

Bonds of Trust



By Yoshihisa Tabuchi
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The special relationship between Japan and the United States is the single most important bilateral relationship in the world. And it is essential to continued world prosperity that the bonds of mutual trust be strengthened between these two economic superpowers, both of them dedicated to democracy and free-market principles. However, massive trade imbalances have surfaced between the two countries since the start of this decade, and a variety of policies have been implemented on a number of fronts to restore the balance, including exchange rate adjustments, macroeconomic policy coordination and industrial restructuring.

Yet in this same adjustment process, there have been times when popular myopia and the preoccupation with short-term profits—on both sides—have generated meaningless friction. However painful the short-term consequence may

be, it is essential that Japan continue to push for further market opening and that the United States work to regain its international competitiveness and to reduce its massive government deficits.

In recent years, frustration with the trade imbalance has prompted many Americans to demand that Japan assume more responsibility within the context of the Japan-U.S. alliance. And Japan is clearly ready to do its part as a responsible member of the free world economy, as epitomized by the fact that Japan is widely expected to supplant the U.S. as the world's leading aid-donor country this year and the fact that Japan is thought to rank third in defense spending, behind only the U.S. and the Soviet Union.

The important thing now is for Japan and the United States to identify what each ally must do and then to do it. For Japan, this means further industrial re-

structuring toward a domestic-demanded economy while fulfilling its role as a creditor nation; and for the United States it means striving to cut its deficits while restoring its international competitiveness, a task that will in turn require greater direct foreign investment in America. Recognizing that these problems affect not only Japan and the United States, we need bold global restructuring and policy coordination worldwide, including the Asian NIEs.

I firmly believe that Japan and America—two countries with the dynamism that comes of free markets and the confidence born of healthy democracy—can overcome their present trade friction and cooperate as the mainstays of an international community characterized by open markets and vigorous democracy for a better world in the 21st century. ■

Striking Asymmetry



By Masataka Kosaka
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The Japan-U.S. relationship is a special relationship in two senses. To start with, it has a special importance internationally. Not only are the two countries each other's largest overseas trading partners, companies from both countries are cooperating closely in a variety of fields and the two financial markets are irrevocably linked. With their combined GNPs accounting for more than one-third of total world GNP, how well Japan and the United States handle their relationship has an undeniably profound impact on the rest of the world.

At the same time, the Japan-U.S. relationship is special by virtue of its striking asymmetry, the most obvious manifestation being the vast disparity in the two countries' military power. The U.S. spends 7% of its GNP on defense and is indisputably the preeminent superpower, while Japan's defense spending comes to only about 1% of GNP. Admit-

tedly, Japan has a very large GNP and 1% is still a significant amount, but the figure is certainly disproportionate in terms of Japan's potential.

I do not see this balance changing in the foreseeable future, however. Ideally, America would curtail its military spending somewhat and Japan would continue to do more for its own defense. Yet even with these adjustments, we would probably still have the U.S. devoting 5% or so of its GNP to military purposes and Japan about 1.1 to 1.2% of GNP. The present consensus is that Japan should offset its low defense budgets with increased economic assistance to developing countries, but I doubt if such aid will ever be more than 0.5% of GNP.

This situation has fostered American resentment at Japan's "free ride" and created the danger that Japan may lapse into the apathy of total dependence on the United States or rebel against what is

perceived as American arrogance. Grim though these prospects are, they do not justify altering the relationship capriciously. Change for change's sake would be counterproductive, both for the two countries themselves and for the rest of the world. The asymmetrical relation between the U.S. and Japan has a certain rationale.

The only viable option is that of gradually moving toward a more balanced relationship—a process which may even necessitate drawing up a new balance sheet to keep track of the relationship in broad terms.

There is very little historical precedent for the care and feeding of such a special relationship, and it may be that we have to shed our hidebound ways of thinking and look at the situation from a fresh perspective if we are to succeed in this formidable task. ■