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## It's Time to Rethink the U.S.-Japan Relationship

By Jeffrey E. Garten

NEW HAVEN, Connecticut — When President Bill Clinton goes to Tokyo this coming week, he will be able to celebrate impressive economic and military accomplishments with America's number one Asian ally. But the good news in U.S.-Japanese relations may be coming to an end, and a sharp turn in U.S. foreign policy may be called for.

Since his first trip to Asia nearly three years ago, the president has accomplished a lot. He pressed Japan hard and successfully to open its markets. While many other factors helped, such as the increasing competitiveness of American companies, deficits with Japan are now declining steadily, from \$65 billion in 1994 to a possible \$55 billion this year. In areas of high priority to U.S. negotiators — telecommunications equipment, autos and auto parts, financial services — exports over the last few years are up at least 50 percent, according to administration estimates.

The Clinton team worked closely with Japan to smoothly reverse a sinking dollar. Last spring one greenback bought as little as 80 yen. Today it is worth more than 100 yen. A higher dollar attracts money from overseas and takes the pressure off the Fed to raise interest rates as alternative inducement to foreign investors. Because a strong U.S. currency means a weaker yen, it also gives Japan some breathing room to handle its \$400

billion bailout of its banks, since it makes Japanese exports cheaper and thereby boosts the Japanese economy.

Despite great strains in the U.S.-Japan security treaty caused by the rape of a Japanese schoolgirl by three American servicemen, the two governments have worked out arrangements to keep the 47,000 American troops in the country.

All this happened despite the fact that during President Clinton's tenure, Japan has been in recession, preoccupied with a lingering financial crisis at home, and has had no fewer than five prime ministers. Now comes a much harder act.

On the economic front, the notion that Japan has opened its economy in the same way as America or most European nations is an illusion. One reason the U.S. deficit with Tokyo is declining is that many Japanese companies have relocated their factories to other Asian countries such as Thailand or Malaysia, combining their money, technology and management with low-cost local labor.

When it comes to military cooperation, a lot of the effort these past few years has been devoted to holding the security treaty together. But what is its rationale in the era ahead? The alliance was established so America could defend Japan from communist aggression, without Japan's having to maintain a

military for anything but self-defense. The treaty said nothing about Japan's helping America with logistics, ships, planes and troops when it came to potential conflicts with China or North Korea. While it appears some progress has been made in recent days, at least regarding peacekeeping operations, at a time when Asian politics are unsettled and military budgets in the Pacific are growing — and when America is so skeptical about foreign military involvement of any kind — how long is this unbalanced relationship tenable?

U.S. policy toward Japan has been slow to change from Cold War days. But now a new ball game looms, not only because of new economic and military pressures, but because of growing nationalism on both sides of the Pacific. America's traditional trade strategy of repeated bilateral confrontations that lead to 11th-hour settlements with Japan is unlikely to work in the broader and more complicated Asian setting. Also, America's traditional acceptance of a one-way military alliance will need to be rethought. Together, these problems call for a new vision of the American-Japanese relationship.

The president and the prime minister won't make much headway in their whirlwind meeting. But they could start a quiet process — composed of a series of private meetings that would include political, business and military

leaders from both countries — to redefine their important ties.

These experts might conclude that outside pressures on Japan and Asia to open their markets will be as necessary as ever, but that they should unfold in multilateral forums such as the World Trade Organization and not in head-to-head battles. They might examine the broader Asian market, where half the growth of world consumption of everything from autos to movies will likely take place these next several years, and decide that Washington's and Tokyo's mutual obsession with one another should give way to more closely aligned regional strategies that manage competition and promote more cooperation. And they might agree that military ties among powerful, mature countries must contain significant balance.

It's easy to assume that economic dynamism in East Asia will translate into a peaceful and prosperous "Pacific Century." It may happen, but it all depends on the behavior of three big powers in the region — America, Japan and China. By far the easiest part of the puzzle is getting the U.S.-Japan piece right. Now is the time to do it, before a crisis ensues.

*The author, former undersecretary of commerce in the Clinton administration, is dean of the Yale School of Management. He contributed this comment to the Herald Tribune.*