despite increasing Japanese and American trade and investment flows to Asia, the prevailing mutual economic dependence clearly indicates that any punitive measure taken by any state could hamper the interests of the both. For example, if the US imposes draconian super 301 on Japan, it certainly will affect the US economy adversely. An American ban on Japanese exports of cellular telephones would have little effect because Japanese manufacturers of these gadgets all have factories overseas. And although Japan is still the best customer by far for American foodstuffs and forest products, Japanese could easily buy them from other suppliers at the same price and quality.⁴⁶ So, they must cooperate with each other. Another significant issue is the establishment of closer relationship between the business corporations of these two economic superpowers. At a time when trade tensions between the US and Japan are at their most antagonistic pitch, the alliances and interconnections among the business rivals are spreading rapidly.⁴⁷ The semiconductor industry is a prime example.

On the global front as mentioned earlier, the actuality of interdependence is well-recognized. Because of the size, depth, and reach of their economies, the role of the two nations for maintaining interdependent nature of global economic structure is almost inescapable. The Gulf War of 1990-1991 between Iraq and the US led multinational coalition bears the testimony. At the point of their jeopardized collective interests, the major Western countries shouldered the burden of economic and military damages emanating from the war. While the USA has absorbed the heavy burden of

46. *Asiaweek*, May 18, 1994, p.55.

47. Mark Potts and Peter Behr, "Forging Strategic Business Alliances", *Economic Impact*, Vol. 3, #59, 1987, p.24.

military and economic wounds, Japan provided more financial support than any country except Kuwait and Saudi Arabia. Considering the level of interdependence on the global context, it could be concluded that it would be highly difficult to ignore this interdependence for the likelihood of its boomerang effects.

Table 2 : Major Countries at Global Initiative (in percentage)

Areas/ Countries	USA	Japan	Germany	France	U.K.	Russia
Share of World GNP	26.0	15.0	07.0	05.0	04.0	-
UN Funding	25.0	12.5	08.9	06.0	-	06.7
WB Funding	17.9	07.4	05.7	05.5	05.5	-
Total	68.9	34.9	21.6	16.5	09.5	06.7

Source: *Japan and the United States : Teamwork Today and Tomorrow*, Ministry of Foreign Affairs, Japan, February 1993, p.2

Table 2 shows a comparative picture of American and Japanese involvement in three key indicators of global initiative individually and jointly. Hence, Japan and America are somehow obliged to work together to enhance the world's economic development through collaboration not confrontation.

Currency Crisis: From monetary perspective, the ongoing trade friction is sure to create global currency crisis at any time through unsettling international currency markets and driving the dollar lowering against yen. Thus currency market seems to be heading for a phase of volatility, particularly in respect of conversion rates between the US dollar and Japanese yen. The market perception appears to be that the dollar would be allowed to slide down continuously against the yen. A weak dollar would make American goods cheaper and

hence more competitive on global market and in Japan. Concomitantly, a strong yen would cost importers of the Japanese goods more and thus erode Japan's export competitiveness. This trend of currency crisis could trigger widespread movements of global funds, destabilizing financial markets the world over.

CONCLUDING REMARKS

Although *realpolitik* states that trade friction resulting from the clash of interests is inevitable in the conduct of external economic relations, it continues to remain a formidable challenge to be confronted in the post-Cold War era. Despite various levels of intensity, the crucial disagreements over trade issues were kept under manageable limit in the Cold War period. **Will it be possible in the post-Cold War era that was not impossible in the Cold War period?** As the trade dispute in US-Japan relationship is not a new phenomenon, both the countries may perhaps work in close co-ordination and co-operation to find out a structural remedy to their differences and disagreements. Both the nations could agree with such mechanisms that could help them change their economic way of life. It is worth noting that in the analysis of the trade policies of both the US and Japan, it has been uncovered that a certain degree of contradictions and double standards are harboured in the heart of their trade policies. Practices of the self-proclaimed and self-defined free trade policies year after year have been distorting the liberal capitalist order. None of this to deny that both American and Japanese trade policies are flawed and harmful - harmful to Americans and Japanese alike.⁴⁸ Now it is the right time for both Japan and the US to work together for removing distortion and unfair practices in the global trade arena. In order to preserve national interests through upholding the principle of free trade both the US and Japan must opt for an effective mechanism.

48. *Op.Cit.* p.492.

The structural changes by the US and Japan could bring a genuine remedy, if not permanent, to this problem.

The US would have also to consider that the demise of the Cold War has reduced Japan's reliance on the US defence shield, although a nuclear threat still lurks in the Korean peninsula. More so, in the context of new global politico-strategic environment Japan seems to warrant more respect and recognition from the world. This could take the shape of Japan's participation in the UN peacekeeping forces and the consideration for inclusion of Japan into the family of the UN Security Council permanent members. The US should not undermine the emerging self-image of Japan. If the US maintains her traditional stiff position towards Japan, she might face an awkward position, a little bit ostracized situation in global trade deal. She must remember that the world trading system has been extended to cover areas that most concern America, including procurement, agriculture and financial services. Moreover, Washington, which has long urged Japan to pursue more activist foreign policies and to strengthen military capability, may now find the more independent bent of such policies not entirely to its liking, but can not retreat. Besides, how can the US cope with so many disputes with her trading partners? She is virtually in trade friction with India for clothing tariffs, with South Korea for car-import curbs, with China on intellectual property rights, and with Europe for opening market for communication equipment.

In the ultimate analysis, the trade friction between these two countries is fated to be resolved. It is not because that both sides have come to respect in principle each other's interests or demands, it is not because that they have understood their mistakes and it is not because that they have become committed to multilateral principles overnight. It is simply because they can not afford a trade friction in this changed international context. Besides, from macroeconomic perspective, trade balance has nothing to do with degrees of protection that confirms that

there is nothing surprising about Japan's surpluses. To quote the father of capitalism, Adam Smith:

If the trade balance would be in favour of France, it would by no means follow that such a trade would be disadvantageous to England... If the wines of France are better and cheaper than those of Portugal, or as its linens than those of Germany, it would be more advantageous for Great Britain to purchase both wine and the foreign linen which it had occasion for of France, than of Portugal and Germany... Nothing can be more absurd than this doctrine of the balance of trade, upon which almost all [trade barriers]...are founded.⁴⁹

Hence the question of searching the ways for accommodation is the real imperative for both the US and Japan. In this connection, the delicate question of handling the 'trade friction' phenomenon in their bilateral relations demands the unfolding of new options and considerations leaving behind the stereotyped formulas practiced in the past. Avoiding the so-called zero-sum strategy, irrational consistency, and obsession with the currents of Japan-bashing or America-bashing, both the countries are to be involved in close and genuine co-operation. This would certainly require to tackle the existing trade crisis in a peaceful and democratic fashion. The international community must have not witnessed the situation that rising hopes and aspirations for establishing a new world economic order predominantly based on economic interdependence are watered down in the rhetoric of 'trade war' as a consequence of long-simmering trade dispute between the US and Japan. Both the parties would have to admit that their relationship is too important to be held up by a dispute over a fraction of the total trade volume between the two countries. Above all, when two such large and dynamic societies involved in so many ways, friction and frequent adjustments are inevitable. Making sure that such adjustments take place constructively will require both countries to accord a higher priority to their mutual long-term interests to their

49. *Op.Cit.* p.55.

individual short-term interests. Americans and Japanese alike need to recognize that either country can, through shortsightedness or intransigence, undermine the relationship. Maintaining US-Japan relations will require vision and sacrifice on the part of both. If American and Japanese leaders and peoples act in this spirit, the US-Japan relationship will benefit the two countries and the entire world as much in the 21st century as it has in the second half of the 20th century⁵⁰. However, the bottomline is that in the face of rising domestic and global compulsions emanating from national economic problems and accelerating global economic integration marked by the age of *realekonomik*, the two preeminent economic powers are highly constrained to choose the ways for settling their bilateral trade dispute at their will.

50. Stephen J. Solarz, "America & Japan : A Search For Balance", *Foreign Policy*, Winter 1982-83, No. 49, p.92.