《論　　説》

Political Economic Process from the 'Plaza Accord' to the Structural Adjustment Talks between Japan and the US*

― How should we consider the 'Plaza Accord' as structural transformations since the Second World War? ―

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Contents

Introduction

Prime Minister Abe of Japan and President Trump of the US (United States of America) talked at the first summit meeting of Japan-US on February 10, 2017. Trump has been complaining about the Japan-US economic relations such as trade deficit with Japan and exchange rate for a while. In the Japan-US Joint Statement of Economy and Commerce this time, it was confirmed that three approaches, mutually complementary fiscal, finance, and structural policy are used, and based on free and fair trade rules. They also confirmed to strengthen regional economic relations. It is said that Japan's mutual complementary financial affairs, money market, and structural reform policies implied that "monetary easing in Japan is not currency induction". Is this comment out from the lesson learned from the 'Plaza Accord'? Or is it because the US trade deficit with Japan has decreased compared with that time?

The 'Trump phenomenon' is, of course, partly attributed to D. Tramp himself, but we should also pay attention to the flow that causes the phenomenon. I suppose that this 'America first' phenomenon has already begun since the 1980s, although this phenomenon has different degrees. I think that we should pay attention to the political and economic process since then. So to speak, the 'path-dependent' appears at the successive US administration level as the 'Trump Phenomenon' at the moment in the historical process that has been continuous.

The Japan-US economic relations after the Second World War can be called the history of trade friction. Japan initially voluntarily regulated exports to the US in the order of textile, then steel, automobile, semiconductor and so forth. In 1985, the 'Plaza Accord' sometimes adjusted foreign exchange significantly to the yen appreciation. Since the 1990s, the mutual system was taken up at the 'Structural Impediments Initiative (SII)', and furthermore in the 'Japan-US Comprehensive Consultation' "Numerical Targets for Reducing Surpluses by Japan" went up to the top. Thereafter, the 'Japan- US Regulatory Reform and Competition Policy Initiative and the US-Japan Economic Harmonization Initiative' continued, and now in the conflict between Japan and the US economic conflict, such intense political battles cannot be seen.

The exchange rate represents the value (price) of the currency and serves as an index for comparing and evaluating the value with other currencies. The exchange rate affects not only the economic field but also every field. The foreign exchange market sets the exchange rate with foreign currency in the import and export of one country, and affects the demand and supply of goods and services produced domestically and abroad. Exchange rate movements affect the competition of goods and services produced in various countries, which in turn affects the pattern of trade flows [Kuper and Kuper, 1996: 275].

The actual exchange rate setting adjusts its movement nominally or virtually. The relationship between the theory of exchange rate determination and empirical evidence cannot be stated clearly. The movement at the exchange rate reflects supply and demand for financial resources among the nations. Parity devaluation is considered as an indication of excess supply of domestic financial assets. Exchange rate stability requires continuous currency policy among countries [Broz, Frieden, 2006; Bernhard, Broz and Clark, 2003]. Furthermore, political speculation may work there.

However, it is meaningful to pay attention to the 'Plaza Accord' that has become a major turning point in considering the current international political and economic position of Japan. The 'Plaza Accord' was especially as important as for the Japanese economy in the fixed exchange rate system of a dollar = 360 yen, the collapse of the Bretton Woods regime in 1971, the Smithsonian agreement in 1973 and its collapse [cf. Ito, 2016]. Because, as a result of the 'Plaza Accord' in 1985, the start of yen appreciation started [Pempel, 1998: 11, 177], investment and trade became active [Pempel, 2005: 21], East Asian countries promoting economic ties and mutual exchanges [Machintyre and Naughton, 2005: 77, 81; Tachiki, 2005: 159], subsequent changes in material and psychological consequence in Japan, such as the Asset Bubble Economy, trade relations between Japan and the East Asian countries [Pempel, 1998: 200; Weiss, 1999: 155; Evans, 2005: 198], the occurrence of the economic crisis in 1997, development of the relationship with Japan and the world, and further closing the connection between Japan and the world, and the later 'lost 20 years' [Weiss, 1999: 177; Tachiki, 2005: 169]. They has become at the critical moments to form the present appearance of Japan.

The government decides the level and stability of exchange rate. Its decision affects the domestic price of imports. How to determine the domestic price will affect the inflation rate. Exchange rates also influence the actual income and wage levels through the same mechanism. To the extent that the international competitive position of domestic production products affects, exchange rate movements are meaningful for production and employment. The government may show resistance to currency appreciation due to its disadvantageous employment effect. Beyond doubt, there remains also possibility of devaluation of the parity with the political and economic benefits.

According to economic theory, determining the exchange rate is based on the economic structure and trade balance of each country. Of course, the yen and dollar exchange rates in reality do not function as expected. The 'Plaza Accord' was an event that proved that the yen and the dollar exchange rate was not in line with economic theory, but reflected the political speculation of manipulators in charge of each country. This paper aims to reproduce and reconsider the political economic process over the Japan-US economic relations since 1980s. I would like to draw a macro-like comparison between Japan and the US through this work.

I believe that we can present nation-state model of mercantilist type from the present case of both Japan and the US. I would like to keep in mind, needless to say, that the models of both countries have different points.

I would like to discuss this thesis in seven parts as following in this paper. First we present the international regime theory on exchange rate from the standpoint of political economy in the first chapter. Second, with the theory in mind, we will examine the process of the Japan-US currency negotiation over the 'Plaza Accord' as case studies from Chapter 2 to Chapter 4. The consequences have influenced Japanese society up to the present. Regarding that point, the third will be arranged from the three points in Chapter 5. Fourth, in Chapter 6, we will look for differences between Japan and the US on the evaluation over the 'Plaza Accord'. Fifth, in Chapter 7, we consider the Japan-US economic relationship after the 'Plaza Accord'. Sixth, from Chapter 8, at broad perspective, we will think from a comprehensive security system, including the economy. And finally, from Chapter 9, although the globalization era penetrates, and according to it, we will consider the transformative process which is (or was) characterized a (neo-) mercantilist state.

Professor J. Robinson has once argued modern mercantilism as follows. Governments of each country aim to expand the share of international economic activities only for domestic interests. Capitalist states are enthusiastic about selling, but they tend to be cautious about buying. That is to make the own trade surplus. This is a zero-sum game, meaning that someone will lose when someone wins [Robinson, 1973].

From the above viewpoint, as Japan has become an economic superpower, we need to confirm the change in the circumstances of more than thirty years since the Japan-US currency negotiations and the meaning of that change.

We know the term 'Rashomon Effect'. That means that it will produce different interpretations depending on the position to consider the same phenomenon. Nevertheless, the current economic friction is basically a political conflict between sovereign states, even in the times of globalization and economic interdependence, even though there are various actor conflicts. The circumstances leading to the 'Plaza Accord', their intentions, and the perception of each country caused a gap in the approach to the 'agreement', and the response after the 'Plaza Accord' caused different interpretations between Japan and the US and related countries [Ito, 2016: 73].

Chapter1 Political Economy on Monetary Policy

1. Three concepts and Points of Regime

When considering political and economic circumstances in international relations surrounding monetary policy, we must recognize three concepts. These concepts are 'regime', 'coordination', and 'cooperation'.

The international regime is defined as a set of rules, including formal, partly including treaties. In each field, the regime sets 'rule of game' to avoid conflict by interests of related countries. It is an international arrangement, a system that should be observed between governments. It can be international common or public goods.

Regime is a concept that can apply principles, norms, rules, and policy decisions to specific fields of international relations [Keohane, 2001: 720]; as an example of this concept, the International Monetary Fund (IMF) established in 1944 at the Bretton Woods Conference, private air transport formed in the 1970s, regulation of telecommunications, rules, and organizations, sets of international environmental regulations, and monitoring and management of proliferation of nuclear weapons, etc. The regime formed between governments is thus also a concept applied at the issue of international politics (e.g. security, economics, environment, etc.). The international regime is set up for common interests among the participating countries to it. Participating countries will act within a framework. However, the institution that adheres to the systemized 'coordination' and 'cooperation' within that range has understood the patterning of the interests and authorities of international politics and the regime from there (that is, the participating countries agreed) have made a distribution of planned profits.

The international regime is a mechanism of international value allocation. It allocates or redistributes benefits and costs among countries. Therefore, the regime can be regarded as a political phenomenon. Governments of each country, if they are concerned with the regime, are involved in the national interest. It is premised, not to mention, on multilateral interests (and forgetful but obligatory), but it requires some standards and rules. How to balance them leads to the existence of the regime [Yamamoto, 1989: 175-179].

The governments have been rapidly and frequently deployed in multilateral 'coordination' and 'coordination' for international activities since 1945. Most regimes contain at least one of the international organizations, such as specific services, monitoring for member states (and non-member states concerned), obedience and compliance with rules, participation in forums for negotiations, etc. Regime is organized in international relations, in principle, through horizontal 'adjustment' rather than vertical between nations. Needless to say, the 'self-help' function of participating countries is left. Regime is constituted by the governments of member states to achieve national interests. International organizations responsible for the regime will not act as a governance body similar to the state. When regime's rules are applied, we must confirm two arguments over the regime.

First whether does the regime have to depend on a single dominant country?

Second whether the rule of regime causes a specific effect apart from its influence?

The international regime is characterized by the superior position of the US located at the center and the increase of interdependence after the Second World War. However, it is difficult to divide the relationship between the US control in reality and the interdependence among countries. Cooperation in a complex and multi-polarized world surely requires a regime framework.

Institutions in the international regime are influenced not only by the power of the state but also internationally approved rules and norms. It is to mutually approve the agreed principles among sovereign states in the international community. Furthermore, even as the rules settled together with the times, the power between the nations changes relatively irrespective of that. They expected outcome of power may thus differ from what is initially observed within the framework of the regime. The difference becomes a point of debate. When that rule loses consistency due to the change of power relations of the state, the participating countries try to circumvent the regime and see a scene that makes the results which have often been funding so far meaningless it is.

It is prerequisites for analysis that characterize the international regime. Analysis for international regimes require consideration of the following items [Young, 1989: 29-30]. The first is institutional character. What are the main right, rule, and choice of regime? How do they structure the behavior of actors that produce streams to collective outcome?

The second is the jurisdictional boundary. What is the coverage of the regime under functional scopes, areal domains, and membership requirements? That is, how the jurisdiction is set up.

The third is conditions for operation. Which condition is required for regime function? Under what conditions would the regime's activities produce particularly desirable outcomes (e.g. economic efficiency, equity of allocation, ecological equilibrium, etc.)?

The fourth is the consequence of operation. What types of results can be expected from the regime? What are the appropriate criteria to evaluate this result?

The fifth is regime dynamics. How are the regime established and the regime experiencing predictable changes? Does the regime include a transformation rule?

Each of the features from the first to the fifth can be organized into three points (when organizing in Chapter 5) according to the main points of this thesis.

Point 1 is to integrate the policies on exchange of features in the first and the second.

Point 2 is to clarify theories and experience of features in the third and fourth.

Point 3 is to reflect policy decision by regime of feature in fifth.

Given the system concerning international regimes, it is inevitable that efficacy is solved to solve international issues. It concerns common goods or public goods in the international community. In international relations with members' sense of effectiveness affected by collective fate, establishing effective barriers to destructive events, for example, maintains order over the international environment and the issues. Institutions and rules sometimes become the behavioral standards for the behavior of each actor [Young, 1989: 235].

The political and economic analysis of monetary policy focuses on three perspectives. The first is an inter-national perspective. This relates to the nature of the international financial system. The second point is the domestic focus. This is related to the government's specific policy on the exchange rate. Domestic policies, especially in the case of large powers, have a great impact on the international financial system. Similarly, the international currency regime also affects the domestic currency policy. Third the political and economic situation of the domestic affairs has a great influence on the international economic environment.

2. International Political Economy Theory of Exchange Rate Policy

Each country's currency system employs one of two exchange rates. One is a fixed exchange rate system, and the other is a floating exchange rate system. Today, since the Smithsonian Conference, financial globalization has urged countries to shift to a floating exchange rate system.

Tension over the exchange rate, at least for more than a century, has been a feature repeated in the world economy.

In the fixed exchange rate system, a currency rate may be based on financial instruments such as gold or silver, or linked to a specific currency such as the US dollar. The value of a currency changes freely with the floating exchange rate system. The currency value of the country is changed by market conditions and macroeconomic policy of the country. The world has experienced the period of three international monetary orders until now.

First, most states of the world are in the era of the fixed rate system based on the classic gold standard in a form modified in about fifty years before the First World War and in the 1920s. Governments of each country exchanged money and currency at the display rate under the gold standard.

The second is the era from the late 1940s to the early 1970s. Capitalist countries organized the currency system based on the economic order of the Bretton Woods regime after the Second World War. This is, in a sense, a modified fixed rate system. The local currencies were fixedly linked in conjunction with the US dollar, and the US dollar was backed by gold under the Bretton Woods regime. But governments could change the exchange rate. Currencies cannot be tightly connected like a classic gold standard under this 'adjustable peg system'. Putting another way, the exchange rate has been stabilized by market manipulation.

Third, since 1973, we have entered the era of floating exchange rate system in major powers. Small countries choose to either fix their own currency as one of the major currencies, or adopt a variable rate based on government control laws. The globalization since then, from the 1980s, has made it difficult to control currency fluctuations easily.

It is understood that the currency regime has influenced regionally as well as international presence after 1973. It has been linked to countries in many regional rate systems. Some countries have linked their major currencies to their own currencies. For example, the 14 countries that join the African Financial Community were linked to the French franc (current Euro). Several countries in South America and the Caribbean have fixed their home exchange rates to the US dollar. The European Monetary System (EMS) was consolidated into a former German-Mark with a limited regional agreement, and as a result has resulted in a single currency and a common central bank. These are a kind of international monetary regime.

The contradiction between the domestic equilibrium and the external equilibrium in a country economy is resolved by the fluctuation of the exchange rate. External shocks will fluctuate as domestic demand and resource allocation will increase exports, and reduce imports if the international balance of payments becomes deficit or surplus, if the exchange rate fluctuates freely, there exists a view as a signal from the side that supports the market system. There remain criticisms that the floating exchange rate system raises uncertainty by international trade, so there exists a doubt about the stability of the exchange market. Each country has the recognition that it is necessary to prevent the fluctuation of the exchange rate after the Nixon shock. The management of floating exchange system successfully overcame the world recession in 1975. Although each country was a product of compromise, it was the result of selecting a real management of floating system. Currencies such as former German-Mark, pounds, and yen could not play the role of the key currency instead of the dollar. The basic currency is necessary not only to be a 'strong currency' but also to provide a remedy for absorbing anxiety factors [Ishiyama・Kusakabe, 1978: 135,154].

Policies by the participating countries must be respected at all times for the international currency regime. In doing so, it is important to establish guidelines to deal with various problems in 'coordination' and 'cooperation' among participating countries. Application of 'coordination' requires mutual cooperation with concrete action among governments. For example, connecting local currency to gold or US dollars requires a corresponding balancing measure. Even if one participating country chooses a currency of a powerful country, the government of any country does not want to become a country where only the home country exchanges gold. Every country also does not turn down to get a sole country where it experiences fluctuations in currency. There will be no effect unless spirit of cooperation with 'coordination' is secured.

'Cooperation' among countries can also be related to other countries participating in 'coordination' of policy in member states within the regime. It is like a joint intervention in the currency market. If countries within the regime 'cooperate' and do not show the attitude to cope, we cannot expect results. It can be the case of a prisoner's dilemma game, for example. It is because each country should take the joint action on the premise of making his position better. Their actions are forced to make policy decisions while looking at the direction of partner country forming the international regime. The two terms, 'coordination' and 'cooperation', are interrelated. To actually maintain a regime, one solution usually assumes another one.

3. Coordination' and 'Cooperation' in the International Currency Regime, and Consideration of Political Strategy

The international or regional fixed rate system has characteristics that the selection of the state is adjusted, for example, the gold standard system and the European Monetary System (EMS). If such a fixed exchange rate system is based on gold, or if there are many countries choosing between US dollar and German- Mark, the interests of the concerned countries will be increased by the same choice. Another country may be able to reduce currency fluctuation factors if a country is evaluated as currency stable by a fixed rate. Regime participating countries should not hurt as long as they adopt the same step.

If a number of countries participating in the regime increases, the fixed rate will succeed. This was the case of the gold standard system before 1914. It depended on the international economic order of the nineteenth century by the United Kingdom (UK) gold standard system. When many countries participate, the nature of the fixed exchange rate system can be 'virtuous circle'. However, when the regime meets the crisis, it can lead to a tangle, which is also a 'vicious circle'. As the gold standard system of the 1930s collapsed, the withdrawal of the UK from the regime was virtually within two or three years the many states of the world had to withdraw from the gold standard system.

Considering 'coordination' from the fixed exchange rate system, similar problems also occur in the floating exchange rate system. As the floating exchange rate system is in common standards for settlement and exchange, participating countries (even if not all) can benefit from that. For example, the IMF standard provides governments with quotas and restrictions on exchange with foreign currencies. This point will promote trade and investment that will bring profits to participating countries in terms of being able to act on some common standards.

'International cooperation' is indispensable for financial relations among multiple countries. The fixed exchange rate system will give the government an incentive of 'cheat' like de facto currency devaluation for its own interests. It is said that 'cooperation' among related countries has the following three 'laws' in the currency regime.

First the volatility of the devalued currency would surely increase or decrease trade and investment among countries.

Second the fixed rate tends to stabilize international finance to strengthen domestic finance.

Third the predictable currency value can reduce disputes in trade and investment.

The rapid change in the currency is often a serious drastic surge, protectionist pressure; blatant enemies on trade relations which lead to turn against. There may be problems that the country is forced to sacrifice in trying to realize the joint gain of the participating countries. The fixed exchange rate system requires an adjust policy involving a country and another one with respect to the exchange rate. The government may adopt a high official discount rate in order to avoid domestic currencies that are overly highly appreciated. And there remains a possibility that conflicts and adversarial relationship between the countries will occur from the viewpoint of economic security regarding the adjust cost to deal with the domestic economic and political influence. As a situation arises in a currency regime like the 'Plaza Accord' mentioned in this paper, if a country undertakes the anchor role of a regime, it may result in anchor's monetary policy being synchronized with other countries.

And the governments of the concerned countries are subject to political pressure in order to implement that policy. For example, West European governments have sought to implement austerity policies to control US inflation under the Bretton Woods regime from the late 1960's to the collapse. It was because countries that could do it would be able to maintain the currency regime if agreeing to the adjust cost. Intergovernmental cooperation is important to sustain the currency regime. If cooperative motivation is absent, they are attributed to failure. Regulations between 'coordination' and 'cooperation' depend on the monetary policy of one country and another regardless of international factors.

We must keep in minds following. In addition, one actor participates in a certain international regime, and when consulting and executing 'coordination' and 'cooperation' there should be another view to think about is to prepare a concept of political strategy related to a certain issue.

When thinking about its origins, political strategy departs not by strategy-making but by structuring of collective acting ability. Strategy consists of three basic elements; strategic capabilities, strategy formations, and strategic guidance.

Strategic capabilities develop collective actors into composition and expertise. Strategy formations are also a cognitive ‘challenge’ to the problems. Strategic guidance can be overlooked from a broad perspective and the ability to direct the whole.

Building a strategic core is a central part of strategic competence and is a prerequisite for its work. The policy makers involved in it must understand, accept, and be in charge of such a central role in that activity. Strategic competence is judged preferentially as a matter of leadership. It may, so to speak, come to collective actors with strategic capacity. The leader among them who will oversee the whole can potentially be executed only in cooperation with collective actors. Stated in different fashion, all the strategies can be paraphrased as collective actors think. However weaknesses of collective dimension are affected by actors with strongly personalized political roles. This weakens a unity among collective actors [Rachke・Tils, 2007: 531-532]. Speaking of strategy being indispensable, though it is natural; however it is surprisingly easy to see that it requires careful preparation.

4. Exchange Rate Policy

Domestic political factors cause international pressure in relation to ‘coordination’ and ‘cooperation’ within the regime, while the exchange rate policy depends on domestic circumstances. It is difficult for ‘coordination’ and ‘cooperation’ among countries to gain approval in one country. Exchange rate policies are susceptible to political influences such as elections, public opinions, and political changes. Politicians and monetary authorities in the administration may operate the exchange rate for reasons of their own domestic circumstances (e.g. elections, cabinet approval ratings, regime stability and instability, etc.) from the existence of the regime. Distributed politics based on exchange rates and domestic circumstances prescribe the exchange rate. Policy makers in a country must thus consider the following two points.

First policy makers must decide whether or not to participate in the currency regime while being conscious of domestic and foreign signals (e.g. trade in member states, economic growth, and public opinion trends). They must select own country's rate somewhere on the continuous line from a strict fixed rate to a complete floating rate to participate in this regime.

Second the policy makers must decide the exchange rate, keeping in mind that their currencies are traded on foreign exchange markets. Participation in the regime and each judgment on the currency level are related to the circumstances in the regime, so it is necessary to distinguish them from each other. And the value of the local currency is positioned somewhere on a continuous line from a currency in one country to a better one country currency for the currency rate. Policy makers in each country must prepare their own strategies in advance at that time.

Decisions on participating in the regime can include trade-off with the goal to 'agree' by the participating countries. The profits and costs of target are brought to the nation. If priority is given to the stability of domestic financial conditions, two advantages can be considered for the fixed exchange rate system (or maintenance of rate with less fluctuation).

First, by reducing the risk of exchange rate, long-term stability promotes trade and investment.

Second the fixed rate stabilizes domestic finance. Since the value of local currency is fixed in that currency (or money), low inflation policy is adopted.

The choice of a regime (or not) is decided on the basis of benefits and costs. Banks, investors, exporters and importers, and others acting globally on trade and investment want to choose a fixed rate system, considering the stability of exchange rate to promote trade and investment. If economic activity in contrast is constrained by the domestic economy, the government will want to make choices to stabilize domestic economic conditions.

A government can influence the nature of regime through exchange rate policy. The government must therefore determine the currency value. This decision signifies the exchange of 'competitiveness and purchasing power'.

The actual exchange rate affects the commodity price produced in each of the domestic and foreign markets. It also affects purchasing power of people who acquire currency. Real evaluation also increases domestic purchasing power by lowering commodity prices in foreign countries (more generally able to trade). However it is possible to increase or decrease the competitiveness among competitors who can trade in their own country by fluctuating their domestic price rather than foreign commodity one.

There is no clear economic guidance on the optimization of exchange rate. The devalued currency brings about an economic effect of shifting from imported goods to domestic products, and promotes exports and consumption. However devaluation has contradictory effects. Exporting industries may be sluggish from currency depreciation, or domestically oriented industries may benefit from currency appraisals.

Manufacturers support flexible and devalued currencies on the one hand. Producers who make complex and special deals, on the other hand, are very nervous about currency fluctuations. Producers in that situation become sensitive to the exchange rate. These producers would prefer to choose a fixed exchange rate. Alternatively, domestic industry (or citizen) may try to sell its own products to foreign markets using fluctuations in exchange rates.

The interests concerning the exchange rate explain the outcome of the policy and form a particularly important political system at that time. The political system, including the exchange rate policy, has an impact on economic policy. Exchange rate policies are influenced by the electoral system, the timing of election, and the deliberations of Parliament. This is because the exchange rate of a certain system affects purchasing power, growth rate, price level, etc. In fact, these systems influence the results of the elections, and further influence the way governments and policies are implemented. For example, the government wants to keep the currency value before the election or to choose to avoid or postpone devaluation until after the election. However, the delay in devaluation further exacerbates the problem. If there remains political unpopularity caused by devaluation in the national purchasing power, the government may be driven by a strong incentive to devaluation, even to create a more severe crisis than other methods.

For example, that is in the case of Mexico from 1993 to 1994 or in the case of Argentina from 1999 to 2000. In countries where central banks can secure adequate neutral positions from political pressures, they do not particularly turn into political issues. In addition, the government must secure enough time to pick up the big 'tab' due to delay in change at the exchange rate.

It may determine the conditions of domestic policy on whether to enforce currency appreciation or devaluation on the one hand. The regime sets rules and sanctions on the exchange rate policy of participating countries, and devaluation conditions domestic policies for competitive purposes on the other hand. Regime rules and monitoring mechanisms will, in addition, impose constraints on the jurisdictional scope of the administrations, the central bank, economic ministers and government agencies, politicians, political parties, fiscal and financial authorities, and so on, which manipulate exchange rates. For example, monetary policy and trade policy are a substitute for exchange rate policy. The devaluation of 10% is the same as the import tariff of 10% plus the export subsidy of 10%. The government chooses to issue export subsidies, or set up trade barriers or devaluation of the local currency. Exchange rate policies relate to the flow of capital, financial regulation, and policies in many other areas, which bring political effects in good and bad.

Table 1: Rate of Dollar and Yen

year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
dollar	226.7408	220.5358	249.0767	237.5117	237.5225	238.5358	168.5198	144.6375	128.1517	137.9644
year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
dollar	144.7925	134.7067	126.6513	111.1978	102.2078	94.0596	108.7791	120.9909	130.9053	113.9068
year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
dollar	107.7655	121.5289	125.3880	115.9335	108.1926	110.2182	116.2993	117.7535	103.3595	93.5701
year	2010	2011	2012	2013	2014	2015	2016	2017	2018	
dollar	87.7799	79.8070	79.7905	97.5957	105.9448	121.0440	108.7929	112.1661	109.9122	

Chapter 2 The Japanese-US Currency Policy Process over the 'Plaza Accord'

1. International political and economic situation before the 'Plaza Accord'

The exchange rate of the world after the Second World War (the exchange rate of national currencies) became a fixed exchange rate system with the dollar as the key currency by the Bretton Woods regime in 1944. Japan has helped to promote textiles, steel, electric machinery, automobiles, semiconductors and key industries of that era, and has enjoyed high economic growth under the depreciation of yen under the fixed exchange rate system of 360 yen per dollar. The US economic deadline became apparent due to an increase in warfare expenses of the Vietnam War meanwhile in the 1960s and the US balance of payments worsened on the one hand, but the Western European countries' and Japan's economy made a breakthrough on the other hand. It became difficult to maintain the Bretton Woods regime, and President Nixon unilaterally stopped exchanging dollars and gold in 1971.

The Smithsonian Agreement decided the devaluation range of the dollar and rounded the yen to a dollar = 300 yen in January 1971. However, trust in the dollar subsequently declined, and it moved to a floating exchange rate system in 1973. Even though the Japanese economy entered a low growth stage due to the oil crisis in 1973, it increased exports with high technology, low wages and a weaker yen. The US economy lost the initiative in the triple structure with Western European countries and Japan, exports were sluggish, and the high dollar's tone continued.

The US was able to drastically devalue the dollar with the Nixon Shock and the Smithsonian Agreement. However, in 1982, it returned nearly 280 yen per dollar. The background of this situation was influenced by US monetary policy. The high interest rate policy adopted by the Chairman Volker of Federal Reserve Board (FRB) of the US at that time attracted the world money to the US market and fixed the dollar high in the exchange market [Kurato, 2014].

R. Reagan took office as President in 1981. The Reagan administration implemented the US economic rebuilding plan ('REGANOMIX') with a drastic restraint on expenditure and tax cuts. Both Thatcher (the UK) and Reagan governments reflected the predominant period of New Right (e.g. neo-liberalism in economy and neo-conservatism in politics) in the 1980s.(1) Both governments undertook a comprehensive 'small government' through fiscal narrowing, deregulation of the financial and labor markets, and denial of Keynesian policies after the war [King and Wood, 1999: 371].

However the sluggish tax revenue and the increase in expenditure due to tax cuts did not increase tax revenue as expected, military expenses increased, and at the same time failed to reduce non-defense expenditure, and the economic policy bringing a fiscal deficit of about 200 million dollars every year since 1983, simultaneously adding trade deficit, suffering from 'twin deficits'. Supply in the US was satisfied with domestic demand, maintaining a high interest rate policy to curb inflation, leading to inflow of overseas funds, resulting in a high dollar [Nishimura, 1999: 28-29].

The First Reagan administration at that time welcomed the high dollar's rise. However, in the real economy, the deficit of trade balance widened as a result of a decline in exports and an increase in imports. This is because the Reagan administration was carrying the deficit of fiscal deficits such as aggressive finance after the Second World War, and military expenses increase. The economic recovery due to a large tax cut was ineffective, resulting in a further deficit expansion. The budget deficit in the US was about 700 million dollars in 1980, about 1% of GDP. However, the budget deficit expanded to more than 5% in 1984, reaching 200 billion dollars. The deficit in the trade balance exceeded 30 billion dollars in 1977 and exceeded 100 billion dollars in 1984. The current account turned to a deficit of 5.5 million dollars in 1982 and it expanded to 120 billion dollars in 1985. This is equivalent to minus 2.8% of GDP. The US fell into debtor country in 1986.

Table 2: Growth Rate / Unemployment Rate of Participating Countries of the ‘Plaza Accord’ (1960 to 1993)

Country	Growth Rate				Unemployment Rate			
periods	1960-73	1973-79	1980-89	1990-93	1960-73	1973-79	1980-89	1990-93
UK	2.6	1.5	2.2	−0.3	1.9	4.2	9.5	8.4
US	2.6	1.4	1.5	−0.8	5.0	7.0	7.6	6.6
France	4.3	2.3	1.6	−0.2	2.0	4.6	9.1	10.6
West Germany	3.7	2.5	1.7	2.1	0.8	3.4	6.7	7.8
Japan	8.3	2.5	3.4	2.2	1.3	1.8	2.4	2.3

Note: revised from Kitschelt, Lange, Marks, and Stephens, 1999: 436

The US and the UK caught the crisis of industrial hollowing out from the 1970s to the 1980s. The international competitiveness of manufacturing industry has in particular declined markedly, and, at the same time, the manufacturing industry has moved overseas abroad. This incident domestically got into trouble within the increase in the unemployment rate from this sector. After the trade balance in the US turned into a deficit in the latter half of the 1970s, the competitiveness of US products stopped in domestic and foreign markets, the import dependence became established, the trade deficit rapidly since 1982. The share of world's share of industrial products exports fell from 17.2% in 1982 to 13.4% in 1987.

The manufacturing industry in the US is expanding overseas due to the high dollar in the first half of the 1980s, while domestic production was shifting to imported production goods such as foreign-made parts and machinery facilities. Foreign consumer goods contrary to this have come to flow into the domestic market in large quantities.

The decline of manufacturing industry had a major impact on employment. While the number of employees in the manufacturing industry increased by 917,000 during the year from 1970 to 1980, it decreased by 1,210,000 workers the 10 years from 1980 to 1999 [Ohba, 1995: 54].

The Reagan administration attempted to rebuild the economy in the 1980s, but, as a result, the 'twin deficit' that the fiscal deficit is also the current account balance has been structured, and the tendency of protectionism domestically (especially from Congress) was strengthened. The reason for this was a decline in the competitiveness of US economy, but the Reagan administration criticized Japan and West Germany, which are current surpluses, rather than making improvements, and turned the deficit's problem abroad. Said differently, as a result of the failure of 'REAGANOMIX', the US government tried to improve fiscal and trade imbalance measures by adjusting the exchange rate with the yen and Mark. The US government tried to avoid criticism within the US by getting into some trouble with Japan that causes trade friction with the US with unreasonable yen depreciation. Because the 'Plaza Accord' in anticipation was not a pure economic talk, it was a place of political negotiations over domestic and overseas economies both domestically and abroad. It was also a time when the momentum of the Japanese economy peaked.

Table 3: Japan-US Trade Conflict Relations after the war (1970 - 2018)

year	trade friction	overview	result
1969～1972	textile	trade friction over textiles from the 1960s to the early 1970s	'Japan-US textile agreement' signed in 1972. The Japanese side accepted voluntary export restrictions on textile products.
1969～1974	steel	The US steelmakers asked the US administration to restrict imports in 1968.	'Self-regulationary export control agreement between the US, Japan and Europe' in 1969. The 'second Steel Self-Regulation (1972 - 1974)' by Japan.
1969～1977	color TV	Japanese TV makers' dumping certification in 1971.	'Agreement on the order of the Japan-US color television market order (OMA)' concluded in 1977. The number of exports to the US was limited to 1.75 million units per year.
1975～1992	automobile	Automobile export by self-regulations to the US in 1984	'Self-regulationary export of automobile to the US' was implemented in 1981- 1984 by Japan,
1977～1988	beef and orange	The first beef and orange negotiations in 1977. The second negotiation in 1983. The third negotiation 1988 (final agreement, elimination of import quota).	Number agreement (30 thousand tons of beef, 80 thousand tons of oranges) in 1978. Beef increased by 6,900 tons by 1988 in the second negotiations. Import quota abolished, tax rate gradually lowered in the third negotiations.
1985～1986	Market-oriented sector-specific consultation (MOSS)	MOSS consultation started in 1985	Discussions on obstacles to access to the Japanese market in specific fields (electronics, telecommunications, pharmaceuticals / medical equipment, forest products, transportation equipment, etc.) in 1985.
1985～1991	semiconductor	Consultation of Japan-US semiconductor started in 1985 (concluded in 1989).	The 'first Japan-US semiconductor agreement' concluded in 1986. The 'second Japan-US semiconductor agreement' concluded in 1991.

1987～1990	supercomputer	Unfair competition of Japanese supercomputer market	Four expert meetings, introduction of government procurement procedure measures, settlement of grievance disposal institution etc. in 1989 - 1990.
1989～1992	Japan-US structural talks	Bilateral consultation on the efforts and measures of both Japan and the US towards reducing the balance of payments of Japan and the US in 1989	Japan took measures in 1990 on savings and investment patterns, distribution mechanism (revision of large store law etc.), exclusive trade practice, keiretsu relationship, price mechanism in 1990. The US's measures in 1990 were taken on savings and investment, corporate investment activities and productivity, corporate activities, government regulations, research and development, export promotion, labor training and training.
1993～1996	Japan-US comprehensive economic consultation	'Discussion started as a framework of Japan-US comprehensive economic consultation' in 1993.	Announced Japan's self-regulationary measures in 1994 were announced.
1997～2001	Japan-US strengthened initiative on deregulation and competition policy	Deregulation Dialogue between Japan and the US started in 1997	Four summit talks between 1998 and 2000 (Joint Status Report)
2001～2007	Japan-US Economic Partnership for Growth	Start of 'Japan-US Regulatory Reform and Competition Policy Initiative'	Japan-US economic partnership for growth (consisting of 6 frameworks) in 2001.
2007～2013	Fact sheets on new initiatives	'Fact Sheet on New Initiatives' in 2010	Japan-US economic harmonization dialogue
2013～2018	TPP negotiations	'Japan-US talks on TPP negotiating participation' concluded in 2013 (agreement in 2015).	Japan and the US that shape the future of the Asia-Pacific region and beyond: announced Japan's global and regional cooperation. (the US withdrawal from the TPP in 2017)

2. ‘Young Report’

There existed a good contrast of two reports when looking at that time the US’s economic attitude in the own country. One is the ‘Young Report’, and the other is the ‘Morgan Report’. Both are countermeasures against the US political and economic hardships at the time.

The chairman J. A. Young (President of Huett Packer Company) of the ‘Presidential Advisory Committee on Industrial Competitiveness’ submitted the ‘Young Report’ in 1985. Regarding the decline of the manufacturing industry in the US, the industry in the US recognized that the US had lost its competitiveness in foreign markets because of the rise of overseas emerging industrialized countries, and the domestic productivity declines due to insufficient investment. The report said that “The international competitiveness of the US is now faced with challenges from abroad, which is unprecedented. The leadership of our country is in danger of survival and the living standards and opportunities that citizens are eager for. It is dangerous to offer, and pointed out that such a crisis is a big threat to encourage the citizen’s total rally” [Ohba, 1995: 56-57].

The report recommended the measures that the manufacturing industry in the US faced with ‘new reality’ both inside and outside, and should take measures to improve productivity. “If the US has even competitive power in the world market, many of the major national goals can be achieved satisfactorily. All goals, such as the position of US as a world leader, raising the standard of living for the people, national security, government financing for domestic plans, and so on are all dependent on the competitiveness of the US industry both inside and outside of the country”, and the report insisted on the full inclusion in international competitiveness, evaluating the current situation as follows.

①Industries in the US cannot respond to changes in domestic and overseas for the past 40 years, productivity declined, it became impossible to produce innovative quality products.

②The decline in productivity is rooted not only in issues such as high capital cost and low savings rate, but also fundamental issues such as labor motivation of workers, structure of corporate organization and education.

③Even if there remain companies that have survived the harsh competition by adapting to the new economic environment, other companies were pointed out the hard problems in the US economy, when not improved their management system, stuck to past practices and viewpoints.

"Furthermore, as specific countermeasures, we seek to strengthen our competitiveness with a focus on four points; technological innovation, reduction of capital cost, liquidation of labor market, and emphasis on trade. Technological innovation encourages the growth of new industrial sectors. We will prepare a system to increase the supply of capital for the most productive purpose, transfer workforce to high productivity sector through worker education and labor market liquidation, further strengthen international competition in the US by enhancing the power of export policy".

In addition the business community had to act as the main body of competitiveness strengthening, product development, technology development, training of employees and expansion of investment. While promoting fiscal and monetary policy aiming for stable growth without inflation, the government would take measures to create consensus among industrial, labor, political and academic sectors towards strengthening competitiveness. All nations in the US had to recognize the significance of strengthening competitiveness and challenge targets by acquiring necessary skills. This was the role of government, enterprises and citizens.

The ‘Young Report’ pointed out the problems of the economic structure centered on the US manufacturing industry at the time, but it took time to realize it, so it was impossible to seek immediate effect. It seems that the content of this recommendation was partially projected to the idea of ‘New Economy’ since the 1990s. However, given the immediate effect, policy recommendations based on another report (the Morgan Report) were executed. This was the strategic origin leading up to the ‘Plaza Accord’ by the US.

3. Setting Ups of the ‘Morgan Report’ and the ‘Japan-US Yen-Dollar Committee’

The President of Caterpillar Tractor Company L. Morgan drew the ‘Morgan Report’ based on D. Martin’s and E. Solomon’s “The inconsistency of the dollar and yen, the location and solution of the problem”, brought it to the White House, Ministry of Finance, and the Economic Advisory Committee etc. at the end of September 1983, [Frankel, Bergsten, 1985]. This ‘report’ pointed out that “the imbalance between the yen and the dollar rate dropped the yen against the dollar rate; hence price competition with Japan became impossible. The low yen against the dollar rate was intended to enable export offensive against the US due to devaluation of the de facto price in Japan”.

Morgan requested policy-makers to change the relationship between the yen and the dollar from ‘benign neglect’ to ‘aggressive exchange rate policy’. He appealed to Treasury Secretary, D. T. Regan that ‘responsibility’. Morgan’s claim was also a proposal that was easy to agree due to pressure on importing Japanese products during the presidential election campaign [Frankel, 1984; Bergsten, 1985: 13].

Regan and Finance Minister Takeshita agreed to set up the Working Group of the Yen-Dollar Committees in November 1983. The Committee reported measures to Japan in May 1984. Its contents included; ① liberalizing regulations on the flow of capital, ②promoting the internationalization of yen, ③improving the handling of US banks and other financial institutions that wished to operate in Japan, ④determining interest rates to regulate Japanese domestic financial capital markets, such as leaving it to the market, not to the government [Frankel, 1984; Bergsten, 1982].

From that viewpoint, “Even if the manufacturing industry in the US makes efforts, it will not be rewarded due to fluctuations in the exchange rate, and movements in the exchange rate have hurt US companies.” The basic perception was not the Japanese government’s yen and economic policy, but the rapid rise of dollar price and the economic policy of US government as the cause of the dollar’s rise [Frankel, 1984; Bergsten, 1982]. It predicted that the fiscal expansion measures of Japanese governments can drastically reduced the domestic savings and the surplus in the current account. To realize this, if the Japanese government could raise the real interest rate and reduce the capital outflow, the yen appreciation and the trade surplus as a policy result would have been reduced.(2) The key to solving the fall in the dollar rate against the yen and the resulting trade imbalance problem was to take action to reduce the US budget deficit [Frankel, 1984; Bergsten, 1982].

4. Toward stabilizing Exchange Rate

Japan faced the problem of correcting the balance of payments before the 'Plaza Accord'. Protectionism was increasing in the US Congress against the background of the growing trade surplus with Japan. There was international criticism of Japan's austerity fiscal policy and monetary policy in the early 1980s. The problem in Japan's austerity fiscal policy was in particular the trade imbalance between Japan and the US [Kojyo, 2022: 377]. It was consequentially interpreted that the exchange rate between the yen and the dollar was in poor regulation in the trade imbalance between Japan and the US. The US trade deficit has continued to increase every year since 1980, and reached 108.3 billion dollars in 1984. Not only Japan, but also Canada, the European Community (EC) countries, and the Organization of Petroleum Exporting Countries (OPEC) posted bilateral balance of deficits in the US.

Looking at trade in manufacturing products in the US, it was a trade surplus in 1980, but it was a deficit of 96.5 billion dollars in 1984, and trade deficit of 1984 accounted for 89%. Japan's trade with respect to the manufacturing industry was 24.7 billion dollars in 1980, but the deficit doubled to 49.8 billion dollars in 1984. The trade deficit of manufacturing industry, despite the declining share of the total trade deficit in the US, was mainly regarded as the trade issue with Japan.

Currency authorities have two major policy measures to stabilize exchange rates. One is intervention in the foreign exchange market. This is a short-term stabilization measure. The other is coordination of economic policy. This is especially the coordination of macroeconomic policy such as monetary policy. These two instruments for policy make measures function effectively.

There are various arguments about the effectiveness of market intervention in the short-term stabilization measures. The position of currency authorities can be summarized into the following four points.

First interventions are effective in dealing with the chaotic situation of the market and reducing short-term fluctuations in foreign exchange rates.

Second the intervention sometimes shows the attitude of the currency authorities to the currency markets.

Third intervention is usually effective only when supplementing and supporting other policies.

Fourth each country should implement intervention if there is an agreement that cooperative intervention is useful.

The focus on market intervention and policy coordination was raised by policy coordination with the aim of stabilizing the exchange rate at the delegation of the finance ministers before the conference of the 'Plaza Accord'. This led to the stories of the 'Plaza Accord'.

The theory of 'LOCOMOTIVE' was discussed at the Bon Summit in 1978. Two countries with good economic conditions such as Japan and West Germany become the 'locomotive role' and would pull other countries. Such international cooperation forced an excessive burden on some countries. For example, within the US government, in an attempt to maintain Japan's leadership in international politics and diplomacy, Japan intended to make efforts of Japan in surplus countries. The US provided military and diplomatic power, and Japan takes the form of which money was borne as in the later Gulf War. However this idea was not necessarily based on understanding of domestic situation. This operation forced the disadvantage of the proposed country rather than giving priority to the interests of proposed country rather than the result of 'cooperation'.

The Treasury Secretary J. Baker of the Second Reagan Administration recognized the importance of consistent foreign exchange intervention with policy cooperation towards the 'Plaza Accord'. The US gradually emphasized policy coordination, but he was still skeptical of intervention. The Treasury Secretary Regan and Treasury Secretary B. Sprinkel in the first Reagan administration were reluctant to intervene in the early 1980s, but in the beginning of 1985 at the time of the launch of the Second Reagan administration, after switching to Treasury Secretary Baker, Deputy Secretary R. Darman and Assistant Secretary D. C. Mulford, market intervention became a policy instrument that aligned with policy coordination. It showed a change in the approach of the US towards the 'Plaza Accord' strategy.

It was the role sharing of policy coordination in the 'Plaza Accord' that was the pillar of the expansion of domestic demand in Japan and the reduction of the fiscal deficit in the US. Baker made expectations for economic stimulus measures in Japan for two years, but because it did not produce good results, it began to positively request Japan to stimulate domestic demand [Ohba, 1955: 176](3).

The first Reagan administration changed its previous US economic policy. Reagan adhered to the principle of liberalistic market economy in 1981, and tried to regenerate the US economy suffering from stagnation and productivity sluggish by the macroeconomic policy based on supplied economics and monetarism. This policy produced high interest rates and dollar appreciation, bringing huge budget deficit and current account deficit. The pressures for the dollar to be corrected by the National Association of Manufacturers, the National Chamber of Commerce, agricultural organizations, etc. increased, and secretaries in response to that pressure also began to appear within the Reagan administration by the end of 1984. Secretary of State G. P. Schultz, for instance, emphasized the reduction of the US budget deficit, both for public investment in Japan and expansion of housing investment. The dollar campaign of Caterpillar's President Morgan and Chairman of Chrysler Corp. L. Iacocca, for example, in the business circle, which was exposed to competition with Japanese companies, received attention [Kano, 2006: 161-162]. Protectionism rising to the US Congress was critical to the trade policy of the Reagan administration and as a countermeasure to the midterm election in 1986. It had no choice but to correct the dollar to redress trade imbalances.

The Reagan administration decided to carry out the adjustment of the exchange rate of the imbalance problem against the yen and the Mark, for example, because the 'REAGANOMIX' policy failed unwillingly. Said differently, as a measure that could be said to replace domestic problems with external criticism, Japan became a target where trade imbalance was prominent. The argument shifted from the initial "how to restrict exports from Japan" gradually "to increase imports from the US by Japan".

Constraints on currency conversion speculating on Japanese currency trading were lifted in June 1984. It was important as a form of funding in the US budget deficit. It is said that it was partly due to the reinforcement of the US military. The outflow of capital as a matter of course has been promoted as a result of such factors as differences in interest rates, especially in the early 1980s. The pressure to open up the market from the US was naturally tied to the needs of the Reagan administration seeking external funds [Hook, Gilson, Hughes, Dobson, 2012: 119].

Chapter 3 The Negotiation Process in the 'Plaza Accord'

1. In the Run-up to the Japan-US Negotiations

Various measures in the 1980s were implemented for Japan's financial deregulation under the pressure of the US. The Reagan administration called for reform of the Japanese financial system in the early 1980s. The successful example of the US was opening the Japanese financial market among them. The Yen-Dollar Agreement, for instance, permitted foreign companies to join the Tokyo Stock Exchange. In contrast, after the revision of Japan's Foreign Exchange Law in 1999, Japanese capital promoted the movement to overseas.

President Reagan said that after the inauguration he should have opened the Tokyo Stock Market more to adjust the exchange rate to Japan in 1982. When the deficit economy became an important domestic problem, the Reagan administration believed that if the 'yen buying' at the exchange rate occurs, and the trade imbalance between the US and Japan improves, the US would have made a drastic adjustment of the exchange rate between the dollar and the yen. They believed that until this stage they could do.

The 'Morgan Report' pointed out that the misalignment of yen and dollar exchange rate would exacerbate the competitive conditions of US industry in 1983. The Assistant Deputy of Finance B. Sprinkel of the First Reagan administration asked the US government to internationalize the yen in order to correct yen depreciation. He predicted the yen's appreciation as following. If the internationalization of yen progressed, the US government had the possibility that the yen would weaken in the short term due to capital outflow from Japan, but if Japan's financial capital market became vital, the appeal of yen assets would increase.

Japan in response to this insisted that "high dollar is primarily responsible for high interest rates in the US". However the Japanese government could not continue this claim. President Reagan and Prime Minister Nakasone eventually set up a Japan-US Committee to discuss the yen and the dollar [Kubota, 2013]. The Japan-US Summit meeting between Reagan and Nakasone was held in January 1983. Reagan said, "I am concerned about the trade imbalance between Japan and the US, and the trend of protectionism in US Congress. I would like to close discussions and cooperation between Japan and the US on issues the problem of access to the Japanese market, open market problem, the issue of yen and dollar, internationalization of yen and so on". The yen accordingly made full use of internationalization.

The Japan-US Yen-Dollar Committee reported to Japan liberalization of financial and capital markets, elimination of barriers to entry of foreign financial institutions into Japan, development of the yen market, regulation on direct investment and elimination of obstacles. Japan was intending to gradually relax financial regulation, but on the contrary the US demanded relief urgently for domestic use.

However it was unknown whether the opening of the Japanese market would be a factor of the appreciation of the yen in the foreign exchange market. Because the capital market was yen-denominated transactions, contrary to speculation that expanding business opportunities in the Tokyo Exchange Market from abroad, if directly connected to the transaction of the 'yen buying and dollar selling' was not so much as expected, Japanese investors and financial institutions as a result, increased the investment (capital outflow) to the US and further yen selling and dollar buying occurred.

The Japan-US Committee consequentially brought about the effect of expanding 'market business' [Kuramoto, 2014a: 55, 57, 59]. They could not influence the exchange rate. After all the Reagan administration decided that the adjustment of exchange rate between the dollar and the yen had to be operated directly on the exchange rate. Both governments of Japan and the US had to implement cooperative currency intervention by the G5 (the US, Japan, West Germany, France, and the UK) in order to carry out the agreement on devaluation. It was necessary for its implementation to agree at the 'Plaza Accord'.

The agreement hoped that the US Treasury liberalizes Japan's financial market, increasing demand for the yen, leading the yen appreciation and reducing the trade deficit. This was a scenario as the 'Morgan Report'. However, even after the signing of the yen-dollar agreement, the yen's depreciation and dollar appreciation continued. Japan denied the main cause of the dollar rise in the high interest rate policy of the US government and the high interest rate in the US denied the relevance of budget deficit, high interest rate and dollar high in the report of committee. The views of two countries remained conflicting [Kojyo, 2002: 359].

The US government aimed at an early solution by advancing monetary liberalization at a stroke, presented concrete request items, and pressed to formulate its execution plan. The Japanese government did not agree with this idea, but approved to consider that financial liberalization and elimination of capital requirements would be necessary.[(4)]

2. Circumstances inside the Nakasone Government

Nakasone declared to be aware of the responsibility of major power as 'open Japan' to liberalize agricultural products, to cover defense sharing costs, and to expand the Official Development Assistance (ODA) aid at the inauguration of the prime minister. Nakasone tried to normalize the Japan-US relationship that worsened during the Suzuki Cabinet era in terms of security, economics and politics [Shomeya, 2005; Ch. 4].

In June 1985, Baker made a consultation with Takesita, and Mulford did with the administrative vice minister for international affairs of the MOF Oba [Ohba, 1995: 173]. Since avoiding yen appreciation was the central proposition for exchange policy for Japan, cooperating with the appreciation of the yen was a political bet [Funahashi, 1993: Ch. 4].

Nevertheless, Nakasone believed that the yen appreciation would be an inconvenience to advance structural reforms commensurate with changes in Japan's economic fluctuations and international status. The idea was to promote reforms over the medium to long term and open the market to the outside world. The policy brain was the former officer of the MOF Nakagawa (the former commissar of BOJ) and Hosomi (the former Finance Officer of MOF). However Nakasone left the currency problem of negotiations to Takeshita, but tried to use the yen appreciation politically [Kano, 2006: 1700]. Nakasone ordered countermeasures for Japan's external imbalance problem to Ohba before the currency adjustment talks in June 1995.

It is said that then the MOF did not act specifically because the measures were unrealistic. Even though Nakasone could understand the austerity policy of MOF those days, not only for economic reasons but also the Japan-US military security arrangements with the US were extremely important to Japan, so he intended to deal with the currency problem positively [Kano, 2006: 177 - 171].

Takeshita did not have an opinion on the international monetary system, but currency diplomacy for him was concerned with his own political ambition. He was a politician who aimed at the post Nakasone, as a representative of the Plaza conference; it was a great place to make him famous in the global stage. Takeshita had ambition to realize the adjustment of the yen and dollar exchange rate at a stroke by cooperative intervention in the market. Put another way, Takeshita tried to use its position to advantageously develop the Prime Minister's succession battle, while showing the attitude of defending the 'financial rebuilding' of the offers in MOF as the finance minister [Kano, 2006 : 171].

The MOF in the first half of 1980s decided that the 'fiscal rebuilding' was the most prominent proposition 'balanced fiscal' as its fundamental principle. Therefore, the plan of the MOF should be a yen and dollar exchange adjustment firstly, and a rate cut secondly, because they avoided the fiscal stimulus [Funahashi, 1993: 76]. The MOF was wary of the economic expansion measures that the US demanded. That consciousness was rooted in the weak constitution of postwar economy. It is a phenomenon called 'trauma' after war. It was specifically an underestimated yen and the pursuit of growth policy led by external demand. The MOF thus tried to respond by adjusting the exchange rate between yen and dollar by the intervening policy and lowering the interest rate [Kano, 2006: 173].

The BOJ did not respect the independence and neutrality as the central bank. The government, particularly the MOF, exerted its influence on the BOJ's monetary policy. The BOJ received pressures on monetary policy under the name of policy coordination before and after the 'Plaza Accord' [Kano, 2006: 174]. The industry circles, in contrast, wanted stable exchange rates. On September 1, 1985, when the Public Research Council chairperson of the Liberal Democratic Party (LPD) made remarks on the currency summit to correct the yen's depreciation, apart from whether the business circles had anticipated future developments, "We have to perform that it is necessary to take drastic measures. If the imbalance between Japan and the US continues as it is, the perception that the yen becomes high inevitably has been penetrated in general by the crisis of becoming a 'Japan-US trade war' and correcting the imbalance" [Kano, 2006: 17].

The Finance Ministers and the Central Bank Governors of the five advanced countries (G5) in Japan, the US, West Germany, France and the UK gathered at the Plaza Hotel in New York on September 21, 1985, and they decided to devalue the US dollar that supported the world economy. It is the starting point of the so-called 'Plaza Accord' [Pempel, 2004: 21]. The trade imbalance between Japan and the US (Japanese trade surplus, and US deficit) was at the top at that time. For example, exports of Japanese cars to the US were 30,000 in 1955, but exceeded 3 million in 1985. Japanese products had been sweeping the US market sequentially, such as textiles, color televisions, iron and steel, machinery, automobiles and others. Japan's trade surplus in 1985 was the world's largest 56 billion dollars, of which 80% was for the US. Both leaders of Japan and US thought that the only way to solve the trade friction between Japan and the US was to reduce the imbalance by adjusting yen and dollar [NHK

Interview Team, 1999 a].

The US government asked the Japanese government to improve upon the worst Japan-US economic friction after the war. Nakasone appealed to the Japanese people to purchase foreign products. The Nakasone administration had no solutions for Japan-US economic friction, and could not decrease the trade surplus against the US. Hosomi, one of the policy brains of Nakasone's, suggested; "There is only a negative appreciation of immediate action". The high yen appreciation was to make yen and dollar exchange rate, and we leave yen appreciation and dollar depreciation as it is. It was thought that the export price from Japan rose and the import price declined, leading to the elimination of trade friction. This measure meant sacrificing the export industry. Nakasone had to suppress the resistance of the yen appreciation in Japan, and earnestly think about the proper evaluation of yen.

Nakasone ordered Ohba to deal with the Japan-US talks for the appreciation of yen. Nakasone believed that it would be better to raise yen and to lower dollar to dissolve economic friction against the US since around 1982 [NHK Interview Team, 1999 a: 24 - 27]. However, in order to make the yen appreciate, Ohba realized that both Japan and the US needed to intervene in the exchange market for selling yen and buying dollars. However the first Reagan administration continued to refuse to intervene in the market, but changed its policy from around the time of entering the second Reagan administration. Mulford visited Ohba, and asked the start of negotiations to correct trade imbalances. After that Baker visited Takeshita, Takeshita proposed bargain lower dollar to Baker, and Baker came round to thinking of the dollar with the recognition of the exchange rate policy to leave the yen apprehensive in order to avoid the protectionist resolution in the US Congress.

3. The ‘Plaza Accord’ and its Performance

Negotiations between Japan and the US in Paris had already begun on July 23, 1985 before the Plaza conference. Mulford made a proposal to expand consultations not only to Japan and the US but also to the five Finance Ministers’ and Central Bank Governors’ Conference including West Germany, the UK and France (G5). The US government thought that the five industrialized countries were willing to infuse the market significantly, and that ‘coordination and cooperation’ could show that the market could change, and that it was possible to shift the dollar’s depreciation from 5% to 7%.[(5)]

The joint statement of the ‘Plaza Accord’ on September 22, 1985 declared said that “It is desirable for the major non-dollar currencies to rise further in order with the dollar, so we are more prepared to cooperate more closely”. This declaration was also a statement so that “cooperative intervention by each country could carry out the adjustment toward lower dollar”.

The Japan and the US stressed the policy coordination and cooperation about market intervention, but both governments had different ways of understanding from the beginning in the way of putting emphasis on the ‘policy coordination’ and the ‘policy coordination’. This inconsistency of understanding affected the transition in subsequent situations.

The conference at Plaza Hotel focused on the extent to which the dollar was cut down and to what extent other currencies would be raised. The ‘Plaza Accord’ was the core part of the statement, a certain degree of order to the dollar of major currencies other than dollar. The currency diplomacy was announced to the world for the first time on 22, September. First the US government explained US's market intervention. The dollar devaluation range was from 10% to 12%, and the dollar therefore changed yen appreciation from 218 to 214 per dollar.

It was necessary to prepare a considerable amount of yen appreciation against the dollar by 10% from the perception of the Japanese government at that time. However Takeshita said that he might revalue the yen to a greater extent against the dollar. Takeshita would accept up to 20%, that is, at that point, the Japanese government led the meeting with the appreciation of the yen against the dollar of up to 200 yen= 1 dollar. The FRB Chairman Volcker said, “Finance Minister Takeshita is much more positive than we are thinking, and his attitude has played an important role in the success of the meeting” [Volcker, Gyoten, 1992].

In the ‘Plaza Accord’ statement, “There is a certain degree of orderly rise to the dollar of the major currencies other than the dollar, so a certain degree of orderly rise is hoped for, so if necessary and beneficial, participating countries would prepare to make closer cooperation”. Japanese government showed the positive attitude toward it [Takahashi, 1995: 13].

The Japanese government performed an active intervention after then. The intervention plan was divided into 30% each of the US and Japan. It was the total intervention amount of 18 billion dollars (about 4 trillion 300 billion yen) which was expected six weeks from September 23. However, the policy had to adopt the policy of ‘revaluing the main currencies other than the dollar and keeping the dollar weak’ as the basis of the Japan-US exchange regime.

4. Miscalculations

After the 'Plaza Accord' was launched in the Wellington exchange market of New Zealand on September 23, 1985, the dollar began with a yen appreciation of from 239 yen to 234 per dollar. Governments began to intervene in Sydney, Hong Kong, Singapore, and the European exchange markets. The yen was upvalued from 233 to 230. It began with a dollar = 231 yen, the US government implemented dollar buying of 2.5 million dollars in New York, and a dollar reached 229 to 225 yen. Both Japanese and the US governments initially agreed to weaken the dollar from 10% to 15%.

The dollar in Tokyo began at 229 yen on September 24, the BOJ's intervention reduced the dollar to 228 yen, but the dollar increased to 232 yen. This was because Japanese companies purchased dollar for payment settlement. The Japanese government anticipated that the dollar would be around 225 yen, but the dollar did not weaken and the original plan was out. Japanese intervention to the exchange market amounted to 120 million dollars (about 250 billion yen) on the first day alone. The Japanese government and the BOJ repeated so-called 'talk-down' to introduce the yen appreciation. The yen appreciated and the dollar reached the 200 yen in January. The yen appreciation and the dollar depreciation expected by both the US and Japan were successful at this point at the end of 1985. West Germany, France, and the UK stopped intervening in a month after the 'Plaza Accord'. Since then, the dollar depreciation and yen appreciation policy continued between Japan and the US.

However the 'Plaza Accord' came up with miscalculations one after another in 1986. Takeshita said that it would allow the yen appreciation of one dollar to be in the order of 190 yen. One dollar surpassed 200 yen; the sharp appreciation of yen had begun. Since the 'Plaza Accord' was the 'political adjustment' that a politically created flows of yen appreciation and dollar depreciation, the character of exchange market changed significantly, and the market became overly sensitive to the remarks of high-ranking government officials. The yen appreciation at this time was only the beginning. Six months after the 'Plaza Accord', on March 17th, 1986, the yen reached 174.55 yen, the highest in the postwar against the dollar. As the Japanese companies' competitiveness, because of the yen appreciation, radially declined, the export-oriented industries deteriorated management. Japanese companies have experienced a so-called yen appreciation recession. The heavy industries such as iron, steel and shipbuilding etc. had promoted the substantial corpotrate downsizing, and the small and medium-size companies had drastically reduced profits with the appreciation of yen.

The Governor of BOJ Sumida on October 22, 1986 affirmed that the yen's appreciation and the dollar's weakening are desirable, but a drastic measure of the US fiscal deficit was needed respectively in order to settle this trend. However, as the yen appreciated, the public opinion in Japan turned over and became critical of the yen appreciation policy. The Nakasone government had to deal with that criticism. Dissatisfaction began to emerge from within the ruling LDP.(6) It was the Chairperson of the LDP General Council Miyazawa who was in the most strident. Miyazawa criticized that if the government adopted a high yen policy, it should have taken corresponding budgetary measures.

Chapter 4 Japan since the 'Plaza Accord'

1. Intention of the US Government and its Reaction of the Japanese

Government

Nakasone had to decide to stop the diametrically opposite yen from promoting yen appreciation, and requested the US government for cooperation. However, at this time, the US government took action against the request of Japan. The *Wall Street Journal* published statements made by Finance Minister of the UK N. Lawson, who had a talk with Baker in their conversation on April 11, 1986. Lawson said, "countries other than Japan are seeking a further appreciation of the yen, and Baker has the same idea". Reagan made remarks to drive it down after 10 more days, "we should lower the dollar more".

Why did the Reagan administration make such remarks despite advancing the 'Plaza Accord' in cooperation with Japan, contrary to the original intention of the two countries 'agreed'? The 'Plaza Accord' had 'cooperation' besides the 'coordination' of joint intervention in the market. It is 'policy coordination' that the US emphasized. The US called for efforts by Japan to expand the economy, and increased domestic demand to reduce Japan's exports to the US. Japan adopted the introduction of private vitality and the reduction of interest rates (flexible operation of monetary policy). Japan's trade with the US did not decrease even after eight months from the 'Plaza Accord'. The US government decided that Japan's domestic demand expansion policy was inadequate. If Japan could not expand the economy and increase consumption, the US government would decide to leave the trend of the yen appreciation and the dollar depreciation.

The US government made negotiations with the means Japan to negotiate the high yen. The Japan-US joint pace broke down in that sense. Only the intervention in the exchange market was able to prevent the yen's appreciation by the Japanese government alone. Although Nakasone directed the MOF to intervene in the market, it was not effective in a single intervention alone in Japan. The Japanese government could not stop the yen appreciation without the 'coordination' with the US.

The exchange rate between the yen and the dollar was 1 dollar = 244 yen in mid-1985, but with the 'Plaza Accord' triggered it valued up to 200 yen at the end of 1985, and to 153 yen in August 1986, and the yen appreciated by 60% in a short period of time. As Japan's export-type industry adopted the dollar-denominated export ratio, the domestic economy rapidly deteriorated. Finance policy was relaxed as a response to the yen appreciation, and the official discount rate was lowered four times (total 2.0%) only in 1986 [Nishimura, 1999: 30]. The impact of yen appreciation reduced the performance of exporters. Monetary policy had to lower the interest rate if economic measures were taken into account.

On April 13, 1986, Nakasone at the summit meeting and Takeshita at the G5 asked Reagan and Baker for cooperation to suppress yen appreciation. However the request of the Japan was rejected only if it was not possible to change the exchange policy, because there existed no improvement in the external imbalance under the protectionist trend within the US Congress.

Miyazawa, the LDP General Council Chairperson, then, criticized the lack of government response to the 'Plaza Accord' which brought about a rapid yen appreciation against Nakasone on the Ministerial Conference on the 'Maekawa Report'. External imbalances rather worsened even with the appreciation of yen and dollar, complaints from export industries, especially small and medium-sized enterprises, continued, and accompanying intensification of the conflict within the administration and the ruling party [Kano, 2006: 182].

The LDP won the elections of the lower and upper Houses at the same day as the election campaigns in July 1986. Miyazawa who criticized the 'Plaza Accord' to take measures against the yen appreciation was appointed the Minister of Finance at the third Nakasone Cabinet. Prime Minister Nakasone kept criticism from the yen appreciation and Miyazawa by appointing Miyazawa as finance post, and tried to change policy with aggressive finance claimed by Miyazawa [Shiota, 1994: 362 - 369].

Miyazawa met with Baker to stop the yen's appreciation in September 1986. Miyazawa aiming for the next prime minister has been criticized for overcoming the rival Takeshita's appreciation of the yen due to his own political intentions, and insisted that economic stimulation should have been done even if finance was launched. Baker needed expanding domestic demand of developed countries in order to combat parliamentary protectionist bills, but did not promise 'cooperative intervention' at that time.

Baker suggested that Japanese government set a supplementary budget, expanded the domestic demand, lowered the interest rate, and took economic measures. Miyazawa, who had fallen into trouble, had to accept the request of the US even if it issued deficit-covering government bonds.

Nakasone thought that he needed only fiscal stimulus for stopping the yen appreciation since the end of 1986, but how to adjust with the policy of 'fiscal rebuilding without tax increase' listed as the mission of administration became an issue. The MOF surely opposed a large supplementary budget. Miyazawa had to overcome the economic challenges Japan faces the demand for yen high pressure and domestic demand expansion.

Japan, at that time, had a huge amount of deficit-national bonds due to the planned remodeling plan of the Tanaka administration era during the first half of the 1970s. The Nakasone administration took this process as a government issue in the 1980s. Finally, in September 1986, fiscal measures were set up the 'comprehensive economic measures'. The fiscal policy of expanding domestic demand was 3.6 trillion yen economic stimulus package. The public works budget among them was 540 billion yen, which were general public works expenses and disaster restoration expenses. Disaster restoration expenses with high amounts of money were ahead of schedule for the next fiscal year. The fact was therefore only 130 billion yen in the economic stimulus measures. This was a hardship measure of the MOF wanting to avoid deficit bonds.

The Vice Governor of BOJ Mieno had raised prices to stocks, land, golf membership rights and paintings in October 1986, so despite speaking in the Diets that the official discount rate should have not be decreased, at the time the Japanese government implemented the lowest official discount rate of 3% in history since the 'Plaza Accord' to be consistent with the needs of the US. Because deposit interest rate decreased, investment funds tried to be advantageous for funds. The land in Tokyo rose more than 30% since the 'Plaza Accord', so the sign of the bubble economy was creeping up.

The US highly appreciated domestic demand expansion measures in Japan, and announced the 'coordination' and the 'cooperation' between Japan and the US to stabilize the exchange rate. The Japan-US joint statement was announced on October 31, 1986. The MOF and the US

Treasury jointly announced that uncertainties in exchange rates threatened economic growth and that the adjustment of yen and dollar exchange rate after the ‘Plaza Accord’ matched the basic conditions. It returned to a dollar = 160 yen range after this announcement, but then this 3.6 trillion yen economic stimulus compromised the coordination between Japan and the US. The US government, in accordance with the Gramm-Rudman-Hollings Act, strove to reduce the fiscal deficit and promote tax reform to promoted economic growth.

2. Japan under the High-Yen Recession

Baker made remarks that the weakening dollar was reasonable and reversed the joint announcement of the US and Japan at the US Congress on January 8, 1987. Because the US regarded the Japanese government economic measures as ‘pretense’ only, the Japan-US cooperation collapsed again, and the yen rose. Japan intervened 9 billion dollars (about 1.4 trillion yen), but the yen has exceeded 1 dollar = 150 yen on January 10. Baker turned into action to add pressure to Japan.

Miyazawa requested Baker to implement the Japan-US joint announcement in October of the previous year on January 21, 1987, but Baker replaces the stabilization of currency rate by ‘coordination‘ the exchange rate Japan’s domestic demand expanded again. The Japanese government had to start a new fiscal policy. The US government demanded immediate action by the Japanese government, but it was preparing time that needed for the Nakasone administration. Then the BOJ was able to respond immediately in Japan. That is a further reduction in official discount rate. It was 2.5%. The BOJ feared being exposed for the bubble economy, but prioritized to prevent the appreciation of yen.

It was the 'Louvre Accord' on February 22, 1987 that decided to strengthen policy coordination and market intervention after the 'Plaza Accord'. It was correcting the dollar and yen depreciation of 'Plaza Accord' that turned over and turned into a modified form of the yen appreciation and the dollar depreciation at the 'Louvre Accord'. The yen exchange rate, which fell below 1 dollar = 200 yen rose after the 'Accord', let the yen's value drop by up to 1 dollar = 150 yen in 1987, the time of the 'Louvre Accord'. The Nakasone administration accordingly aimed to rectify the appreciation of the yen preventing high-yen recession this time ［Ohba, 1995: 180］.

The 'Louvre Accord' created a scheme of exchange rates close to the 'Target Zone' and the 'Reference Range'. The 'Target Zone' meant that the economic policy of each country was severely moderated in order to keep the exchange rate within the target range, and in some cases a strong intervention toward the exchange market was carried out. The 'Reference Range' aimed to realize stable exchange rate as a result of each country adopting a consistent policy in order to realize stable growth of global economy and remedying imbalance.

The 'Target Zone' was a more direct and active countermeasure. Since Japan was a surplus country, the 'Louvre Accord' was an agreement that "expansion of domestic demand would continue fiscal and monetary policy that would reduce external surplus". The US would carry out policies from the perspective of reducing the budget deficit to 2.3% in the 1988 fiscal year, from 3.9% of the GNP forecasted in fiscal 1987. The US government promised to make policies consistent without inflation". West Germany agreed on monetary policy to improve the conditions of price stability and sustainable economic growth [Ohba, 1995: 181].

However this policy cooperation collapsed even less than a year later. The West German Bundesbank emphasized policy coordination from the late September 1987 to the beginning of October, the BOJ also followed to raise short-term interest rates. Japan and West Germany in surplus countries were supposed to maintain short-term low interest rates. And it was observed during this time that the US deficit reduction was inadequate spread to the market. That meant that major participating countries failed policy coordination. This caused the stock price slump in the New York market on October 19, followed by the depreciation of the dollar. It was the so-called 'Black Monday' [Ohba, 1995: 182-183].

Recognition that recovery of stock price and stability of exchange rate could not be expected is common to both currency authorities and market interested persons. The Bundesbank and the BOJ have raised short-term interest rates. The reduction of budgetary deficit in the US took over until February 1988 in negotiations between the government and the Congress.

G7 (Italy and Canada in addition to G 5) announced a joint statement in late February 1987. "The further decline or the rise in the dollar that impeded the adjustment process was counterproductive". This was a 'Christmas Agreement'.

Japan called for reduction in the budgetary deficit in the US with the 'Plaza Accord'. Put another way, the long-term high interest rate is due to the large fiscal deficit in the US, and then the FRB at the time did not maintain a high hard monetary policy (tight monetary policy), because it thought that inflation would accelerate if not doing otherwise [Ohba, 1995:

186]. It was acceptable for the US to destroy the confidence of 'policy coordination'.

The US has the world's strongest military power and largest debt. The US, which made a huge budget deficit, can maintain the position of a military power, because the dollar is a key international currency. Because the dollar is the easiest to use currency, the global dollar dependent regime has been the imperturbable currency system until now.

The US ignored the deficit of balance of payments, spreads dollars to the world in the form of military expenditure and foreign aid, places each country under political control, and has implemented to maintain economic domination of each country by foreign investment through the global policy of 'imperialism'. It is possible to continue to grow domestic economy.

The trade deficit in the US reached a highest record of 140 billion dollars in February 1987. Japan and the US at this time 'coordinated' and intervened in the market, but the yen appreciated 1 dollar = 140s yen range. The amount handled in the Tokyo Market rapidly expanded, and it did not scale to fit even if it intervened since the 'Plaza Accord'. The traded currency in the Tokyo Market was tripled. The BOJ was asked to cut further official discount rate from the FRB. Nakasone had to judge that it was necessary for the countermeasure to adopt the full-blown fiscal stimulus to stop the yen's appreciation.

The Nakasone's decision implied an interruption of the MOF's austerity policy. The Nakasone administration on May 29, 1987 formed measures to expand domestic demand of 6 trillion yen. Although it was a countermeasure to the yen's high depression, it resulted in strengthening the flow towards the bubble economy as well as going against the fiscal rebuilding by the government [Hattori, 2015: 224][7].

However, in austerity finance, there remained no financial resource to fund it. It was a proposal on compatibility between expanding domestic demand and fiscal rebuilding that was presented by K. Nakagawa, the executive board member of Regional Bankers Association. That plan was the sale of NTT shares. NTT shares sold at 119,000 yen per share in autumn of 1986 gained higher than 3 million yen. According to that plan, income from sale entered the national treasury, and then it was predicted that a natural increased in tax revenues could be expected due to economic recovery. However the source of revenue was based on tax revenues from stocks and land etc. involving bubbles.

Many Japanese companies in those days were beginning to apply gradually to the yen appreciation. There existed also a drop in imported raw material costs due to the appreciation of yen. The Japanese economy finally began to get out of the yen's high recession at that time, but a sign of the bubble economy began to appear. That policy was the largest economic measure after war to respond to the needs of the US. The MOF in May 1987 proposed to the Nakasone the draft of the measures of 5 trillion yen. He also added one trillion yen. The economic measures were the highest recorded 6 trillion yen, which was based on a tax reduction of one trillion yen. The Nakasone administration promoted monetary easing policy and measures to expand domestic demand. It was a separation from the 'administrative reform' budget, said differently, the abandonment of fiscal reconstruction measures [Kano, 2006: 207 - 208].

The US finally withdrew the remarks of the high appreciation of yen, domestic demand expanded rapidly in Japan. Money games such as stocks, paintings and speculation to land became active, and trade surplus declined. People believed that the boom would last but companies had repeatedly invested in large projects. Measures to expand domestic demand were only in the asset bubble economy.(8)

3. The Beginning of the ‘Lost Ten Years’ and the continuing the ‘preliminarily Lost Ten Years’

The ‘Plaza Accord’ rapidly lowered the dollar not only against the yen but also against the non-dollar currency, because of declaration of coordinated dollar devaluation by developed countries centered on Japan and the US. The dollar was sold more than G5 anticipated.

The dollar depreciation and the yen appreciation continued in 1987, even when the G7 with Canada and Italy added to the G5 declared the ‘Louvre Accord’ for the stability of the exchange rate, the dollar’s decline (yen appreciation) did not stay. The dollar reached 120 yen by the end of 1987. The yen after 1988 became in the 120s yen range to the dollar, and it began to expand to the level after 1989.

Japan’s fiscal budget was forced to shift from the fiscal rebuilding to the fiscal expansion in response to the appreciation of yen and the ‘external pressure’ seeking to cope with the worsening of trade friction, and in response to the ‘internal pressure’ seeking economic stimulus measures to overcome the yen appreciation. Japan’s business circle also sought priority on economic recovery [Tadokoro, 2001: 225]. Leading politicians such as Miyazawa had no choice but to proactively act on the economic boost. Japan had to take over as the driving force of world economy with Germany because of the necessity of international economic development.

The operation of ‘intentional reduction of dollar price’ by G5 from

September 1985 assumed the initial two months, and the devaluation of dollar was about 10 to 15%. The Japan-US cooperative intervention was indeed last in November 1985. However the political intention of the dollar devaluation in the 'Plaza Accord' dominated the currency market for the following three years, accelerating dollar price cut beyond the speculation of each country. It proved that cooperative strategies of each country influenced the exchange rate, and at the same time, once started the trend of foreign exchange, no countries could not control by the cooperative intervention.

The currency coordination certainly had certain effects for several years after the 'Plaza Accord'. Japan's current account surplus had halved in 1990 on the one hand. The current account deficit in the US has shrunk and improved in 1991 until the balance of the revenue and expenditure on the other hand. After all the idea leaving the currency to the market failed at that point [Iida, 2007: 137, 145-146].

However, despite the fact that the appreciation of yen and the weakening of dollar did not change, the current account surplus in Japan turned to an increase, and deficit in the US began to expand. As it turned out, a drastic devaluation of the dollar (a revaluation of the yen) proved that constant imbalance could not be resolved although it produced short-term effects. There existed concern about inflation accompanying the sudden dollar depreciation in the US. This resulted in an increase in long-term interest rates, which alluded to the 'Black Monday' as a preliminary.

The appreciation of yen has resulted in a 'recession of the yen depression' in Japan. The MOF and the BOJ turned to aggressive easing policy as a countermeasure. The BOJ reduced the official discount rate of 5% in 1985 to 2.5% in 1987. It was to accelerate 'financial tech' investing in stocks and real estate. The Japanese government additionally implemented fiscal spending policies such as public works to expand domestic demand that the US expected. This increased the tendency toward increased government bonds.

The government's fiscal expenditure expanded then. The LDP government incorporated both economic 'constituencies', a global competitive position and a domestically protectionist position, even if it had been upset by economic management in the 'Plaza Accord'. They never lost them in terms of political support.

The stability of political situation in Japan was given incentives to move to a new direction with deregulation, domestic demand, and opening up of imports and investment [Pempel, 2006: 45-46]. Put another way, instead of strengthening support from the two economic 'clients' in the policy of LDP in Japan after the 'Plaza Accord' and in the first half of the 1990s, severe fluctuations between policy and the economic sector avoiding the anticipated choice. However, as aggressive measures against the yen appreciation of the recession, as mentioned earlier, it was decided to bring Japan into the Bubble Economy. The reaction of Bubble Economy had led to a long-term deflationary situation since the 1990s.

The 'Plaza Accord' itself, as a matter of course, did not directly bring about the economic measures of low interest rates and fiscal spending by the Japanese government and the subsequent Bubble era. It is nonetheless a fact that it became a mediator that brings about the phenomenon of 'unprecedented asset bubble' of the Japanese economy as a byproduct (though it could be thought of as a bigger product rather than it) in the consensus building process. It is in line with the current 'era of illusion created by finance of the stock price' and 'real estate high expectation by quantitative easing'.

Chapter 5 Three Points

Because the exchange rate affects people's lives, its political and economic viewpoint is important. It is necessary to understand how the currency regime is deployed and how the government will carry out exchange rate policies.

The fixed exchange rate system after the post-war was premised on the overwhelming US holdings of gold and its stable economic strength. The shift from the fixed exchange rate system to the floating exchange rate system had triggered the liberalization of the exchange rate, which removed restriction on the regulation of the capital movement by state.

Fluctuations in the exchange rate affect capital flows, and cause not to make an adjustment to the trade balance. The US budget deficit before the 'Plaza Accord' increased interest rates in the US, and expanded interest differentials with other countries. Foreign capitals kept flowing into the US. The dollar rate had risen. Therefore, the trade balance of the US deteriorated further, and the adjustment to the higher dollar was rather amplified [Yamamoto, 1989: 173]. It can be said that the 'Plaza Accord' aimed at a partial return to the fixed exchange rate system to deal with that, so to speak, like the 'Roosa Scheme'. It should have been effective in 'manageable' or 'regulatory' measure, which could be shared the 'cooperation' and the 'coordination' within the currency regime, but after the 'Plaza Accord' the appreciation of the yen did not stop.

The currency regime functioned on the ground the 'cooperation' and the 'coordination' [Broz, Frieden, 2006]. It can be arranged from the three points mentioned as stated above (Chapter 1, 3 in this paper) in the international regime from the case of the 'Plaza Accord'.

1. Point 1

Point 1 is whether or not it is necessary to continue to integrate domestic and foreign exchange rate policies. When deciding how to manage currencies, policy makers of state must formulate their own currency rate policy, taking into account the currency regime. It means the 'managed exchange market' in a sense. It is on the foundation in this case that was the trade imbalance between Japan and the US then. The parties had to truly clarify this cause and intention. The US hoped for Japan's domestic demand expansion, and strongly urged Japan to stimulate the business condition. The 'Plaza Accord' justified the intention of the US. Accordingly, this measure, aside from the facts, was necessary for the stability of the international currency.

However there remains a question as to whether exchange rate adjustment by the 'Plaza Accord' was effective for improving trade imbalance between Japan and the US. The 'Plaza Accord' maintained a certain effect of currency adjustment for a short period. Indeed, Japan's current account surplus peaked at 1986, but the surplus declined by half in 1990. The current account deficit of the US gradually shrunk and improved in 1991 until it reached the balance of payment. However Japan's current account surplus turned to an increase; the US current account deficit began again. As it turned out, the devaluation of dollar was merely a short-term effect, failing to resolve the imbalance which can be said to be permanent [Kuramoto, 2014a: 66].

The Japan-US currency regime, regarding Point 1, initially began with countermeasures against the weakening of the US dollar, and a Japan-US cooperative framework was formed, but the difference in anticipation of the 'cooperation' and the 'coordination' between the two countries. To cite a case, there was a discrepancy in how to grasp the 'policy coordination' between Japan and the US. It is the background that there remained a difference in the perception of the interests of each country. The US expected Japanese market opening and export restrictions, but Japan requested stable currency rates.

There is a view that it is meaningless that international macro policy coordinates in countries with floating exchange rate system [Noguchi, 2005]. Japan was forced to have, in a sense, two macro targets: to reduce surpluses, and to stabilize the yen and the dollar. The Japanese government considered these conditions to be an obligation to accept these conditions as the economic power. However exchange adjustment in the 'Plaza Accord' or the 'Louvre Accord' means a partial return to the 'fixed exchange rate system' in a broad sense, and it is low-potential that the macroeconomic policy of a specific country is properly symmetrical between Japan and the US.

The reason for trade deficit in the US was mainly due to the combination of budget deficit and monetary tightening policy, but it increased the interest rate in the US, and promoted capital inflowed from overseas. It was thus considered necessary to resolve the deficit with the political decision, so it was the 'Plaza Accord' that was supposed to solve, and it was also an agreement to remedy the trade imbalance with the developed countries in a coordinated manner [Kano, 2006: 198]. And it is necessary to understand that the single intervention by a country was more restrictive than its limit had its power [Kuramoto, 2014a: 56].

So we must think that it is necessary to question the need to fundamental problem of what the currency regime is for. We know an opinion that the 'Plaza Accord' aimed at the appreciation of yen and the devaluation of dollar had no effect [Takahashi, 1995: 10-21]. It has a basis in fact that the dollar rate was falling below from February 1985 at the peak. However it cannot be foreseen whether the weakening of dollar could continue without the 'Plaza Accord' or whether the market was not disrupted by that. The 'Plaza Accord' might feasibly have allowed countries participating in the international cooperation only by its consciousness [Kano, 2006: 196].

The international finance required for the rapid expansion of global capital mobilization in the cooperation among the countries. It was necessary for policy makers involved in each country's monetary policy to unite and deal with it for that occasion. Unless the cooperative action was exceptionally handled, the information exchange based on mutual surveillance usually strengthened the foundation of cooperative system [Kano, 2006: 28]. We must confirm whether this was thorough or not.

The difference between the perspectives of governments of Japan and the US was linked to the 'Japan-US Structural Impediments Initiative (SII)' in the 1990s. The difference between this recognition and information sharing could not be solved in the currency regime eventually.

We prompt the fundamental question. Was the international currency regime, or the 'Plaza Accord', really necessary in fact? And was the policy coordination significant? The sense of crisis in the US current account deficit encouraged international macro policy coordination. If a possibility that the dollar system collapsed occurred, which disappeared the key currency, and would disrupt the world economy, both governments of

Japan and the US had to secure mutual public goods that maintained mutual dollar value through policy coordination. However, although the dollar rate fell, and capital inflows to the US continued, were the policy coordination and coordination really essential [Kano, 2006: 217]? Was it only to make a settlement proposal that the exchange rate process between yen and dollar required a return to the 'fixed exchange rate system' in a sense? Or was it just a policy to save the US economic crisis?

2. Point 2

Point 2 is the need to clarify the theoretical and empirical uncertain circumstances. We must understand mutual circumstances and plans by both governments of Japan and the US. As Miyazawa made a retrospective [Mikuruya, 2016: 231-237; Kubota, 2008], the governments of Japan and the US did not set the yen appreciation to the extent before the 'Plaza Accord'. The fact that it did not formally decide caused unexpected progress. However even if the dollar rate markedly declined, it did not take a favorable turn to the balance of payment in the US, and the US further expected Japan to expand domestic demand. The BOJ repeatedly reduced the official discount rate as a consequence.

If we continue to discuss Point 2, in the uncertain circumstances (and final forecasts), whether the initial forecast was refined theoretically is also related to the next Point 3 whether the US political objective (the elimination of twin deficit) tended to be prioritized, and a situation that could disintegrate the existence of the subsequent currency regime continued (e.g. Japan's asset bubble, and then the long-term economic recession). Could no one assume this trend at that time?

Even though the appreciation of yen and the devaluation of dollar made progress as in the 'Plaza Accord', regardless of the higher yen and the lower dollar, even if there remained several consensus confirmations in the subsequent 'Louvre Accord', the 'betrayal' of the 'cooperation' on trust markedly reduced the effectiveness of the intervention policy. Was this not predicted?

It had no effect on the elimination of the US deficit which was the emergency economic measures of 6 trillion yen to expand domestic demand. The significant devaluation of dollar from political intention brought about effect in the short term, but it did not bring about a permanent disappearance of the imbalanced trade. The side effect of 'Plaza Accord' was that inflation concerns raised the long-term interest rate in the US, and brought about a foreshadowing to the 'Black Monday'. The yen's high depression countermeasure caused the 'Bubble Economy' in Japan. Low interest rates and fiscal spending brought about a negative impact being a by-product of the 'Plaza Accord'.

3. Point 3

Point 3 is the elucidation of circumstances concerning factors closely related to each other, such as trade, investment, currency and economic conditions. We must prepare something to reflect the impacts derived from them in the formation and determination of domestic currency rate policies within the regime. That means not only the proper evaluation of the currency rate but also the effect of the regime. 1 dollar was 240 yen before the 'Plaza Accord'. The yen exchange rate exceeded 1 dollar = 200 yen in 1986. This change proved that foreign exchange adjustment could not rectify the imbalance in the external balance. The depreciation of yen and appreciation of dollar advanced at a faster pace than the actual export declines, resulting in an increase in Japanese exports to the US in dollar terms.

It is necessary to explain the domestic and foreign political economic circumstances at that time regarding Point 3. The 'Plaza Accord' was only a 'political show' directed by Treasury Secretary Baker, but it is sometimes said that the failure of REAGNOMIX required the 'Plaza Accord' [Takahashi, 1995: 15; Funahashi, 1993: Ch. 9]. The 'Plaza Strategy' was collaborated by Prime Minister Nakasone, Finance Minister Takeshita and the officials of MOF in one view [Ito, 2022: 267]. According to another view, the pressure to Japan from the US must be viewed as a coalescent strategy of the trade and the currency. There is also a view that Japan, which had the wealthier gauge of the US partially in terms of economic power, was a case that was forcibly overcome Japan's resistance by the political power of the US in terms of international competitiveness, [Ishikawa, 1995: 157, 158].

It can be thought that the mismanagement of the Reagan administration's economic policy enlarged the external imbalance, and induced the protectionism from the US Congress [Kano, 2006: 195]. A bitter critic points out that it was a case of the 'unconditional surrender' of the Japanese economy, since the related parties did not take an opportunity for the reexamination to the 'Plaza Accord' [Okamoto, 2018: 22-25].

4. What was the 'Plaza Accord'?

The 'Plaza Accord' was the result of the US government maximizing its power aiming for the recovery of its economy at the expense of Japanese economy on the one hand. The Japanese government only selected the tactic of measure as to how much the yen's high level or yen high speed would allow the Japanese economy to endure or to need measures to keep it away from structural change on the other hand [Sakai, 2003: 63]. This means that Japanese administration had no political judgment and/or responsibility for the result, more specifically it proves the lack of political strategy [Ito, 2002].

Considering both military and economic security of the Reagan administration, in particular, it means promoting dollar defense and security defense at the same time. The scenario of 'Plaza Accord' could be thought to have been co-written by Secretary of State Schulz and Treasury Secretary Baker of the second Reagan administration. Schulz was a 'collaborator' who made defense capability (e.g. the Burdon Sharing of defense cost) and Baker was a 'coordinator' to 'adjust' the value equilibrium between dollar and yen (e.g. the depreciation of dollar and the appreciation of yen) against Japan [Okabe, 1978: 1987: 76-79]. However it remains questionable whether they would accurately envisage the final outcome of the 'Plaza Accord'.

However, as seen in the later economic relation of Japan-US, the monetary policy of Prime Minister Nakasone, Finance Minister Takeshi, Governor of BOJ Sumida, the executives of the MOF, and the involved parties talked later that Japan has accepted foreign exchange controlled so as to compromise to the Reagan government [Kuroda, 2008]. It is necessary to point out that, just to be aware, the economic security strategies like the 'Plaza Accord' became one of the guidelines for the future of the US [Nishimura, 2008: 29; See Furuta, 2001, Furuta, 2018b].

We must also consider the domestic political circumstances of the US in the 1980s. The president was the Republican Party, and the majority of Congress was the Democratic Party. It was the era of 'divided government'. The Congress randomly made a proposal to protective trade bills, and tried to block and reduce the external policy of the Reagan administration in the trade policy with Japan.

The Reagan (and the next Bush) administration regained to maintain the US leadership to Japan by linking the exchange policy with the trade policy. However the Reagan government tried to get concession from Japan because it could not compromise with Congress. And the US government demanded an expanded the fiscal policy of the monetary easing or the public investment at the appreciation of yen in search of immediate effect. Japan was given in a situation seeking avoidance of the yen appreciation, and measures such as convincing the domestic dissatisfaction in the form of external pressure in the policy coordination from the US [Kojyo, 2002: 367 - 370].

However it was unlikely foreseeable whether the weakening of dollar could have continued without intervening exchange market through the 'Plaza Accord', or whether dollar crashed, and confused the market. Even if international cooperation was necessary aside the result in order to realize the orderly decline of the dollar, it was the intention of the countries that participated in the 'Plaza Accord' [Kano, 2006: 196]. The combination of the US budget deficit and monetary tightening policy raised the real interest rate in the US, and as a consequence promoted capital inflows from overseas. A solution for this problem required a political decision. Stated in a different fashion, the 'Plaza Accord' was a major event that coordinated the remedy of the current account imbalance among developed countries [Kano, 2006: 188].

Cooperative intervention after the 'Plaza Accord' proved effective if the exchange rate was affected by changes in the expected exchange rate along with interest rate differences between the two countries. It is considered that the adjustment of dollar and yen was successful even in a short period. Depending on the expectations of the participating countries at the same time, the effect of intervening exchange market became unstable. If the 'policy coordination' at the time of the 'Plaza Accord' were clearly indicated, dollar devaluation (, that is yen appreciation) would proceed rapidly, but if the confidence in 'policy coordination' fluctuated after the 'Louvre Accord', the effect of intervening policy would decreased [Kano, 2006: 166]. This proved the significance of 'cooperation' in the reverse sense.

The trade deficit in the US slowed down in 1987 against the deficit with Japan, with the effect of the macro-cooperative policy after the 'Plaza Accord', the proportion of trade deficit on the whole increased. The US therefore established the 'comprehensive trade law of 1988' as a firm argument against Japan. The Bush administration in May 1989 raised talks on 'a structure that is a barrier to trade and international balance of payments', with a flurry of applying Super 301 to Japan [Sakai, 1966: 173-228; Nakanishi, 2002: 233-341; Noguchi, 1955: Ch.1-3; Kano, 2008: 210]. It has become the only basic strategy of the inherited US's style of the strategy to Japan from the 'Japan-US Yen-Dollar Committee' [Sekioka, 2004: 61-85].

Chapter 6 Validation on the 'Plaza Accord' 30 Years later

1. Evaluation on the 'Plaza Accord' after 30 Years

A symposium in commemoration of the thirtieth anniversary from the 'Plaza Accord' in 2016 was held in the US by practitioners, policy makers, bureaucrats, economists, researchers, etc. at the time. I would like to consider the evaluation of 'Plaza Accord' from that point at the present time [cf. Bergsten and Green, 2016].

The 'Plaza Accord' may have been considered to have created more than it, rather than contributing to the suitability of currency. It is because it has established the coordination and the practice of multilateral economic policy. The US government was constrained by the budget deficit with the 'Gramm-Rudman-Hollings Act' which reduced the federal expenditure. Japan had eliminated the import barriers, and accepted the stimulation of domestic demand. West Germany agreed to reduce the size of public sector, and eliminated the excessive regulation. The common consciousness is that the domestic prohibition of protectionism was the proposition in all the participating countries.

We have lived (and will) in a new economy day by day, with more actors, more complex markets, and huge capital flows. If we maximize long-term growth, minimize the risks of protectionism, and stabilize the foreign exchange rate, we will acquire the 'lessons' learned from the experience of 'Plaza Accord', and be able to achieve sustainable, energetic, Baker, one of the proponents of 'Plaza Accord', retrospect that it should be able to adhere to the way to regularly coordinate the macro-economic policy [Baker, 2016: 20-21].

The 'Plaza Accord' proves that it is a case that can be utilized among countries over time. It is characterized as the global market survives in 'state of nature' in the sense of 'Balkanization'. Mulford emphasizes that to reduce the risk is to promote cooperation and restoration to order, but that is not necessarily the 'regulation' by governments [Mulford, 2016: 39].

The 'cooperation' and the 'coordination' embodied in that the agreement could declare more fundamental things in many respects in the 'Plaza Accord'. The circle of policy makers proved that the economic and financial problems could function extensively and effectively. The 'cooperation' among policy makers in the US, the UK, West Germany, France and Japan was a decisive factor to reach an 'agreement'. Dallara points out its characteristic that one was the exchange rate policy, and the other was the close relationship between the economic and financial leaders of the countries, and they are lacking now. He also indicates that it is necessary to introduce policies at the present time, facing fluctuations and liquidity that weakens the world economy. The 'coordination' may be difficult today, in that sense, as the market has become complicated and enormous over the past 30 years or more [Dallara, 2016: 43-44]. Frankel adds that the pendulum will return in response to that word, and the intervening the exchange market will be appropriate again (and with the Chinese renminbi in his mind).

We must attentively understand that there exists also an objection from the economist who participated in this symposium against the views of practitioners who instructed the 'Plaza Accord'. While acknowledging that the 'Plaza Accord' and the subsequent 'Louvre Accord' were one of the most important events in the international financial history after the Second World War, both 'Accords' are significant to the Japanese economy, which have given an unnatural impact. Some regard the 'Plaza Accord' as a symbolic event triggering Japan to guarantee its role in coordinating international economic policies guided by G5 countries. Others consider the long-term yen appreciation after both the 'Accords' that was the trigger of 'recession which the higher yen' brought out. Other researchers additionally look back on the case of the 'unwillingness' of the adjustment of international policy that worsens domestic finance and did irremediable harm to Japanese economy. We find that one 'agreement' is also the 'Rashomon Effect' among the Japanese researchers and economists even now [Ito, 2016: 73].

The US senior government officials and economists tend to argue that the 'Plaza Accord' and the 'Louvre Accord' mitigated the tension over the currency. Baker praises himself that the 'reality' which states that the dollar became adequate by the 'Louvre Accord' contained conflicts from the US Congress at that time.

Then how was macro 'coordination'? The trade deficit in the US, Japan's surplus, and the external imbalance of Japan and the US did not decrease until 1987, which two years after the dollar against German-Mark and yen peaked. It took 18 to 24 months, but the J curve effect worked. The yen appreciation helped rectify the imbalance by policy adjustment through both 'Accords' at least on the macro-economic side. It was in line with the US Congress that the problem was whether the remedy of macro imbalance was, especially on the side that supposedly imposed trade sanctions against Japan (insisting the self-ignorance) [Ito, 2016: 101].

The 'Plaza Accord' in 1985 was required to correct the greatest currency misalignment in the history of contemporary currency relations. This is because the misalignment poses a threat to the global trading system. That resulted in various pressures from protectionists in the US. The flow of capital is directly linked to trade imbalance under that situation. Later, the currency manipulation caused the house bubble, the Great Recession, the euro crisis and so forth all over the world. Currency manipulation has eroded political support for globalization and a new trade agreement in the US and other countries. It poses a threat to free trade [Bergstein and Gagnon, 2017: 1].

The state pursues a surplus in the current account so as to build its own reserve and to deal with future external shocks. Those who support that position believe that the economic, political, and military power of citizens, in particular in the manufacturing industry and related service industries, will greatly enhance trade surplus. In that respect, the mercantilist doctrine is still supported [Bergstein and Gagnon, 2017:2]. The US administrations have intervened in the exchange rate, in particular for mercantilist purposes. Especially for mercantilist purposes, the policy called for avoiding the shock to the deficit of nation’s current account [Bergsten and Green, 2016: 11].

The Japanese governments have used foreign pressures to promote own policy. When agreeing to reevaluate the exchange rate of ‘Plaza Accord’, Western European governments were conscious of the protectionist trend of the US Congress [Bergstein and Gagnon, 2017: 135].

The policy to materialize the specific range of the exchange rate affected the ‘Plaza Accord’ and the ‘Louvre Accord’. The ‘Plaza Accord’ was a joint agreement that justifies that lowered the exchange value of dollar; therefore it decided to balance US current accounts. The ‘Louvre Accord’ was admitted that the value of the doll (asset) declined sufficiently, and since the US and other countries counteracted further depreciation, it declared that the asset of doll was justified [Bergstein and Gagnon, 2017: 142]. The outcome of ‘Plaza Accord’ was predicted to be a change in the market expectation of future interventions rather than at the time of real conducting intervention [Bergstein and Gagnon, 2017: 37].

The ‘Plaza Accord’ was a high-water mark of international cooperation after the Second World War. The US Government has achieved an adjustment of the exchange rate of curerent account balance in the latter half of 1980s. The 'Plaza Accord' was implemented collegially by G5 under the pressure of protectionism in the US Congress, but it is questionable whether it was based on the agreed rules or arrangements. The US began with a one-sided initiative [Bergsten and Green, 2016].

2. Verification from the Japanese Researchers

The 'Plaza Accord' in September 1985 was the start of short-term policy adjustment to the last. Baker was taking the initiative in this conference, but indeed, Japan did not join in a dishonorable manner. Takeshita favorably supported the yen appreciation of 10 to 12% or more. And the goal of lowering dollar was achieved to that goal. However the yen appreciation did not stay there. The yen appreciation became 1 dollar = 200 yen at the end of 1985, 1 dollar = 190 yen in January 1986, and 1 dollar = 160 yen in the summer of 1986. Japan at that time had to switch to block further yen appreciation. The US thought that the currency correction was successful, but still wanted to stimulate the domestic economy in Japan and West Germany to reduce the trade imbalance between Japan and the US, and between the US and West Germany.

The 'Louvre Accord' set up a certain range, the 'Target Zone' or the 'Reference Range' where the currency of G7 was stabilized. The Finance Minister Miyazawa showed interest in the 'Target Zone', but the US and Japan could not agree to set the maximum ceiling of yen. So there was no word ceiling in the 'Joint Declaration'.

There remained many reasons why such a situation had been reached. They were an occurrence of the 'Black Monday', the change of policymakers, and the expansion of market which had become unable to fit in the 'Target Zone' and so on. The lesson of 'Louvre Accord' was that the interpretation differs for each country, institution and policy makers. The BOJ, the Ministry of International Trade and Industry (MITI), the MOF in Japan had different institutional understandings about the attempted to stabilize the exchange rate, and stimulated the domestic economy by the 'Plaza Accord' and the 'Louvre Accord'.

When the signs of Bubble Economy began to start, the BOJ opposed the MOF as a matter of the policy. The BOJ recognized that low interest rates were forced to 'cooperate' so as to prevent the excessive appreciation of yen, resulting in a bubble economy. The Minisrey of International Trade and Industry (MITI) opposed numerical target requirements for the import from the US. That meant the debate of the treating monetary policy and the trade separately. The MOF abandoned expectations for currency adjustment between major currencies. The MOF eventually had to start promoting the liberalization of domestic and foreign finance that internationalized yen.

It is the started signs and facts extremely that the 'Plaza Accord' was established in 1985 in the four years after becoming a debtor since the US recorded the world's largest net asset value in 1981 over 1.4 billion dollars. The 'REAGANOMIX', which is the key to the policy of the First Reagan Administration, which advocated the 'strong US' in terms of both military and economic conditions, got into dysfunction.

The 'REAGANOMIX' was a policy aimed at boosting the economy by simultaneously increasing both the military spending and the government expenditure, and reducing taxes at the same time. The FRB took the standpoint to continue against inflation. The dollar interest rate soared, the investment from overseas to the US significantly increased in this policy mix of the Reagan government and the FRB, and the dollar appreciated in the first half of the 1980s. It was the criticism that encountered from both in and out the US for this high interest rate and dollar appreciation. The protectionist bills were submitted to Congress as well as a movement to press the government to rectify the dollar correction in order to protect domestic industries [Sakai, 2003: 46].

Japan rapidly increased its asset value since it turned into a net creditor state in 1982 on the contrary. Some insisted an opinion that the rise of the economic power of Japan and the lack of economic power of the US should have been corrected to the level reflecting the fundamentals of both countries in the exchange rate. Specifically after shifting to the floating exchange rate system, the US policy makers in particular recognized that it was economic conditions to judge that the exchange rate did not reach the exchange level sufficiently reflecting the strength of yen. High interest rates made it impossible to repay a huge amount of debt, hence the dollar should have been scaled down by about 20%, because it was overestimated, otherwise it could make a possibility of the hard landing such as a dollar plunge [Sakai, 2003: 3: 51 - 54].

The 'Plaza Accord' was not a clear intention for the Japanese government, but made it passive. The US government would let the cooperative intervention continue unchecked to resolve the trade imbalance without confirming even the exchange rate [Sakai, 2003: 29]. The Japanese government would have been considered the 'national interest' for Japan in future on the one hand, but if we interpret it favorably, emphasizing Japan's international cooperation, the conscious desire for world's prosperity might be affected on other hand.

Since it was declared that the UK, West Germany, and France almost achieved their devaluation of the currency to the dollar in a month after the 'Plaza Accord', and stopped intervening into the exchange market. It was thereafter adopted that appreciated the policy of low dollar and high yen between Japan and the US. Both governments acted in the future under the 'Japan-US cooperation' without considering what the how and why of this process would be. Japan, as it turned out, relied on the US that it is the 'friendship in a true meaning' without being able to understand the reality that 'there exists no eternal alliance relationship' among the world of 'give and take' as it were.

The recognition is independent of the principle of the international relations that leads to active interests in other countries. Japan changed the system that had made an important contribution to economic development to continue the export as long as trying to maintain the economic system based on export industries since the 'Plaza Accord'. As more than half of Japan's total exports were for the US, Japan made consideration that the US judged to be the 'fair deal' to which the US took precedence. Otherwise, at that time, the Japanese government might have had no choice but to recognize at that time that the economic activity would not be likely to hold over [Sakai, 2003: 70, 205].

The Japanese government gradually accepted in the end, while hesitating, and resisting the demand of the US. This is the same attitude as it had accepted its request gradually in the same period in the 1980s, while resisting Japan's military role under the Japan-US security system with the US.

The 'Plaza Accord' was an attempt to produce a dollar depreciation that did not use the term, weak dollar in 'coordinating' with the US on the economic problems (twin deficits) to be resolved. So the 'Plaza Accord' was only a compromise (not using devaluation) or a breakthrough that the developed major countries cooperated ‘to artificially devalue and correct the local currency against the dollar’.

It is the ‘Plaza Accord’ that the adoption of ‘revising the drastic exchange rate intervened by policy authorities’ was unknown to Japan. Japan, in response to the US’s request, was unable to draw a political strategy or a future image depending on whether the preparation was insufficient or not recognized, or both, and Japan could not help dealing individually [Sakai, 2003: 60][9].

It was necessary to consider the way of US in the following point from the context of the international economic system and interdependence that changed dramatically since the ‘Plaza Accord’ in Japan [Funahashi, 1987: 226].

①The world’s monetary system has transformed the US dollar, the key international currency, into a ‘currency of the negotiable control’ due to the fluctuations in the floating exchange rates. Even though the dollar was devalued remarkably, its decision of the value would be up to the negotiations among the US, Japan and West Europe (West Germany in particular). Although Baker based it’s the policy of ‘Accords’ on multilateralism on first glance, he took the strategy of the bilateralism (for example the US vs. Japan, and the US vs. West Germany) at the time, so he moved ahead on more unilateralism in fact. And he then had no mind to be considered the multilateralism. It therefore showed the limit of the currency system of ‘Plaza Accord’ like G5 (, and G7). He did not think about the coordination with economically growing countries of emerging the New Industrialized Countries (NICs) such as Korea, and Taiwan after the ‘Accord’.

②Baker aimed for the ‘process vision’, which asserted the coordination on the macro-economic policy to set concrete indicators. That included the six indicators; the balance of payments, the growth rate, the fiscal balance, the price, the exchange rate, and the financial situation. When judging not possible to put his idea into action, he requested a structural system called a kind of 'fixed exchange rate system' or the 'Target Zone'.

③The US would seek a new leadership image in the era when being changeable into a global economy. The US specifically tried to play the roles as a guardian of economic freedom, as an economic cooperative architect, as a catalyst, as a negotiator, and as an agent of international competitiveness. Put another way, the US was forced to cease to be an absolute leader, so he tried to take the US's initiative in a relative sense.

However, in considering the rebuilding of Baker's American leadership, Japan should have thought about how to evaluate it. The Japanese government might have more careful considerations; the strategic capability, the strategy formation, and the strategy guidance. Japan should have adequately recognized the fact that the economic initiative of US had lost yet. Could the Japanese government suppose only the 'zero-sum'-like tension of Japan to the challenge from the US? Japan should have proposed the setting up or the institution of a new monetary system to the US. However Takeshita wasted a precious opportunity of the coordinated rate reduction, but the Japanese government became the 'petitioning or petty diplomacy' to the US with the subsequent appreciation of the yen. Nakasone should have criticized the negative influence in the selfish domestic economic policy of the Reagan government, but could not deny up to the expansive Defense Budget in the 'REAGANOMIX. Had Japanese government been ready to propose the ideas and strategies, it did not have only to follow the logic of the US [Funahashi, 1987: 31, 206, 211, 222].

3. The 'Plaza Accord' on the Historical Evaluation

I would like to think about the 'Plaza Accord' from a historical point of view. It was said that the 'Plaza Accord' in September 1985, the consultation at the Tokyo Summit in May 1986 which was its succession, and the 'Louvre Accord' in February 1987 were the high-water mark of the 'coordination' and the 'cooperation' of international monetary policy after the Second World War, and they became precedent models for the past 30 years [Bergsten, 2016: 261]. The concerned parties of the 'Plaza Accord' tried to coordinate macro-economic policy to support and promote the realignment of the exchange rate [Bergsten, 2016: 3, 9, 262-263].

The 'Plaza Accord' was an important event in the history and the development of international cooperation. The some researchers in the US appraise that it succeeded in achieving all three of immediate goals [Bergsten and Green, 2016: 14]. The first was an attempt to realign the exchange rate while considering the change of the situation. The second was an attempt to modify the global imbalance at the time. That was the 'coordination' of macro-economic policy. The third was an attempt prepared the effective countermeasures against the protectionist pressure in the US, which posed a threat to the international trade system and the world economy. It was the institutionalization of a joint management system of the international monetary policy by G5.

However there remained doubt as to whether the 'Plaza Accord' was so successful from the viewpoint of carrying out the ambitious purpose. It was the adjustment and institutionalization of international economic cooperation, and of economic policy by the US intention of the leading economic power. What do we nonetheless have to learn this 'lesson' from the view that it might have been 'successful' to show the direction of the progress in the both fields and the long-term management of the global economy and world politics? How will we cope well with the challenge a negative relationship of the subject in the future?

The 'Plaza Accord' showed a 'lesson' on what to do in the future of international adjustment to us. It means a precedent as a guideline for processing economic and domestic and foreign policies. It may be necessary that the world has an international regime like the 'Plaza Accord' when faced with uncertain forecasts for the imbalance that the disequilibrium increases, the reaction to the trade policy, and both of the global economy and the world politics.

The 'Plaza Accord' was a rare case of the international economic cooperation among the major countries. It is therefore the 'Plaza Accord' that meant how to take governance of the international economy and how to tackle issues that range beyond the economy were concrete precedent cases in the present globalized world.

We take cognizance that it is important to stabilize the exchange rate. And the dollar remains dominant without security. The new 'Plaza Accord' is said to stabilize the international economic system, and promote the global economic growth under the leadership of the US for the time being.

We can put forward a proposal that the 'Plaza Accord' summarizes historical importance into six in the international financial system and its function [Utsumi, 2016: 45-49].

First the US takes the initiative at the currency conference, but G5 countries including Japan cooperated and enforced in detail from the beginning of draft. The US during the so-called Nixon Shock in 1971 unilaterally announced the suspension of exchange of gold and dollars. Japan and major European countries were not notified before the fact. The concerted parties getting involved the 'Plaza Accord' talked in advance from preparation to final decision in a multilateral manner in contrast.

Second Japan simply got into the act positively instead of giving in to the US's pressure. The Treasury Secretary Baker talked with the Finance Minister Takeshita on the relationship between dollar and yen in June 1985, and agreed on what needs to be done about the exchange rate.

Third it was not so dramatic to pump and dump the schemes of the foreign exchange rates by the G5. The Finance Ministers and the Central Bank Governors in G5 who attended the 'Plaza Accord' allowed the exchange rate to reflect economic fundamentals. It was certain that the ultimate solution would not be solved only with the re-appreciation of yen and dollar to that end. It was the 'agreement' that still had to prioritize the 'coordination' and the 'cooperation' for the first time after the international financial system which shifted to the floating exchange rate system.

Fourth the macro-economic policy has been therefore integrated into the strategy of the exchange rate. The G5 had to adopt both macro-economic policy cooperation and joint intervention in the exchange market for the purpose to converge the exchange rate.

Fifth the 'Plaza Accord' was handled the top secret until the execution, and the concerned parties aimed for dramatic effects in order to maximize the results at the presentation. It was said that the G5 was indispensable to prepare for the global market for that purpose. Although it was expected that the G5 conference would have some sort of the dramatic results since then, such a meeting never occurred after the 'Louvre Accord'.

Even though both the 'Accords' could be evaluated as a trial, they are not be likely to be appraised that the both had an essential effect at present viewpoint. The 'Louvre Accord' surely presented the ambitious content rather than the 'Plaza Accord' in a sense. The former intended to set up the 'Target Zone' that stabilized the exchange rate. However the detailed and prudent counseling could not formulate procedures to consider in the future as a result in the macro-economic cooperation. It was difficult for Japan at the time to recognize the currency level (a dollar = 153 yen) indeed. That is why the 'Louvre Accord' could not be kept long.

Sixth the US adopted a long-term perspective on the adjustment process. The US Treasury took the initiative to institutionalize procedures for stabilizing the foreign exchange market. While the Reagan government was exposed to the increasing pressures of the protectionist from Congress, they had to consider some countermeasures to comply with the exchange rate. Baker and Darman asked for the institutionalization of procedures to stabilize foreign exchange rates, and cooperated in macro-economic policy from that point as well. They have appreciated that the 'Plaza Accord' had more than a one-off effect, and has started to institutionalize the procedure since then.

As demonstrated above, countries that rely on international trade have become increasingly sensitive to fluctuations on the exchange market. The 'Plaza Accord' in this sense has become an 'affair' that marked a new era in international financial history. It may prove that there exists an important meaning in the international financial system, like a (good or bad) kind of the 'case study analyses' in the future debate on the stable exchange rates. It is different in each position how we will realize it. Some affirming the 'agreement' will currently think about how to exchange the Chinese Yuan Renminbi. The Chinese government might not obey its 'case study'.

4. Cause of the Bubble Economy and its Impact on Japan

As a result of the promotion of yen appreciation by cooperative intervention in the 'Plaza Accord', the yen became a depressed economy, and the Japanese government caused the BOJ to maintain low interest rate policy in order to restore the economy so that Japan could expand the external imbalance by expanding domestic demand. The international policy coordination damaged the soundness of the domestic economy if its extent and content lacked the consistency with other policies [Ito, 2002: 189 - 272].

The MOF initially assigned the currency adjustment and the monetary policy as a strategy for the 'Plaza Accord', adopted a strategy that made the fiscal policy different, and built up the factors for excess liquidity by themselves. This strategy was made possible because the Japanese administration and the MOF were in the 'superior power relationships' to the BOJ, and the BOJ did not maintain independence and neutrality to the governments in fact, so it received direct intervention from the government and the MOF easily, in a sense, so the BOJ could not adhere to sound monetary policy. The Finance Minister Miyazawa, for instance, stuck to the measures to avoid yen appreciation in the past period of the high economic growth, using the monetary policy as a means of that. The

Governor of BOJ Sumita continued to maintain a long-term low interest rate policy considering that a large money supply should have been in Japan [Kano, 2006: 121-13; Ochiai, 1994: 153,155,162,1 65]. The dominant argument in Japan, it was the higher yen that Japan had to avoid, but the BOJ failed to escape from the government's policy [Kojyo, 2002: 366 - 367].

The First Reagan administration asked whether the appreciation of yen or/and the expansion of domestic demand in Japan so as to eliminate the trade deficit with Japan. The US accelerated the appreciation of the yen due to the 'talk-down', or verbal intervention, that Japan was insufficient to expand domestic demand. The small and medium-sized enterprises in Japan strengthened political pressures through petition to avoid the appreciation of yen. The US government knew well that the Japanese government responded sensitively to it [Kano, 2006: 23].

Then how did the 'Plaza Accord' influence the Japanese economy? It is for Japan about the same as the fixed system of 1 dollar = 360 yen in 1949, the collapse of the Bretton Woods regime in 1971, and the debacle of the Smithsonian Agreement in 1973. It is more important than these events [Ito.2016: ch.7]. I would like to check again from several stages [Utsumi, 2016: 47-48].

In the first stage, it was important that was the appreciation of yen and the depreciation of dollar. The exchange rate for yen to dollar was higher than it was for other non-dollar currencies. However the yen rose from 240 yen to 120 yen compared a dollar in 26 months after the 'Plaza Accord'. Japanese manufacturing industry and economy faced an unprecedented challenge as a result. All the policy measures were mobilized to relieve the impact of the appreciation of yen, and trying to mitigate its negative influence. The Finance Minister Miyazawa who replaced Takeshita argued that it was wrong that the former Minister was involved in the 'Plaza Accord' without deciding the ceiling against dollar, and asked G5 countries for negotiations to re-adjust the high-level yen. This led to the 'Louvre Accord'.

The second stage was related to Japanese manufacturing industry after the 'Plaza Accord'. Japanese companies made efforts to rationalize and to streamline management through cost-cutting by surviving under the rapid appreciation of yen. As a result of the strong yen, this effort, as well as lowering the cost of imported raw materials and energy, would lead to acquiring Japanese industrial competitiveness. It additionally became an opportunity to promote the overseas relocation of Japanese companies.

Japanese economic power made real growth rate over 6% from 1987 to 1990. The 'euphoria', created by a kind of the bubble economy, began to penetrate the business circles according to the corresponding policy measures.

The third stage was characterized as the 'asset inflation' of Bubble Economy. The BOJ had to continue an easy monetary policy in order to cope with the appreciation of yen and the negative effects on it. This policy, along with the 'euphoric sentiment' of Bubble Economy, caused the asset inflation, which resulted in serious social problems since then.

In the fourth stage, the BOJ as the central bank nevertheless tried to play a leading role to control in the situation of the asset inflation at this time. It took off the official discount rate from 2.5% to 6% in 15 months from May 1980 to August 1990 in reversal. While trying to resolve the asset bubble economy, the measures temporarily collapsed the Japanese banking industries and business circles at the same time. It is said in

Japan that this resulted in the beginning of the 'lost decade' and the prologue of the 'preliminarily lost year'.(10)

The trade imbalance between Japan and the US was eventually not corrected in essence, regardless of the sharp appreciation of yen by the 'Plaza Accord'. The hardline revisionists in the US eventually condemned the specialties and heterogeneities of Japanese market from a cultural perspective on the one hand, while the US Congress strengthened the protectionism and the management trade on the other hand. The 'US-Japan Structural Impediments Initiative (SII)' approved at the Japan-US Summit between Prime Minister Uno and President Bush had started in July 1989. The US government had effectively taken the 'internal interference' in the Japanese affairs since then.

It would be better to think that the 'Plaza Accord' not only solved the conflict of economic relations but also influenced the comprehensive security of the US including the national defense, the domestic and the foreign politics. The Reagan administration called for the Burdon-Sharing on the military security on the one hand, and insisted on the economic measures for the US own financial security on the other hand. This pressing was found in the US's strategy in the 'Plaza Accord' within the part of the US administration's push to Japan [Okabe, 1987: 76-79].

One expertise points out that the Japanese government and politicians were responsible to the cause of the Bubble Economy that formed in the second 1980s. It was politicians' and officials' capacities that could not foresee about the future possibilities [Ito, 2002: 272].

Nakasone tried to promote the solution of Japan-US economic friction, consideration for the Japan-US security arrangements, and the domestic economic structural reform through the performing the 'Plaza Accord' at the same time. We understand that there are significant implications in Japan for the existence of the US in terms of defense security and foreign economy.

The MOF decided not to adopt the fiscal policy as much as possible, instead of pushing the currency adjustment and the monetary policy as a means to realize the issue of correcting the imbalance to the trade with the US imposed on Japan by the 'Plaza Accord' and expanding the domestic demand in the negative fashion. It is a pride that the MOF could control the monetary policy of BOJ in its 'non-determined' strategy. This is because there is a system of the arrangement so-called the asymmetrical relation of the power between the Cabinet-MOF and the BOJ. The MOF was in a position to create a network for budgeting rights, resources regulatory rights, the connection with the political and economic circles, and to take advantage of political institutions and strategies [Ito, 2002: 266].

It is the ascendant of Japanese administration and MOF to the BOJ that weakened the 'independence' and 'neutrality' of the central bank, which became an obstacle to the sound monetary policy to the national economy. This policy was therefore largely due to the two decision-makers, particularly the Finance Minister Miyazawa and the Governor of BOJ Sumida. It can be said that they were responsible to the policy regarding the long-term low interest rate policy then, and which means that was the Nakasone Cabinet Ministers who gave a favorable response and tolerated it.

Miyazawa thought that the long-term ultra-low interest rate policy would be desirable for the Japanese government in order to get behind the appreciation of yen. However the reason why the appreciation of yen was undesirable was not sufficiently examined, and, the political intervention was unaware that a harmful effect was eventually brought about under the floating exchange rate regime.

Did Miyazawa, as a politician sensitive to the interests of export manufacturers, neglect the problem of 'excess supply of money'? And did Takeshita who served as the Finance Minister before Miyazawa made a judgmental decision on the policy, the appreciation of yen and the depreciation of dollar, based on the circumstances of the time forecasting future trends? Did Nakasone, who appointed Takeshita and Miyazawa as the Finance Ministers, in that sense, determine for just maintaining his own government in the 1980s, without being conscious of the situation at the time (and subsequent trends)?

5. Some Structural Factors

As the official discount rate was as low as 2.5% in order to respond to the rapid appreciation of the yen following the 'Plaza Accord', the low rate of interest had continued from January 1986 to February 1987. There were three characteristics of the monetary policy management during this period [Okina, 2013: 151 - 152].

The first characteristic is that it was strongly bound by the framework of international 'policy coordination' of 'Plaza Accord'. Japan had to strike the right balance of yen and dollar, reducing the surplus in the balance of payment and expanding domestic demand as a top of agenda.

The second characteristic is that the monetary policy was also aimed at curbing the appreciation of yen in the atmosphere of 'higher yen was a national hard problem'. The Japanese government cut the official discount so that the US would ensure the implementation of the cooperative intervening in the market in the US, and stopped the 'talk-down (verbal intervention)' by the US government officials.

The third characteristic is that the policy management to reduce the surplus of current account affected the monetary policy through expanding domestic demand.

In terms of the above first and second characteristics, there exist five criticisms of the 'Plaza Accord' and the 'Louvre Accord' [Bergsten, 2016: 264-265].

①Both 'Accords' stuck to the correction of exchange rate too strongly, and made little change when putting the policy scheme as the conception of the basic stance. It was in particular the circumstances that the US could not deal with deficit finance. The Reagan administration prioritized the improvement of dollar rate and the trade balance rather than the future exchange rate system. The US Congress in 1985 definitely approved the 'Gramm-Rudman-Hollings Act', so it decided to check the deficit in the future. This caused an obstacle to the fiscal policy of US government.

②Both 'Accords' were only caused to the shock effect on the market.

③The real impact was that the dollar's correction occurred through the market. The market stopped overestimating dollar before the 'Plaza Accord'.

④The impact of market caused in 1987 arose from the discrepancies between the US and West Germany. The incident was in fact less on the real economic impact.

The above ① to ④ are the criticisms to the 'policy coordination and cooperation' over the 'Plaza-Louvre Accords'. The following ⑤ threw off the result of the 'Accords', and was a criticism that shook the Japan-US monetary regime from the fundamental issue that could not be avoided.

⑤Japan was 'compelled' for bad policy choice, and brought financial collapse in the subsequent the 'lost 20 years'. This criticism (or rather in the form of a reprehensible behavior) is more commonly seen in Japan, especially among economists.

Needless to say, there are objections from the policy makers of the US, especially those involved in the policy makers, against the view that the 'Plaza Accord' became a direct cause of Japan's Bubble Economy.

We know, as a matter of course, the objections from the company concerned of US, those involved in the decision-making process, against the view that the 'Plaza Accord' became a direct cause of Japan's Bubble Economy [Bergstein, 2016: 265].

①The low interest rate that the 'Plaza Accord' was the direct cause of Japan's Bubble Economy was rather only strengthening its degree. It was a reaction to excessive high interest rate policy before that.

②It is assumed that the 'Louvre Accord' led to low interest rates in Japan, but in order to weaken the influence of yen depreciation caused by the 'Plaza Accord'. The Japanese government induced the fiscal policy rather than the monetary policy stimulating the domestic demand at the time. The misunderstanding of multiple policies was carried out by the top officials of the MOF rather than the BOJ.

③The turbulence caused by the Bubble Economy in Japan arose not the change in the monetary policy but rather from the failure of the fiscal regulation.

④Another view points out that it was the attitude of the cumulative cycle of Japan's high external credits was strongly swayed on the fiscal policy in the latter half of 1980s. The budgetary measures for that purpose were maintained until 1992, and the economy was recovering at the time of fiscal austerity in the first half of the 1980s, but the measure was taken in 1988 after the 'Plaza Accord'. It was decided to strengthen the surplus. Therefore it is a view that the fiscal policy at the time was not a direct cause of the Bubble Economy [Herr and Kazandiska, 2010: 97].

Indeed the collapse of Bubble Economy brought down the recession in Japan. That is a lesson that the Japanese government and the large enterprises have begun by making what was unconscious becomes conscious and clear in a sensitive manner to the international economic fluctuations and rule formations in another sense. The Japanese government began to get aware of the role played in the fields of the economic policy and international finance, which would benefit Japan and other countries well [Kojyo, 2007: 148].

It is from ① to ③ that the political and economic undercurrents of the objection from the US realized a sense of the 'curtain fall', the so-called 'success' to the appreciation of yen and dollar for a while, through the 'Plaza Accord' and the 'Louvre Accord', but the scenario was nothing but the 'interlude' to the Nakasone administration. It is often seen that it is regarded as an event in midstream because of the view of ④. These views continue to date back to the historical relationship of international economy and finance after the Second World War, notwithstanding any effect, especially in the US. A new system of multilateral economic adjustment called the 'Plaza Accord' and the 'Louvre Accord' were the means and method of currency adjustment to prevent the state of disorder, apart from achievement. Such a favorable opinion in the US is still as valid as ever.(11)

Chapter 7 The Japan-US Economic Relations in the 1990s

1. Continuation and Change in the US Government Policy since the ‘Plaza Accord’

The Gephardt bill was one of the moves seeking a framework of international cooperation to adjust dollar to the appropriate level in order to reform the trade imbalance in July 1985. However the US government attempted to respond with the suppression of remedial measures against the trade deficit with Japan so as to secure initiative from the US Congress on the trade policy and the exchange rate policy.

The US administrations thought the desirable system of the ‘Japan-US Yen and Dollar Committee’ system that achieved open market in Japan, starting the ‘Market-Oriented Sector Selective Talks (MOSS)’ in January 1985 in economic negotiating with Japan.

The Reagan administration announced a new trade policy to actively utilize Article 301 of the Trade Act, while opposed to protectionist bills in the US Congress on the day following the ‘Plaza Accord’. Both of these policies were carried out in parallel under the second Reagan administration. We should be more noteworthy on this point.

The Reagan administration appealed Congress to a positive attitude towards the trade deficit, and adopted a policy to urge Japan to concede with open market. And this announcement of the new trade policy was regarded as a prospect of breaking free from the ‘chains’ of Congress.

The US government since the ‘Plaza Accord’ continued to take the dollar’s depreciation policy until the fall of 1986, which stopped promoting the weakening of the dollar due to inflation concerns. The US government began to emphasize the expansion of domestic demand from the exchange rate adjustment to each country after 1986. The doctorins was specifically in the ‘Miyazawa-Baker Agreement’, the ‘Louvre Accord’, and the ‘Christmas Agreement’ and so on. So the US government asked for a trade-off between the exchange rate and the expansion of domestic demand in the policy of Japan since 1986. The discount rate cut by the FBR after the ‘Plaza Accord’ was a countermeasure against the appreciation of yen under the domestic political pressure of avoiding the yen appreciation in response to the sharp appreciation of yen since the beginning of 1987.

The new trade law was established on March 19, 1987. This was a highly protective law, conscious of the election in 1988 [Obi, 1999: 22]. The law established to firstly suggest that political pressure prevails due to the convenience of each legislative constituency rather than the logic of free trade, and secondly mean the domestic political economic circumstances rather than the borderless international economic cooperationist. Said defiantly, the new trade policy packed national protectionism in law. Its content was thus based on the assertion pursuing the protectionism. I would like to organize the viewpoints as follows.

The first prioritized the bilateral consultations based on the new trade law over international rules.

The second respected the principles of the ‘fairness’ and the ‘reciprocity’ in the American style, and requires trading partners to maintain the same level of legal development.

The third expanded the scope of the foreign investment regulation, monitor foreign investment in the US, broaden the concepts of the national security, and implement the foreign bank regulation by the financial clause in the US.

The fourth facilitated the retaliation and the sanctions against the unfair trade practicing countries that are contrary to the Super 301 of the Trade Act etc.

The fifth was the research and the development integrated with the public and the private sectors, increasing the high-tech promotion plan, the export promotion, and the subsidy of the unemployment.

The sixth was to realize the industry fields such as the software and the service sectors in a world market led by the US.

It has been hard and impossible for the US itself to maintain the world order. The complementary role of Japan is virtually 'compelled' from the economic part (simultaneously military security part at the same time) of the various demands for the international contribution to Japan. It was the new trade strategy under the Clinton administration in the 1990s that was consolidated in the 'New Commercial Law' established in the latter half of the 1980s [Obi 1919: 224-212, 231][12].

Considering the US budget deficit was the cost of the US hegemony maintenance, the international policy coordination was only a request from the policy of such a US global strategy. This means that within the system making an adjustment with Western countries that can object to it, Japan must continue the challenge to the initiative (in other words, the conflict over national interests) centered on the US [Kano, 2006: 200].

It was summarized that the US had its own intention to continue and change the policy according to the situation of the US as follows[Kojyo, 2002: 367].

First the US government's external economic policy changed with the 'Plaza Accord' at the beginning of the Second Reagan Administration as the starting point. It has formed the framework linking the imbalance between the exchange rate and the trade balance. The Reagan administration tried to adjust the imbalance in the trade balance at the exchange rate since the ‘Plaza Accord’. At the same time, after the Reagan administration, the US government tried to reform the Japanese domestic framework further into the American style.

Second the US domestic political circumstances such as a divisional rule of governance in US presidents and Congress has become influential to Japan policy since 1980s. The Reagan administration used this situation of the divided government to draw concessions from Japan. The Japanese government came to recognize that it was better to compromise the Reagan government than to concede to the pressure of US Congress (, which meant to strengthen protectionism).

Third the US government has frequently pressed for the reform of the Japan’s economic structure. It is the example that was negotiated between the Japan and the US in the ‘Accords’ of the yen and the dollar, the SII and the MOSS and so forth. The Japanese government has also recognized the necessity of economic structural reform (for example, the so-called ‘Maekawa Report’, followed by the ‘New Maekawa Report’) in order to cut the surplus of yen and of current account.

Fourth the US government insisted on not only making no choice of the policies by the Japanese government but also being restricted by the parties avoiding the high yen in Japan for expanding the Japanese domestic demand

2. Unresolved Problems

Japan reached economically a powerful country after the Second World War, so Japan had no choice but to decide the high yen policy with the

‘Plaza Accord’. When the Bubble Economy collapsed in 1990, the trade surplus rose again. Japan after that continued to fight against the Bubble Economy including the bad loans, the yen appreciation, and the subsequent depression (the Heisei Recession), and Japan had to keep asking the future ‘self-portrait’. The substantial appreciation of yen resulted in reducing the interest rate to nearly zero as a ‘painkiller’ in the domestic economy by the ‘Plaza Accord’ and the ‘Louvre Accord’. Japan brought on the Bubble Economy that caused unpredictable yen appreciation, and produced huge liabilities [Rosenbluth and Thies, 2010: 91]. It designated 1990 as Japan’s starting point of the so-called ‘lost 20 years’ after the collapse of the Bubble Economy.

Japan has fallen into a long-term economic stagnation called the ‘lost decade’. Many financial institutions went bankrupt, and a large amount of public funds (taxes) were thrown into them. The Japanese governments have, in addition, decided to increase the country’s debt due to fiscal spending.

Table 5: Economic Comparison of Major Countries (G5) (1981-1991, 1992-2001)

	1981-1991 (%)			1992-2001 (%)		
	real growth rate	inflation rate	unemployment rate	real growth rate	inflation rate	unemployment rate
Japan	3.9	2.2	2.5	0.9	0.4	3.6
France	2.3	6.1	9.3	2.1	1.6	10.6
Germany	2.6	2.7	7.1	1.7	2.1	7.3
UK	2.4	6.1	9.8	2.9	2.1	7.7
US	3.0	4.7	7.1	3.4	2.7	5.4

As a point to note, it is also necessary to point out the problems of the manufacturing industry in the US. The policy of yen appreciation and dollar depreciation since the ‘Plaza Accord’ eventually failed to improve the trade balance of the US. The manufacturing industry in the US, which had already declined, could not be restored only by currency manipulation. The decline in the competitiveness of the manufacturing industry due to the high currency has lost the capacity of production itself rather than the exchange factor because of losing organizational capabilities such as technology, knowledge and human resources. This trend had already appeared since the 1970s in the US [Shibayama, 2021: 77]. This is the point of view we should still be kept in mind. It was noted a viewpoint of the 'Young Report', for example, even within the US.

It cannot be denied because of the hollowing out of manufacturing industry, the establishment of international division of labor, and accelerating the rapid appreciation of yen. The appreciation of yen, after 1 dollar dropped lower value by 90 yen, has also encouraged the international division of labor in the assembly industry of electrical equipment, automobiles and other parts industries, and other high added valued industries [Ohba, 1995: 166-171].

We have not experienced the 'Japan-US Economic or Trade War' like in the 1980s currently. China is required to open the financial market by the US instead of Japan today. Stated in a different fashion, the 'Plaza Accord' has subsequently resulted in promoting the development of Asian economy, in particular Chinese economy as an indirect cause, as it turned out, China will be requested to raise the exchange rate of the Chainese yuan from the US connected. The objective conditions between Japan and China are by all means different. For example Japan relies on defense security under the US nuclear umbrella, but China possesses its own military strength.

The international regime is established because each country recognizes its own interest in its maintenance. So a country will have to pay high cost contrary to the rule of international regime, the 'cooperation' and the 'coordination' is supposed to be maintained.

The regime should regulate the behavior of each country, converge on the expectation of other countries about the behavior of a country, and enhance the predictability of behavior. It is advantageous for the own policy maker to decide. Such behavior is guaranteed to the regime. The rule of regime is for the behavioral standard of each country, which is the interest of the concerned country [Yamamoto, 1980: 177-171]. The Japan in this case (the Finance Minister Miyazawa who was then representative of the Japanese government at that time) should have decided to hold some countries without the US up within the international regime in order to comply with the 'Louvre Accord' in 1987 [Funahashi, 1987: 217]. That measure would have fulfilled the function of suppressing the US in participating countries within the regime. When this framework of regime lost substance, it eventually ended up becoming a bilateral relationship between Japan and the US.

Needless to say, the regime may change the interdependent relationships of targeted issues. It inherently has the possibility to modify, change, transform, and collapse the rule of the game. The target areas that must respond quickly to changes in reality will require the 'management' of participating countries based on the 'coordination' and the 'cooperation' of the policy rather than maintaining the entire regime [Yamamoto, 1989: 174].

3. Efforts for Economic Security in the US

The Industry Competitiveness Committee: 'President's Commission on

Industrial Competitiveness (the ‘Young Committee’)’ established by the Reagan administration in the US submitted a report in 1985 (the ‘Young Report’). This ‘report’ recommended the creation, the practical application and the protection of new technology in order to improve the industrial competitiveness of the US.

A strategic commerce policy was implemented in the US, following the ‘Young Report’ in the 1980s, ‘a policy to improve the influence on our competitiveness the economic security strategy of industrial competitive relations’. It may have been thought that the ‘Morgan Report’ was a short period of economic strategy, but the ‘Young Report’ became a turning point for the US to strengthen over a long period in 1985. Measures to strengthen competitiveness were proposed as a consequence. So to speak, the Reagan administration employed dual foreign economic strategy.

It was the task of creating the advantage in the strategic industry by the US government in the 1980s. The policy was carried out under the economic security, not with the export control, the export promotion, and the economic sanctions, but with the export and import regulations or management. It, so to speak, was a mercantilist and a strategic commerce policy. There was an emphasis on the economic relations intervened by the government as a role of the state. It has emerged as a reversal phenomenon of economy and military to promote enhanced measures of trade relation in particular from the viewpoint of the geo-economics after the Cold War [Urano, 2003: 38-39].

When the Japan-US trade friction turned a political problem, it was solved once the both governments of Japan and the US intervened in friction. The US in the 1980s changed to a policy of exporting into opening up the market to Japan. The US Congress passed on a warning that if Japan's political and economic structure had not been reformed from this time, it would not eliminate trade imbalances and turn it into a political problem. The 'Market-Oriented Sector Selective Talk (MOSS)' started at the Nakasone-Reagan Summit Meeting in 1985 was the first step toward realizing the intention of the US to overcome the closed nature of the Japanese market. The US government furthermore revised the 'Japan's political, economic and social structures' which hindered the opening up the market from the Japan-US structural talks in 1989 and after. The Japan-US structural talk meant a new phase in the negotiations of trade. It was a US-style approach to actively seeking mercantilism, that is the 'results-oriented negotiating style with' which had to emphasize the role of the state in its performance. The Japan-US trade friction came to take on the aspect of the 'system friction' related to politics, society, and culture as well as the economic system of Japan and the US [Nakamoto, 1999: 213-214].

While Japan's 'free trade policy' had been changed with a compromise with the domestic protectionist resistance, it is the result which the Japanese style of it had responded towards the US market for Japan. Japan had to insist on its own 'free trade' with the US because of its dependence on the US. It was also the cause of the excessive 'political problem' between the differences in this viewpoint on free trade between Japan and the US. The Japanese well-doing in the US market leads to prosperity in third countries other than the US. The US market has been indispensable to the Japanese exporting business [Ogura, 1982: 107-109]. Although both countries respect the market, they were the same in their attitude to actively intervene and manage by the national governments because of their own national interests. It is different for the contents and the approach of both countries by all means.

4. The US's Managed Trade Policy

The US government has sought the 'competition of the same conditions'. The US has demanded unilateral market opening and voluntary expansion of the imports beyond self-regulation of the exports in bilateral negotiations for this reason [Sasaki, 1997: 133-131]. This is the 'selective reciprocity' [Tyson, 1993]. Although the US argument including the circumstances during this time defended the free trade, the US government insisted on building the foundation and the condition for that, or accepting conditions favorable to the various domestic companies in Japan.

The purpose of US is to establish a framework of trade relations while seeking a political partnership between the countries that manage the market as means of advocating an 'economic system of free trade' in the US-style of the 'managed trade'. Although this style is different from the attitude of government agencies to lead private enterprises like Japan, according to the request of private enterprises (especially large companies), the governments adopt a policy of proactively developing and instructing the trade situation. The US has adopted a 'mercantilist' position in the sense that it differs from Japan.

The policy in 'managed trade' is a case where the country controls trade balance to a certain extent, limits and controls the import (e.g. the self-regulation of the export), and forces a certain import (the export of the home country) to the other country (for example the voluntary expansion of the import). It usually refers to the case of restricting import of the former, but , since the second Reagan administration, it has turned into the setting of the purchase (numerical) target like the guarantee of the latter share and the action plan. It should be noted that the typical examples were found in the negotiations of the the semiconductor between Japan and the US in the 1980s. In the US, the 'reciprocity' means that the market should be open to the same extent as the US (that is, to conform to the US' standards) [Ochiai, 1998: 215; See Furuta, 2013 b].

The managed trade has been streamlined and justified the mercantilism of the US-style under the promoting 'free trade' by wrapping subjective terms such as the 'reciprocity' and the 'fair trade' in subjects. When it has become import for the high-tech industry since the 1980s, the US government launched the measures to open up the market and to strengthen competitiveness one after another by intervening in the other country. The US's trade policy has finally changed from the 'pure' free trade to the 'selective reciprocity (= the American way of mercantilism)' [Nakamoto, 1999: Part 1 Ch.2]. This active mercantilist policy or selective reciprocity has been handed over since the second Reagan administration.

The selective reciprocity is defined as a 'system necessary for national economic security' [Sheehan, 2005: 71]. This idea in the late 1980s has strengthened the provisions of laws related to the national security and defense in the US government's trade policy and the legislation of the US Congress, emphasizing the defense problem along the action to regulate the trade and the investment. It is typical examples that were the trade friction between Japan and the US on semiconductors in the 1980s. These kinds of frictions were also linked to other fields (e.g. the defense burden). It is a tone that is frequently used by American hardliners, "It is the economic unfairness of Japan that the US is defensing Japan in the military security".

The US government had to consider the economic security as well as its own decline of power in addition to the defense security. The US government therefore, in 1987, pushed hardline means of retaliation against the Japan in the violating agreement [Ishikawa, 1955: 52-53].

There exists a viewpoint related to the economy that appeared the security of military and politics before and after the end of Cold War. It is a case where it is described as an 'economic agenda' proposed from a geo-economic standpoint. The government will use the economic capacity as a useful measure to the foreign policy and exercise of military force for state. The military confrontation, the arms race competition, and the military security were given priority in the Cold War period. It is so-called zero-sum's diplomatic view. The Realists faced a reduction of the military expenses, and accordingly shifted the emphasis point to the economic field especially after the Cold War. The idea is to substitute the economic field for the military field if it is simply described from the geo-economic standpoint.

S. Huntington argues that superiority and inferiority of economic power will be ranked among the nations in the world where the military conflict can occur [Huntington, 1998]. Put another way, the economic competition is regarded as the 'war' by means other than the military means. Japan adopts the strategic trade policy based on the so-called 'economic war'. Japan has assumed the anticipation and the competition between Japan and the US for the strategy and the behavior on active standpoint. It is preferred a 'black-ink (surplus)' balance to a 'red figure (deficit)' from the mercantilist perspective economically. Because it is not only affects the domestic employment but also it is a trading nation where the state relies on the imports of the raw materials and the export of the goods, and the investments and finances in the mutual relations. Such a state thus tends to be vulnerable to external threats [Sheehan, 2005: 71].

The Realists think that the state must measure the security from its military strength against the military power of other states. And the mercantilist state wants to minimize the degree of dependence on the resources and the technology dominated by other states. Because, according to this logic, if the destiny of one's own state is bound by an economic relationship with another country, the state compromises its independence and security. In that respect, the economic interdependence should not be heralded as the state is unlikely to predict the future of international relations. However, such a policy itself is impossible in the globalized era, so they hope to take the measures to ensure initiative as much as possible. The nation-states are particularly interested in the economic interdependence of global markets, and demand and supply.

According the geo-economic thinking, there remains a tendency for trade to promote zero-sum relations and emphasize the factors related to 'threat' of their relative decline to other countries. It promotes the economic competition and protection that depends on the national security in terms of international politics [Sheehan, 2005: 72].

The concept of economic security will also be related to international political relations in a broad context of security to analyze in the political context of defense security [Sheehan, 2005: 67].

5. ‘Managed Trade’ in Japan-US in the Political and Economic Relations after the Cold War

(1) Background and Issue of Japan-US Trade Negotiations

Even if the conflict in the economic relations between Japan and the US occurred during the Cold War era, a compromise between the both governments was tried to find a ‘happy medium’. However, particularly in the post-Cold War, the global strategy of the US has changed its policy towards Japan. However Japan has also undergone a change in its economic structure since the 1990s, so it has become impossible to make concessions easily to the US.

The ‘Japan-US Framework Talks on Bilateral Trade’ had been a forum for negotiations to discuss broadly the economic issues between Japan and the US from 1993. The discussions such as Japan’s current account surplus and the reduction of financial and trade deficits in the US were negotiated in the macro-economic policy. The US requested setting of numerical targets in the negotiations by sector (cars, electronics, machine, and semiconductors, etc.). It was an unavoidable task in order to manage the policies in the home and abroad for the Clinton administration.

The US trade deficit had increased steadily to 66.7 billion dollars in 1991, 84.5 billion dollars in 1992, and 131 billion dollars in 1993. The higher the people consumed in the US with vigor, the more the import increased. The US budget deficit was 269.5 billion dollars in 1991, 290.3 billion dollars in 1992, 254.7 billion dollars in 1993, and 176.1 billion dollars in 1999 respectively. Half of the trade deficit was due to trade with Japan. The budget deficit drastically decreased during the Clinton administration, but the trade deficit was increasing. The US thus negotiated separately the framework of Japan-US consultation into the macro-economy, the sector-economy, and the global cooperation so as to reduce Japan's surplus.

Japan was required to shrink the current account surplus, expand domestic demand and open the market on the macro level. The US aimed at reducing the fiscal deficits, the encouraging savings and the international competition. They were the government procurement, the deregulation, the automobiles and the parts of them, the economic harmony, and the existing agreements and promises.

What is important is setting the numerical targets for Japan. This is not the first time for the Clinton administration. Prior to that, the Reagan administration and the Bush administration conflicted Japanese administrations with regulations on importing cars. It was limited to less than 1,680,000 vehicles, after that it was the regulation that left it to the market in the Reagan era.

Nonetheless the US was not satisfied. The US brought to an end that both administrations expanded bilateral cooperation in addressing sectoral issues. Therefore the comprehensive regulation of all the sectors in the the Japan-US structural adjustment talks was undertaken, and aimed to correct the trade imbalance between Japan and the US from 1998 to 1999 in individual fields. It was to negotiate between the two countries held repeatedly. It renewed the 'Japan-US Framework for a New Economic Partnership' in 1993, and formed the 'Japan-US Regulatory Reform and Competition Policy Initiative', and then from 1994 the 'Japan-US Economic Harmonization Initiative'. This was strategic commerce policy and deregulation across sectors for the US.

The Clinton administration set the 'goal' in each domain and its sectoral deregulations, and made an inspection in the midterm verification (see

Table 6, 7). The Japanese administration criticized the ways as the ‘managed trade’. The security system was yet not weakened because of the Cold War era in each government of Reagan and Bush. As the constraint of Cold War ceased within the Clinton administration, the request for the ‘structural reform’ to Japan began in diverse areas such as the diplomacy, the defense, the economics, and the commercial trade.

(2) US Affairs affecting the Japan-US Negotiations

The unemployment in the US was different from it in the 1980s until the presidential election in 1992. There were a lot of issues on how Japan defended the own national interests against the US's request until then. The US had enormous military forces due to the Cold War, which became an obstacle to the US economy on the one hand. The US recognized that Japan had not handled the big burden on the Cold War, and received the economic ‘benefits’ from the US on the other hand. It was the high unemployment rate of the generation that is the center of society. The manager was also the target of it besides the unemployed as well as the workers. It was said that the US was tired of carrying heavy loads,

We could imagine the recovery of performance between the two possibilities of economic growth in the US and the US leadership in the international community, but pointed out the US in the disadvantage that whether long-term economic growth could secure the US's continuity or not. The US economy brought the important implications not only for the economic performance but also for the action on elections and countermeasures to Congress when administrating the policies.[(13)] The US naturally trended to change the foreign policy greatly. The US adhered to the ‘managed trade’ policy in the negotiations between the US and Japan, and demanded opening up the market in Japan.

The US has a mighty military power even after the Cold War, but it has become impossible to stand with great presence of mind in the world situation. Japan defended the 'free trade', resisted the US-style 'managed trade', and insisted that it could not accept the US's demands. However Japan has been obliged to bear various diverse issues such as politics, diplomacy and military affairs, as well as economics. Japan has been also required to contribute not only to the national interest but also to the international community including the US. The request of the US will lead to not only the current problem solving for Japan but also how future Japan will be involved in the international community [see Sekimoto, 1966: Ch. 3].

It is necessary to confirm whether the US attitude of trade negotiation shifted from the free trade to the 'managed trade'. Was the idea of free trade abandoned? L. O. Tyson was the chairperson of president's economic advisory committee within the Clinton administration. She is a famous 'revisionist' who accused the Japanese system. She recognizes the free trade as an economic philosophy, and at the same time is also a realist who defends own national interests. It is a so-called 'prudent behaviorist' who insists that she protects his own national interest but is not a protective free trader. Regarding problems that cannot be solved by multilateral rules, respecting the 'fair and equal' trade relations, if it compromises it, it is necessary to use the trade law within the US to prevent and compensate for it; in a sense the 'selfish liberalist and nationalist' [cf. Gourevitch, 1986: 51].

It reflected a self-oriented, mercantilist way of thinking that protects the US industry. Tthe special protection policy in the foreign country conversely caused the damage to the US manufacturers. It is the effective Super 301 that countermeasures against it. She should have furthermore adopted the 'selective reciprocity (i.e. 'the strategic commerce policy')', which required the market opening to the home country of company instead of approving market entry by foreign companies in bilateral negotiations, she claimed [Tyson, 1993]. Her way of thinking is also the idea of policy makers and the Congress who give top priority to the US national interests.

(3) Japan Remodeling Plan by the US

The US was obliged to lower its international status, due to its economic recession, especially since the end of Cold War. The trade dependence rises with the declining economic scale of state. So, according to the decline, the US not only reconsidered the trade system, but also unilaterally countermeasured with the convenient logic of US and the 'unfairness' of the partner country [Sasaki, 1997: 122-123].

The US experienced the unemployment of the middle class for the first time during the recession from 1990 to 1991 after the Second World War. The president had to adopt the employment measures for the middle class who were conscious of voters. First of all, securing employment was the first mission, which led to the elimination of trade friction with Japan. Japan surpassed Switzerland, and became the world's No. 1 (33,754 dollars) in terms of Gross Domestic Product (GDP) in 1993. The US was the sixth place (24,412 dollars) in those days. The US thought that cooperation with Japan was indispensable, despite maintaining the free trade system, independent of Japan with its own technological and economic strength. That was the warrant and demand for opening the market to Japan.

The US called for full resolution of the post-war Japan-US trade friction from individual consultations. It appeared as the various requests of reform to Japan under the 'consulting' with the US in the 1990s. The first stage was the framework of the 'Japan-US Structural Impediments Initiative' (SII, 1989-1990) in Table 6, and the second was the framework of the 'Japan-US Framework for a New Economic Partnership' (FNEP, 1993 to 1996) in Table 7. The US called for setting numerical targets to be the 'objective standards' on market opening in the sectoral consultations. The agreements of both countries were ultimately reached settlement on priority areas such as the insurance, the government procurement goods, the automobiles, and so forth by 1995.

The Hashimoto-Clinton Summit Meeting agreed to set up the consulting forum of new office level on deregulation in Japan in April 1997. The Clinton administration clarified the strategy aimed at deregulating Japan. The Japan-US comprehensive economic talks, which began in 1993, strengthened the 'structural consultation' which requires the change of the entire Japanese system in the second Clinton administration.

Table 6: Framework of the Japan-US SII Talks

Item	Contents
1. Savings and investment patterns	Formulation of a 10-year public investment plan with a total amount of 430 trillion yen.
2. Distribution	Review the revised law on review of the Large Scale Retail Store Law. Facilitation of the distribution of goods in the US.
3. Exclusive trading of established practices	Implementation of deregulation including exclusive trading practices by strengthening the antitrust law and Review of affiliate (keiretu-torihiki). Promote the entry of US products into the Japanese market.

4. Price Mechanism	Correcting differences between domestic and overseas prices and Consider cost structure of utility fee from international viewpoint and encourage appropriate optimization.

Table 7: Framework of the Japan-US FNEP

Policy and· Cooperation	Contents
1. Macro-economic policy	Reductions of Japan's current account surplus and US deficit
2. Policies by sector and structure	1. Government Procurement Computer · Supercomputer · Satellite · Medical Technology · Telecommunications 2. Deregulation, Competition policy, and Transparent procedures (financial services, health, and distribution) 3. Main sectors : automobiles, parts of automobile, etc. 4. Economic harmonization: Foreign investment, Intellectual property rights, Technology transfer, and Long-term business relationship 5. Existing agreement: negotiation on Japan-US sturutial reform, etc.
3. Cooperation based on a global perspective	environment, technology, development of human resources, · population problem, and AIDS
* Meet the summit twice a year to check the progress situation.	

The economic powers of Japan and the US totaled more than 40% of the world economy at the time, and the share of the two countries reached nearly 80% among the Asia-Pacific Economic Cooperation (APEC) member countries. Both Japan and the US were important for the world economy. When the relationship between Japan and the US got uptight, the exchange rate fluctuated the stock market overreacted, and the global financial market was upset.

The Japan-US relation had to naturally consider the common goals and benefits to both countries. It was stated that Japan, along with the US, should have become a country that was fair, impartial and easy to understand in the Japan-US global partnership. It was necessary for the drastic measures for the administrative reform and deregulation in Japan for this reason. This should have led to the development of the Japan-US relations, and contributed to the world at the same time. However the logic of US gave top priority to it.

The US trade law, on the one hand, has an idea of free competition, while, on the other hand, the tradition gives priority to protection against domestic industry. The 'fair competition' in the US is a concept that can combine free trade with protected trade without contradiction. The logic sets the closed character of market as 'unfair', corrects such situations and naturally considers protection of industries in the US [Kurokawa, 2001]. The US administrations have spurred criticism of the closed character of Japan.

Some states that are directly interested in specific issues will often use the various informal arrangements. The arrangement leads to the formation of regime. It is made up of a series of procedures and substantial rules negotiated between the parties in order to regulate the relations of parties within the scope of issue. The regime differs in its formality, scope and effect from the 'coordination' and the 'cooperation'. If the regime expands and continues toward the mutual relations, the international relations will constitute a more comprehensive structure, which will cross the states and form a more closely international community. The effects may prevent some potential conflicts arising in competing relations among countries [Craig / George, 1997: Epilogue].

Chapter 8 Multilayer of Securities

1. Changes in Japan's Defense Policy in 1980s

The US dissatisfied that the Western European countries and Japan did not sufficiently respond to the demands of Burden Sharings of arms and aids, and the opening of markets, and not cooperative in adjusting exchange rates since 1970s. The Bretton Woods regime proceeded prior to the end of Cold War in US diplomacy. The end of former occurred in the economic development of the Western European countries and Japan in international economic relations. It was ironically the economic development of the Western allies that eroded the Pax-Americana in the international economy. The US began to feel that the allies constrained policy priorities for own country [Yamamoto, 1983: 22].

It was after 1970s that the various factors for promoting globalized economy centering on finance emerge. The factors have revealed that the international financial system would be remarkably volatile [Sakai, 2003: 43-45].

The security should take into account the effects of the international politics and economics, and international relations. And it must be considered that we should give to how the idea of home defense is supported by allies, how it is positioned in the relation to international organizations, and how it is affected by changes in the international situation. The concept of security has turned into a qualitative change since the 1980s. The defense initiative can not be decided only by its own country. Japan's defense (power) policy has been forced to change since the change to the international environment of the 'New Cold War' in the 1980s.

The Japan-US Security Treaty was important for economic reconstruction and growth in the postwar Japan. The Japan-US security arrangements in the background of Cold War, meant the 'breakwaters' that the Japanese archipelago had prevented making greater inroads in the military power of Soviet Union to the Pacific Ocean of China, and from the geo-political point of view the US military for security, as economic conflicts have increased, it was very important not only in the military of Japan and the US but also in the economic relationship [Sakai, 2003: 43].

The 'Japan-US Defense Cooperation Guidelines' (so-called the 'Guidelines') was agreed, which provided the concrete guidelines for defense cooperation among Japanese and US defense officials in January 1978. The Japan Self-Defense Force of Japan and the US Force in Japan, so as to effectively manage and operate the Japan-US Security Treaty, have formulated and decided the cooperative systems and joint plans, such as the strategy, the information, the logistic support, etc. [Furuta, 2018: Part 3, 4].

The Japan - US cooperation has further clarified the nature of military alliance with the Japan-US security arrangements. Japan had to respond to the demand of the 'Burdon Sharing (responsible sharing of defense' to the US).

The Japan-US Summit Meeting was held at the Ottawa Summit in July 1981. The US administration complained the cumulative trade deficit with Japan and the closing nature of the Japanese market to Japan's slow policy-making process in addition to the 'free riding of the defense'. The US and the West European countries, which suffered from economic depression and mass unemployment then, demanded to Japan, too. The Suzuki administration moved in action of the voluntary restrictions of exported cars to US before the Summit, followed by market opening measures such as lowering tariffs, easing import restrictions and improving inspection procedures. It appeared that Japan was criticized and required the own export competitiveness to be associated with less defensive burden, and demands for market opening and trade imbalance to be resolved.

The Reagan administration confirmed that the basic framework of Japan-US relations was the Japan-US Security Treaty during this period, and invoked the National Security Decision Directive (NSDD 62) on the Japan-the US relationship. It urged Japan to be equivalent to the allies of the North Atlantic Treaty Organization (NATO), to expand its capacity to play a role in defense of the sea high lanes of country and the surrounding air and ocean area of 1,000 nautical miles, to seek the market opening on the economic demand, and to treat the domestic treatment for US financial institutions and so on, but sought Japan for consideration in security and diplomacy, and the pursuit of economic targets [Kano, 2006: 156].

The Reagan administration in the 1980s (and the Thatcher administration in the UK, too) also made the military security political aims. They showed the comprehensive dimension of nation-wide security beyond the military area. The national security had to incorporate economic factors. The military security is based on an economic foundation. Needless to say, because the LDP administration in Japan had a priority of the economic dimension, it tried to define the security of its own country, while keeping a compromise with the conservative hard-liners who demanded to strengthen the self-defense capability with a unique approach [Calder, 1988: 412]. The US government manifested dissatisfaction to the Japanese logic.

Table 8: Comparison of Defense Expenditure of major Western Countries (1984)

Country	Per capita Defense Expenses (Yen)	With the National Budget Percentage (%)	Defense at GNP ratio (%)
USA	234,000	29.2	7.2
West Germany	115,000	27.9	4.3
UK	108,000	11.9	5.1
France	102,000	17.5	4.1
Italy	39,000	5.6	2.6
Japan	22,000	5.2	0.99

Source, Calder, 1988: 412

The Japan's defense budget exceeded 1% of GNP in 1987. However the defense expenditure per capita was ten times of it in the Nakasone administration as compared with it of the Reagan administration then. Japan's economic scale rapidly expanded in the 1980s, but still it was the eighth of the world in terms of defense spending. This figure was evaluated low by the US administration, which was said to be the total amount of transactions in the Japanese ice cream industry or pachinko industry.

The appreciation of yen promoted the expansion of Japan's defense before the 'Plaza Accord' in 1985, but since the realignment of exchange rate was practically a yen-denominated defense cost, the defense capabilities of US were almost regarded as being dependent on the US. The US voiced own displeasure, and criticized why it was accepted up to such economic unfairness, seeing from the US.[(14)]

2. Viewpoint of Comprehensive Security

How should we recognize the Japan-US relations from a comprehensive perspective? What did the US consider the relationships between Japan and the US after 1980 [cf. Elowtz, 1992: 180-181]. The Japan-US economic relation had gradually come under strain, and since the first half of the 1980s, the majority of citizens, Congress and industries in the US declared Japan as an unfair partner. That recognition appeared in the fact that Japanese companies were able to sell the automobiles, the computers, the electronic devices and so on in the US market separately, while feeling that US products were totally excluded from the Japanese market. It was based on the fact that it appeared as a figure in trade imbalance. This is not limited to the economic friction but the military security. Japan was able to keep going on giving priority to economic activities because of the US nuclear umbrella that the US could keep Japan safe. That way meant the 'free rider' and the 'one country pacifism' with the commercially-minded attitude. It emerged from the US citizen that "it should take over a corresponding burden". It is a tone that "Japan is the unfair country just likes with anything else".

The hard-liners or bashers of Japan-bashing demanded a protectionist policy towards Japan to the US government. It included the automobile export limits to Japan and a strictly mandated regulation. Japanese government officials and business owners thought that such a move would harm the relationship with the US, and that the true reasons for trade imbalance could not be explained only in numerical terms in import and export. They made a rebuttal statements; e.g. the decline of willingness to purchase in the US economy (product) among Japanese citizens, the high level qualification of Japanese workers' view of labor, the high savings rate, more efficient and high quality in industrial production made in Japan, etc.

The critics to Japan by protectionists in the US nevertheless had no choice but to consider influence in Japan. The Japanese leaders might ask for the removal of US military base in Japan, for example because of the 'Kenbei', which resented the US' control of Japan, and might alleviate Japan's financial burdens for the cost maintaining the US troop in Japan. If Japan were to be nuclear-armed, it would bring more serious international and military problems in the US.

Some groups still aim the potential military power in Japan. Because the Japanese economy and investment create and secure jobs for the American workers, the protectists within the US might rather hurt the US economy. The US economy stabilizes by relying on the foreign capitals. So, both Japan and the US are dependent on each other. The leaders of Japan and the US should remind, in conclusion, the fact that they need each other in not only economy but also international politics and defense.

Japan has become more emphasis on economy than politics and military in relation to the world since the 1960s. The efforts in Japan came to be approved by economic powers and the world in the 1980s. The Japan-US security system symbolized by the 'umbrella of the nuclear weapon' in the US suggested Japan's leaders to tangle of the Japan-US relations other than the security, and it was to avoid and overcome the conflicts related politics in Japan [Anderson, 1996: 206].

Considering the military security, even if Japan has the Self-Defense Force, it cannot fight the aggressors without the support of US Army in Japan. The US, viewed from the opposite side, is unlikely to deploy US forces in East Asia without Japan's logistic support. If the US continues its global strategy as it is, it is unlikely to abandon its relationship with Japan. It is impossible to abandon a friendly relationship with Japan for the US, because it is a measure of 'idealized' strategy that the main troops will be from the mainland, and the supplies will be provided near the front-line base in case of emergency. It abandons the Japan-US relationship that would not only endanger the US forces in Korea, but also reduce the military influence on Taiwan, and significantly affect the impact on East Asia. Put another way, coping with the potentials of politics, military, and economy that China has will rise dramatically [Sakai, 2003: 27].

The US has the world's strongest military power and world's largest debtor country. It is the reason that the US that makes a huge budget deficit can maintain the position of a military power because the dollar is the key currency. The world's dollar dependence regime has not been going to shake yet.

It is offered commentary that the Japan-US relations are the SDI relations until the end of the Cold War. S is the 'saving' and the 'security', D is the 'deficit' and the 'defense', and I is the 'interdependency' of both countries (see Table 9) [Ohba, 1995: 186-198].

It has been explained to be a main cause of the US budget deficit that was the defense expenditure, in which its military expenditure was a so-called 'nuclear umbrella' that guaranteed Japan's safety under the agreement of Japan-US security treaty. The Japan-US relations were established in Japan with the two S (the excess Savings and defensive Security), and the US was in a relationship established by two D (financial and trade Deficit and Defense expenditure). This relationship was typical in the 1980s. Japan's trade surplus covered the US current account and fiscal deficit (the 'twin deficit'). Moreover, I (military, political and economic relationships of Interdependence) between Japan and the US strengthened on the one hand, according to the progress of the global economy, the partition of border has been becoming meaningless and on the other hand [Ohba, 1995: 188].

Table 9: Relationship of SDI

	Japan	
S (Savings) ←		→ S (Security)
↓ ↖ ↘		↙ ↗ ↑
	I (Interdependence)	
↓ ↖ ↘		↙ ↗ ↑
D (Deficit) ←		→ D (Defense)
	USA	

Source, Ohba, 1995: 188

However, in international politics, there exists a gap with the political and the economic relationship that easily overcomes the borders, which is the geographical concept of sovereign state, but which must be bridged. One attempt is the policy coordination and cooperation. It can be regarded as maintaining a policy cooperative relationship that guarantees a regime organizing multi-disciplinary service between Japan and the US, apart from whether it can be stated only for bilateral coverage. The US government would intend to maintain the international prestige. It thus is difficult for the US to reduce the two deficits (financial and trade Deficit and Defense expenditure) [Ohba, 1955: 189; see Nakakita, 2001].

As long as the SDI relationship has continued between Japan and the US, the composition of financing such a ‘twin deficit’ with Japanese surplus has not changed. The US has demanded the burden to be defended by the ‘nuclear umbrella’ for the purpose of Japan’s security. Regardless of whether the alignment of dollar and yen was corrected, the Japanese business circle demanded the government to expand the fiscal expenditure and cut interest rates, mainly on the public works projects.

The exchange rate has been reflecting this situation.

Therefore, the roles of Japan came from the agreement between the requests of the US government and the Japanese business circles even in the 'Plaza Accord', even under the appreciation of yen, even in the case of the emergent appreciation of yen and economic measures to it. We recognize, needless to say, the differences of the circumstance. The US administration emphasized the Japan's current account and reduction of the surplus, but Japanese administration made it a priority policy to the US to correct yen appreciation through economic recovery and surplus.

The bilateral policy coordination between Japan and the US were in reality that the two countries were the world's largest creditor country and the largest debtor country in the compositing the SDI. However the policy coordination combined the US hegemony and Japan's financial strength with a burden sharing and the expanding domestic demand.

If the 'Plaza Accord' had been successful, the policy coordination would be more likely to be treated like a 'panacea'. However it should be noted that coordination does not necessarily apply to everything. The policy cooperation surely showed this trend at the Tokyo Summit in 1986. The G7 was born as a forum to negotiate policy coordination, such as stabilizing the exchange rate, sustaining the economic growth, correcting the imbalance of current account, and suppressing the inflation. It is certain that policy coordination is likely to fill the gap between the borderless global economy, and the sovereign state is established on the border. However the request for policy coordination forced an excessive burden on countries with good economic conditions [Ohba, 1995: 191].

If the exchange rate was determined only by the imbalance in the trade, and if the imports increased due to the expansion of domestic demand, the yen appreciation would have been corrected. The exchange rate is not based solely on trade transactions in fact. Currently, due to the development of the economic globalization, the funds exceeding the settlement amount of the export and import run around the world. The dynamics of international politics has therefore projected both sides of light and shadow on the international economy.

It leads to the appreciation of yen that the economic recovery results from the expansion of domestic demand. If the growth rate rises with efforts to expand domestic demand, the inflation forecast will increase with that, and the interest rate will rise. It causes occurring a new investment. If the economic situation is reflected at that time, the policy coordination will succeed [Ohba, 1995: 197-198]. And then it is an indispensable to adjust by the politics.

It is another attempt to bridge the gap between economy and politics that is to move the regional integration to lower the barriers to the trade transactions. If the regional integration and the formation of a regional economic zone are advanced by the free trade agreements and the customs union, the barriers to intra-regional transactions will be low, but we must also bear in mind that it will rise outside the region.

An environment going against the free trade will be formed in the meantime, but if the regional integration and the international regime are aiming for a 'single world' or the formation of an international economic regime, these disadvantages will be overcome anyway. The regional integration and the regional economic bloc, which is a kind of international regime such as the European Union (EU), the North American Free Trade Agreement (NAFTA) and the ASEAN Free Trade Agreement (AFTA), may be a process to a ' single world'.

However it is necessary to investigate whether it is good for the economic security, and politically in international politics established by the cooperation among sovereign states. It becomes a rule by a hegemon country in the regime, trivializes the problem among two countries, and it is also necessary to consider that the possibility of getting involved in the dispute growing intense because the battle of sovereign states inside or outside the regime is within the regime.

3. Perspective from Military Security

The Burdon Sharing means a corresponding role sharing among allies due to the joint defense and the international order. While the North Atlantic Treaty Organization (NATO) member countries spent as much as 3% to 5% of the gross national productive as the defense expenditure in the latter part of the 1970s, Japan was spending only about 1%, so the US Congress tried to eject the 'free rider' from the US' security system, and the US government requested Japan to super-harden the defense capability and increase the defense expenses.

The Reagan administration began requesting concrete demands; such as ①cost burden for stationing the US forces in Japan, ②clarifying the defense mission and role to be performed by Japan, ③carrying out the Japan-US defense technical cooperation, and ④increasing the foreign aids. The Suzuki- Reagan's Summit Meeting in May 1981 was important for Japan's defense policy. Japanese government promised to share the role of counter-strategy to the Soviet Union as a member of the West at this talk. It was increasing the expenses only in the defense and economic cooperation, which are demands for the response from the US, exceptionally continued to grow despite the fact that fiscal reconstruction in Japan was an urgent task in the 1980s [Sakai, 1988: Ch. 5, Ch. 7].

The 'selective deterrence' in the report of the 'US Integrated Long-Term Strategy Committee' established in the fall of 1986 by Reagan suggests that because the financial constraints, the US request the allies to assume the burden cost in January 1988. It was pointed out that it was possible to get a military power by the economic superpower of Japan to the contrary. This was a concern for the Japanese military power, and was a qualitative change in demand to Japan at the same time [Sakai, 1999: 229 - 230]. It is one way of dealing with Japan that is the so-called 'bin no fete (cap of bottle)' which placed Japan under the direction of the US.

It was essential for the Burdon Sharing that the US maintained the 'Pax Americana' and expanded its control zone, facing a relative decline in its own economy and pushing a financial and human complementary role to the allies. It apparently aligned with the major countries consisted of the 'Pax Consortis', and stand in unity with the US. It could be rephrased as the fact that it was in securing after the manner of the US's '*Lebensraum* (life room)' based on the Burdon Sharing. This was consistent with policy coordination not only on the military and international political field but also on the global economy [Sakai, 1991: 277].

The international public goods are terms that represent the international free trade regimes, the international security, the stability of international politics, and the international economic assistance, etc. The international cooperation of economic policy is included in international public goods contributing to the stability of international system. It is also, for example, that the US military expenses in Japan and the action in union of Japan-US funding (e.g. the financial assist for the Gulf War) are a kind of 'international goods, more specifically a country's expenditure builds the capacity necessary to an international relationship, sharable goods for the some countries in the world [Sakai, 191: 299].

The substantial amounts of international public goods have been, in practice, supplied by hegemon countries in history. The stability of international economy simply distributes the profit (evenly) to not only a hegemon country but also all (or majority of) countries. The international regime itself not only is the public goods but also contributes to the international interdependence in various forms. Both of participating and non-participating countries should eventually benefit from it [Yamamoto, 1989: Ch. 5]. Needless to say, there remains a limit to that. If the international public goods are not burdened with costs, and take the 'free ride' consuming goods, there exists a dilemma that they cannot receive supplies, whether the burden is a 'subjective' judgment appropriated in return is often causes the frictions and conflict among nations rather than that.

It is as much as the interests of their own country and in the case of the disadvantage whether the hegemon country supplies the international public goods, the incentive of supply in public goods by hegemon countries is lost, because of the supply shortage of international public goods bring confusion and disorder to the international community.

The international regime indicates the framework and rules for regulating the external behaviors of states and relations between them. We can assume two possibilities, if the rise and fall of hegemon country within the regime holds the fate of stabilizing and maintaining the international system [Sakai, 191: 240 - 241].

First if a hegemon country has the power and willness to enforce the rules to the others, it will allow the maintenance of regime. Second the regime does not cause the entire area to malfunction with the intention and capability to maintain with the cooperation of participating countries, if a hegemon country declines after having been constructed mechanism to functions. The latter case will be presumably a place where we can expect stability of the international community.

These two perspectives may be different in terms of the hegemon country that supports the regime, or the unity of participating countries in the existing regime. It cannot simply be divisible. It is not necessarily to make an either- or choice actually, because it depends on circumstances and the backgrounds of each country.

It has been explained that Japan has enjoyed the benefits from international systems without paying much cost burden under the 'Pax Americana'. Japan has been requested the Burdon Sharing from the US that Japan was the largest beneficiary, although it was not burdening the responsibility since 1980s.

The international community is made up of nation-states with the different national interests and cultures. Even if it is established as 'public goods', there are cases where it is not always positive. The US dollar is the key currency and it pushes the nature of 'private goods' forward when used to cover deficits in its home country. While locating in the center of 'public goods' necessary for maintaining the own global leadership, the US intends to bring the various cost to the allies of West European countries, Japan, etc. The 'public goods' in this case is a contribution to military security from the standpoint of the Western side, maintaining an economic framework and the dollar structure of international key currency. It is the requirement that the part of burden of the US take over on Japan that is also part of the 'Pax Consortis' termed the US's request to Japan the Burdon Sharing. This line is furthermore seen as an extension of the 'Pax Americana Ⅱ'. The US would continue to supply the public goods to stabilize by nuclear deterrence essential for maintaining leadership to Japan (and Western allies) even at the expense of other goods. It is necessarily involved with the economy that the US deterred the communist zone for decades. And we have no currency to substitute for dollar for the time being, so the US's allies should depend on US leadership economically (and even international politics) [Sakai, 1991: 243 - 253].

The US has led the responsibility of rectifying the external imbalance with coordination and cooperation in the economic policy while fundamentally maintaining and managing its macro policy and economic structure. The cooperation has been forced the Japanese governments for the coordination and the cooperation with the US [Sakai, 1999: 25].

It is the international cooperation in exchange rate policy and interest rate policy that affects the Japanese economy and people's lives. Japan had given priority to external cooperation on the security and economic relations since the 'Plaza Accord' in September 1985, so was forced to increase the public works expenses and reduce tax with the 'Louvre Accord'. Japan made a promise to expand the domestic demand to the US for the next 10 years. Japan was put on record even to reform the economic structure in the structural consultation of the 1990s (see Ch.7 in this paper). Japan aggressively needed strengthening measures to complement the policy and its consistency adopted by the US [Sakai, 1999: 255-256].

The destabilization of 'Pax Americana' would be unable to maintain without taking charge costs of the Burdon Sharing so as to maintain the international order complemented by Japan (and West European allies). International cooperation on deciding the macro-policy improves the international relations, but leads an adverse effect. It can be dodged responsibility by shifting the blame to the foreign governments on emphasis that the international interdependence means that the responsibility for improper economic performance [Watanabe, 1999: 259 - 261].

The US gave economic and military aid to Western allies, thereby trying to unite and stabilize the Western camp. This administrative role triggered the recession of US economy as the main factor to accelerate dollar outflow. The US had tried to reduce the world management cost from the Nixon administration, to request other countries to take over the burden, and to try to reduce the burden on the US itself [Arakawa, 1977: 93].

The Burdon Sharing was accepted to some extent by Japanese policy makers by all means, but it was not unilaterally mandated. It is thought that there were two conditions [cf. Furuta, 2018]. First while Japan has been in a military alliance with the US, it has been strengthening the substantial military strength of Japan that would cause the competition of the regional arms race with neighboring countries. Second the increase in defense spending in Japan would seriously harm the Japanese people's peaceful feelings. So Japan's policy makers were convinced that they would all be politically expensive. It was satisfied by the US that Japan's accepting of the Burdon Sharing requested by the US from these perspectives, carried out while pushing the extent that neither the neighbor countries nor the Japanese citizens were aroused [Berger, 2000: 275-276]. If thinking so, Japanese policy makers at the time may not have simply be moved on with the needs of US government.

4. Viewpoint from Economic Security

It has been traditionally understood that the former follows the latter in the context of economic and military securities. Security reflects circumstances related to policies and practices of international politics. Needless to say, the economic fulfillment is indispensable for security of political and military to succeed. However the affairs of politics, diplomacy, and military and economy interact with each other in reality, so even if they can be considered separately for the sake of convenience, the actual policy makers divide each and say “although it is considered separable as one”, it will not think ignoring one. Each separation cannot be any case [Sheehan, 2005: 65; Brooks, Wohlforth, 2008: 68].

The behavior on national economic security can be derived from three factors [Brawley, 2004: 97-98]. The first is ‘intent’. The intent, in a broad sense, has great influence on actual policy formation while considering various sectors. For instance, in the Japan-US relationship, the US does not insist only on the position of its own interest until it collapses alliance with Japan, but also in economic relations the intent of country is requested in a manner commensurate with the economic situation in own country.

The second is ‘strategy’. It is the domestic growth rate that economic strategies tend to increase. The trade and investment policies contribute to economic growth. The nation normally develops the most advanced technology, strengthens the international competitiveness, and makes it possible to continue enjoying its effect with relatively a strong economic power. It is extremely important to manage the monetary policy as an economic strategy in that respect too. Or, in an extreme case, when executing a war, we must firstly think about how to deal with that warfare capability, the expenses of war, and its funds. It is an economic plan for strategy performance.

The problems of the US economy and the means of dealing with long-term and short-term were considered under the Reagan administration at the beginning of the 1980's on the one hand. Japan was unable to build a strategy equivalent to the changing situation with its passive attitude on the other hand.

The third is 'time'. It is by introducing a variable termed time that the decisive factor can be introduced in the management of economic resources. Considering only the military force at a certain point of time, we are unlikely to evaluate the relationship and the physical arrangement affecting the interaction in the international system from a long-term standpoint. It is incomplete from that viewpoint, considering the economic security, taking into consideration only the variable of only a certain point of time, and explaining from the viewpoint of certain time width. If the appropriate framework of time is not well identified, it may not be very useful as an assessment of policy provided from past prediction of behavior to it of the future. And if the policy makers are not conscious of the timing and opportunities that must maximize power while confirming the temporal effect, the use of power would be ineffective.

Japan is in a position to consider trade and investment with the US market in terms of defense, and in consideration of the Japan-US security system, which generates economic interests in Japan. The launch of Reagan administration overlapped with the new Cold War in the 1980s in particular. The US, while confronting the Soviet Union, had to tackle the economic deterioration both at home and abroad. The US administration pursued effective cooperations with Japan. So it was necessary for Japan to respond them from these perspectives.

The Prime Minster Nakasone wanted to insist his country's intent among Western developed countries by setting up a position with Reagan as a member of West countries at the Japan-US Summit Meeting in October 1983 [Nakanishi, 2022, 319].

The MOF thought that financial liberalization could only be performed on a moment-to-moment basis, while timely adjusting interests with financial industry involving various viewpoints. The US called for the deregulation of globalization in Western countries already in progress, and the partial abolition of them.

It was a kind of 'adaptive adjustment' that the financial market reform required by the US with the foundation of globalization while the MOF responsible for it made concrete concessions to the US. The network of industry and government agencies involved in various regulations and protections, expanding 'politics of non-manufacturing industry (e.g. service business, IT industry and so on)' is a discretionary action by the MOF within the LDP's dominant party system that established a one-party advantage. The strategy would be shifted to the route of 'internationalization' that would fit with the concept of deregulation.

The same process was repeated on a larger scale in a period of international policy coordination from 1985 to 1987 [Nakanishi, 2002: 320-322]. Baker and Darman claimed that "it is necessary to politically respond to the pressure into the correction of high dollar that is increasing day by day from the business circles, Congress, and the trading partner" [Funahashi, 1999: 109]. The Chairperson of FRB Volcker, who was a person of the market-focused group, also supported the remedy for the stability of exchange rate [Volcker, Gyoten, 1992: 339].

The plan by Baker and Darman was not just an intervention to rectify the currency exchange, but was in policy coordination with a macro policy that supported it. The MOF wanted to avoid the public spending on economic pump-priming measures, notably the public works, as much as possible, and to shift the focus to adjust the foreign exchange, which was made improvements of high dollar. Speaking easily, the US wanted to expand domestic demand to Japan, but the Japanese administration, the MOF in particular, did to avoid involving the fiscal reform and stimulus.

Nakasone pursued as a strategy not only to cope with the friction between Japan and the US but also to improve Japan's position as an 'internationally proud country'. He handled the defense posture for bonds for anti-communist states in the West (so-called GNP 1% framework problem concretely), the problem of internationalization of yen, appealing the need for one of the world's managers. It may have been the political attitude of Nakasone as 'a departure from the traditional paradigm of postwar system'. Based on the current state of 'internationalization' by the 'interdependence', the Nakasone administration intended to play a role of the 'international cooperation' [Nakanishi, 202: 225]. Put another way, the Nakasone administration chose to expand the domestic demand utilizing interest rate cuts through the private-sector initiative.(15)

Immediately after the 'Black Monday' in October 1987, when the US requested a collaborative rate cut to West Germany, the interest in policy coordination for the exchange stability rapidly increased in Europe and the US since 1988 on the one hand. The domestic demand-led growth centering on low interest rate policy expanded and continued for international cooperation in lieu of exchange rate stabilization in Japan on the other hand.

However, its response, on the one hand, accelerated the expansion and promotion of investment from Japan, on the other hand, weakened the external pressure of liberalization by booming, delayed the structural reform rather than it. While maintaining the domestic traditional order fundamentally, other countries directed a strange look at Japan trying to 'internationalize' gradually (threatening as the case may be). They called Japan as the 'heterogeneous country', and demanded 'containing' Japan to reform the structurally [Nakanishi, 2002: 320].

The international economic crisis (the shift to floating exchange system, and the oil crisis) that occurred in the early 1970s not only shocked the postwar system but also prelude a forerunner of globalization leading to major changes in the postwar order. The direction of reforming the postwar system had to consider the globalization that began in the 1970s, abolishing the government regulation and governance presupposed on a global market.

However the intention of maintaining postwar regime and the strategy for maintaining the system after the Second World War has been shifting from the 'Pax Americana' alone in the Bretton Woods regime, which was jointly managed macroeconomic policy that made work with each country in domestic economy. It did not turn the US' way easily.

Japan was stuck in own standard mode of reconstructing, maintaining and reforming the postwar system since the middle of 1970s. The Japan flexibly adapted to the appreciation of yen, and maintained the 'export-oriented' politics of manufacturing industry while incorporating politics of non-manufacturing industry into the LDP's one-party dominant system.

The Reagan administration basically aimed to reform the postwar system, and if mentioning the globalization a little more accurately, we can confirm that the US would aim to establish a new world political economic order by promoting globalization, which is the center of the US [Nakanishi, 2002: 341-342]. West European countries combined the maintenance and transformation of postwar regimes. As the economic disparity between Japan, and the West European countries and the US shrank the structural reform was confronted by the US. The Japanese government tried to maintain regulatory authority over the business circles, but accepted deregulation and internationalization. It was firstly shown in the ‘Japan-US Yen-Dollar Committee’.

It is possible to judge the framework of the period background from the concept of time. As deregulation and internationalization, and protection by regulation coexisted, the structure in which the Bubble Economy was gradually produced was established. Macro policy coordination, starting with the ‘Plaza Accord’ in 1985, was to amplify this opportunity.

Baker led the measures of exchange stabilization for domestic and foreign policy of the US. Japan cooperated with Baker’s intention and strategy in terms of expanding the international voice. The Nakasone administration should have been consequently obliged to take a ‘domestic demand-led growth’ route due to lower the interest rate policy, and expand the expenditure of public works, and from the judgment with the passage of time at a later date, the Bubble Economy and excessive investment were boosted as time went along.

Even though participating countries of the ‘Plaza Accord’ began to disregard the ‘policy cooperation’ since 1988, the Japanese government stuck to the narrowing of the trade surplus due to expand the domestic demand, and continue the measures to bring about an enlargement of the economy. But such policy had reached the limit in the late 1980s [Nakanishi, 2002: 343].

The internationalization route by Japanese government did not allow Japan's 'gradualist' trend of globalization, even while trying to maintain the liberalization and the internationalization. It was already predicted that the depreciation of yen before the 'Plaza Accord' had to be internationalized as the appreciation of yen based on the 'international cooperation' in this case.

It was the cooperation that turned a phenomenon through the 'internationalization', in which Japan rapidly expanded economic power in the international politics of 1980s, and other countries got conspicuous to Japan, and alarmed with its heterogeneity and specificity.

In sum; if discussing from the viewpoint of intent, strategy and time, the macro 'policy cooperation' in the 1980s and the progress of globalization should have decided that the Japan-US structural talks focusing on micro structural reform would have been raised.

Chapter 9 Comparison between Japan and the US on Mercantilisms

1. The Theory of Modern Mercantilism

Mercantilist theory is an idea leading to the establishment of a modern sovereign state from the 16th century to the 17th century. Mercantilism was the worldview of the nation-builder in the important position (forefront) to build a modern state. They made economic activities the primary goal of building powerful powers. Stated in a different fashion, the economy is a tool of politics and is the basis for political power. Mercantilists regarded the international economy as a conflict of domestic interests rather than mutual benefits and cooperative domains.

Economic competition is a 'zero-sum game' where the profit of one country is the loss of another country. The country must give due consideration to economic interests. A country accumulated material wealth to help military and political power to other country.

Mercantilism makes the economy subordinate to the government. Economic activity has been seen in the context of increasing state power. Wealth and power are merely supplementary goals that are not goal targets and are a means to do so. The nation should avoid economic dependence on other countries as much as possible in order to maintain independence. Security conflicts between economic and military security will be given priority [Jackson and Sørensen, 2003: 178-181].

Table 10: Types of Trade Policy

trade policy standpoint	The role of the state	
	not intervening	intervening
active standpoint	・laissez-faire	aggressive mercantilism ・devalution-oriented ・strategic trade policy ・managaed trade ・beggar-my-neighbor policy
neutral standpoint	・classical free trade	defensive mercantilism ・stability-oriented ・selective reciprocity ・reciprocity
passive standpoint	・incomplete liberalism	・protectionist ・sanctioning high tariff principle ・most-favored-trading privilege

Note: modified from Urano 2003: 39.

The mercantilist model has the nation and national interest as the most important elements. The basic idea is to consider national economic and political objectives rather than global economic efficiency. The policy includes balance of payments surplus, export of unemployment and inflation, or both, expansion of global economic share, and advanced industry development. The nation-state adopts economic policy to reflect economic demand in it and political ambition outside of it. The nation-state competes for market share and acquisition of scarce resources, recognizing the slowing economic growth and resource constraints.

The modern mercantilism has the following features. It strikes the balance between national autonomy and international integration, i.e., the transfer to the global market and self-reliance. The state strikes the balance between market and governmental regulation. Economic globalization is not newer than economic interdependence. Companies do not lose their national identity. Companies are tied to their own interests. The nation-state cannot be thus threatened by globalization. State's capacity for regulation and supervision is increasing rather than decreasing [Jackson and Sørensen, 2003: 209, 216].

Mercantilism has two different forms in the economic competition among rival countries. The first form is the 'defensive mercantilism'. The state tries to defend the national economic interests. That is because it is an important ingredient in national security. Such policies can have negative effects on other countries.

The second form is the 'aggressive mercantilism'. The state attempts to exploit the international economy through expansive policies. For example, this was imperialism by former European countries in Asia and Africa. Therefore, this mercantilism shows economic strength, and military and political powers. Economic strength supports the development of national military and political power. And their powers will strengthen the economic power of state. Mercantilists begin to emphasize that obtaining the maximum possible surplus is a trade as a way of national prediction.

The aggressive mercantilists think that multilateral relations of regional blocks, economic alliances, and international regimes intensify international economic conflicts. This is because member countries in economic alliance try to redistribute favorably to their own countries through the exercise of economic power and cooperative strategy. The formation of exclusive blocks and economic alliance is, as a consequence, a precursor to the disorderly state of the 1930s and the resurgence to the 'beggar-my-neighbor' policy.

The defensive mercantilists think that regional blocks and international regimes will stabilize global economic relations. The rationale is that it is possible to minimize the cost of economic and political interdependence, and at the same time enjoy the benefits of interdependence. Since multilateral cooperation can compete with economic and political threats outside the member countries because influence and dominance are limited in a single country. The organization of world economy by regionalization will cover national vulnerability to market power. It is the foundation of a safe and peaceful political economic order.

It has become more prominent since the 1970s that has become more prominent global economy centered on the US declines, and the global conflict over markets and resources among capitalist countries intensifies. Can crashes among industrial countries be prevented through mutual self-control? The aggressive mercantilists argue that cooperation and coordination by multiple member countries will eventually bring about bankruptcy, but the defensive mercantilists argue that promoting international cooperation and coordination will develop political and economic stability.

Each country will emphasize domestic stability and full employment rather than maintaining international unity. The exercise of state management for monetary policy and other policies is required. Mercantilists also cognize that promoting domestic and foreign economic policies will increase conflict and realistically move away from interdependence. Therefore, the aggressive mercantilists tend to choose the floating exchange rate system that varies according to economic conditions rather than the fixed exchange rates.

We need to consider whether increasing the benefits of trade liberalization and interdependence will mean expenditures associated with it in many industrialized countries. Interdependence relationships where economic instability propagates from one country to another will result in domestic economic problems emerging. If erosion of national self-sufficiency system that insists on mercantilism and national interest centralism penetrate too deeply, international relations will exceed the limit of interdependence system [cf. Gilpin: 1975: Ch.9].

2. Stability-oriented Mercantilism and Devaluation-based Mercantilism

The international financial system is classified according to two criteria in mercantilism; the extent to which a single currency carries out control (i.e. hegemonic currency), and the policy of trade and finance of the reserve currency nation in multiple currency systems where multiple currencies are dominant in contrast, some reserve currencies retain the potential to dominate monetary policy within the international financial system.

The hegemonic system, meanwhile, should stabilize, if political power can make monetary policy work at the international level on the one hand. Some international currencies can use the influential local currency as a 'weapon' and the 'value' of that currency in international politics as well on the other hand. The multi-currency system may make international economic relations unstable in that respect.

The Bretton Woods regime, set up after the Second World War, was a hegemonic system with a dollar as a single winning key currency, based on US economic, political and military rule. It was inevitable that West European and Japanese economic growth shook the hegemonic position of US. The US accepted other countries to accumulate dollars until the 1970s, and shifted to current-account deficit. The dollar restrained macroeconomic policy in order to maintain high 'value', and was able to adhere to the position of no competition as a reserve currency. However the policy of financial and trade in the US has gradually changed due to the international financial system due to Western European countries' and Japan's economic growth.

Mercantilism, economic rule, and the international financial system are correlated. Mercantilism is defined as an economic policy that results in a continuing surplus in the current account. The surplus of current account may be the actual exchange rate, the outcome of tariff and non-tariff barriers, or domestic low growth outcome in connection with global economic trends unknown. Because the 'value' of currency is linked to current account, it makes domestic priority to normal exchange rate. Mercantilism usually chooses stability-oriented mercantilism if the current account surplus leads to either the stabilizations of exchange rate or the currency appreciation. If the surplus of current account is achieved by the means of devaluation, it is a devaluation-oriented mercantilism [Herr, 1997: 135].

The devaluation-oriented mercantilism is that the periodic devaluation deliberately creates the purpose of the surplus of current account, and thus does not aim to raise the 'value' of local currency. This policy will gear the 'beggar-my-neighbor' policy by the country in the direction of increasing domestic employment, which will improve the competitiveness of domestic producers, and if the exchange rate is well defended and the surplus of the current account is maintained, the one-time par value devaluation will be able to change to the stable-oriented mercantilism. The devaluation-oriented mercantilism may be able to succeed if special domestic conditions only exist. Said differently, it is a prerequisite that the nominal wage is strictly controlled, the decline of real income arising from the decrease of currency is recognized by the workface, and the confidence of home currency is maintained. So the normal mercantilism means the stability-oriented mercantilism, and the devaluation-oriented mercantilism is a short-term exceptional existence [Herr, 1997: 141].

There exists an uncompetitive key currency in the hegemonic financial system on one hand. The multi-currency system has the potential to influence monetary policy within the international financial system on the other hand. Even if one currency in a multi-currency system dominates the international financial system at a certain time, it does not necessarily become the key currency. The hegemon country not only dominates the financial sector in real economic relations, it has military and political power in fact. That power binds other countries with monetary policy. Politically, economically and militarily-controlled countries are, in addition, the 'safe haven' even if the currency comes to unstable [Herr, 1997: 143-144].

3. Background of the Confronting Mercantilist Policies

The hegemon country may not use neutral coordinator for international economic stability but may use it for self-interest. We assume two scenarios as following.

The first is a scenario which hegemon country actively carries out mercantilist policies. The policy of hegemon country will be counter-functional to the world economy, hindering economic growth on a global scale. This will cause a trend toward deflation in the world economy in cases which hegemon countries pursue the stability-oriented mercantilist policy. That deducts the value devaluation by the hegemon country. It forces the weak countries to run the current account deficit, thus causing a balance of payment crisis and the instability of key currency. Assuming extreme points, the 'beggar-my-neighbor' policy will finally result. We could see this example of the world economy in 1930s.

The second is a scenario of inflationary currency. It means that if the key currency acts selfishly, the domestic political conditions of hegemon country are forced to 'muddling through' economic policy in this respect. This is a case demonstrated by the US since the mid-1960s.

The Western European economies and Japan's economy were in the process of rebuilding from the late 1950s until the early 1960s. The advantage of US economy had not disappeared yet. The Western European countries and Japan caught up economically. The US after that has increased deficit in the balance of payment. The US by the 1970s has begun to suffer from own trade deficit for the first time after the war. The US policy has become national interest oriented. The US has started to act as a 'predatory hegemon' instead of supporting the liberal world economy since 1945. Put simply, the US has disappeared its role as a defender (as the command height) of the open world economy, by more interesting in its national interests, and probably started playing its power play.

The US was obliged to pursue policies to deal with it by protectionism, monetary instability, and economic crisis. They were self-regulation, strategic commerce, de facto devaluation, management trade, structural consultation, etc. It meant a new era [Gilipin, 1987: 351]. We can understand that there existed no longer a single power that could maintain a liberal global economy along with the relative decline of the US, [Jackson and Sørenson, 2003: 198].

It is short-sighted that the instability of international financial system was attributed to the economic policy of US governments from the 1970s to the 1980s. The economic policies of Japan and West Germany could eventually disruptive the international financial economy. These two countries carried out a mercantilist strategy to increase their country's trade surplus. These creditor countries are insufficient to cover the interest payment of the export revenue of debtor countries of both countries. The US therefore insisted that Japan and West Germany blocked 'steady' balance of payments (by the US), they inevitably led to insolvency. Fluctuations in the world economy caused a bias between reality and reality for decades after the war [Herr, 1997: 156].

4. Ideological Basis of Japan's Defensive Mercantilism: 'Embedded Mercantilism'

The oligarchic political elites of the Meiji Era (1868-1912) recognized the weakness of their new regime against both the domestic political rival and the Western industrial countries. And they felt the necessity of 'fostering industry (Shokusan Kogyo)' for the state to strengthen its power. The slogan at the time was 'rich nation, strong army (Fukoku Kyohei)'. They were strongly influenced by the mercantilist idea of F. List. He argued that the nation should control and nurture the domestic private industry for the developmental aim [Sohn, 1998: 17-20].

Japan's policy after the Second World War has been a complex characterizing as the 'embedded mercantilism' that took over from the prewar days [Pempel, 1998: 49]. There are mixed elements that mutually support; 'embedded mercantilism', a highly centralized political and economic institution, and the socioeconomic coalition of agriculture and business. However, organized labor has been politically peripheral [cf. Kobayashi, Okazaki, Yonekura, and NHK Interview Team, 1995].

Overall, the Japanese political and economic system was supported by the 'virtuous cycle' of conservative politics with promoting economics. That 'embedded mercantilism' has realized the whole framework of Japanese society [Pempel, 1998: 15]. To put it this way, this form is a 'conservative corporatism without labor'.

The 'embedded mercantilism' included macroeconomic policies that relied on the 'developmental catch-up' for almost 25 years after war (1945-71). These policies have represented a long-term, developmental economic plan by the power elites; the LDP executives, the economic senior bureaucrats, and the large corporate managers.

Japan's nationalist mercantilism has developed in the context of international systems of trade and finance based on liberal principles and norms. The 'embedded mercantilism', on the one hand, allowed Japan to formally comply with provisions of the General Agreement on Tariffs and Trade (GATT) and the International Monetary Fund (IMF), but on the other hand it has implemented mercantilist policy to the extent that it does not deviate from the provision. The US governments agreed to incorporate Japan's 'embedded mercantilism' into the US security system until the 1970s [Carlie and Tilton, 1998: 199].

There were many policy tools useful for this goal; high tariff and limited quota on manufacturing imports, strict control on domestic consumption, restriction on inflow and outflow of capital and technology to Japan, underestimated yen that made Japanese exports cheap in the world market, encouraging policy of high personal saving by citizens, and strong reliance on foreign technology purchase etc. [Pempel, 1998: 146].

It is certain that the Japanese governments have used 'external pressures (gaiatsu) ' for decision making, promotion, change, and reform of its own country [Bergsten and Gagnon, 2017: 125], but it is necessary to recognize not only its surface part but also the deep part that has been formed in history.

5. Aggressive Mercantilist Ideological Grounds of the Reagan Administration: 'Free Economy and Strong Nation'

The policy that the state gives priority to national interests is a phenomenon that can be seen in any state, and it is not necessary to apply mercantilist theory. However the character of aggressive mercantilism is confirmed from the viewpoint of ideology possessed by the Reagan administration (and subsequent governments) [cf. Furuta, 2015: 58 - 67].

The ideology of Reagan administration was based on the principle of the 'new right'. It is an ideology that actively blends market force and liberalism with conservatism from a viewpoint that emphasizes individuals, and it is also an ideology advocating a 'strong nation' at the same time. This principle basically consists of neo-liberalism and neo-conservatism.

The recession in the 1970s was a phenomenon called 'stagflation' that was an increase in unemployment accompanied by high inflation and the recession that resulted from it was a blow to decreasing countries. The US with a weak economic situation at the time received challenges from Japan and West Germany, for example, which grew rapidly after the war. The US has declared national prestige in both international politics and economy.

Neo-conservatism is a 'form of contemporary conservatism that will restore order, return to traditional value, and revitalize nationalism'.

Economic freedom is premised on a stable social order. The Reagan administration thus aimed at establishing authority in international politics, as well as expansion of freedom in the economy, showed a strong commitment to 'free economy and strong nation'. The US government considered that the security of international political and economic system was preserved by the authority of US. That authority was the US-style of 'law and order' system. When the US's authority collapses, disorder and instability merely infest.

It reflected broad national uneasiness overseas about the relaxation of moral standards and the weakening of authority in the American society. The Reagan administration urged domestic and overseas to be a 'strong nation' in response to the situation. It was natural that the Reagan administration appeared from the idea that social order and stability would be threatened. Thus, only the 'strong government' protects the people.

The Reagan administration pursued the recovery of state prestige of the US from the humiliating withdrawal from Vietnam in 1975, image down due to the accidental case of the American hostage incident in Iran in 1979 and so on. The military expansion and economic recovery of US in the 1980s was also reaffirming the superiority of US on the world stage. The specific measures are invasion of Granada by the US military, bombing of Libya, etc. in the international politics. They emphasized 'strong dollar', 'fair trade', maintaining currency order, appropriate evaluation of yen and dollar, and the leadership in 'Plaza Accord' in the international monetary system.

The Reagan administration was most actively involved in state management of economy, mainly on the defense budget of national revitalization in the post-war history of US. Military expenditure, in a sense, was justified for economic national behavior, instead it reduced social expenditures. The Reagan administration, through military policy, led industrial policy, but increased the role of state in the economy, self-control national intervention in the neo-liberal position, companies engaged in military production in the position of a strong nation ［Gourevitch, 1986: 183, 237］.

There remained also concern about the crisis of national identity not only in the reflection of the fear of loss of sovereign but also in the deeper part of intense hostile consciousness. Neo-conservatism emphasized consolidation from politics of 'free market' and 'strong nation'. The Reagan administration needed to maintain international market order and to support the own authority of society and politics. That means neo-liberalism and neo-conservatism were able to be compatible at the ideological level.

As for the balance of payments, economic and political results, the difference between the current account and the capital account must be compensated by one country's reserves, so it means the limit that the current account balances the ability of a country to acquire resources from countries all over the world. One country can either increase the capital inflow through a higher interest rate, or induce favorable treatment of foreign capital. Adjustments are necessary, as a consequence, for countries with surpluses and deficits, in fact, for policy changes. It is a mechanism to force the country in surplus. This is a different position between the defensive mercantilist of Japan and the aggressive mercantilist of the US.

The US is the world's largest current account deficit country, and its share occupies capital imports from the world. Dynamics of trade and investment in this background, among other things, has become a source of political conflict between the US and Japan (China at the present time).

The successive presidents of US have been basically keen to cut control over currency and capital. Their 'free economy and a strong nation' have continued to live heartily as a tradition of the US regardless of the ideology of administrations. Besides, economic globalization has made US elites aware of certain interests. Globalization is a fact that can not be neglected by countries all over the world. It was able to trigger it by the US business and political elites. The US has in fact continued to be an important actor to open up trade, overseas investment, and liberalization of financial markets. Other industrialized countries were forced to follow the US. The globalized economic system must be maintained with American style discipline and cohesion. This is because the US is the only country that can virtually guarantee the existence of global economy. As President Clinton stated once, only the US would (or will) be able to determine the international rules for the 21st century [Berntson, 2000: 159, 162].

The global economy has swept the world since 1980s. The position corresponding to that was from the Reagan administration. The policy set called the policy of 'Austerity plus beggar-my-neighbor' was implemented. The austerity of each country in the name of globalism, and the logic that "free trade will bring about economic growth" has led to the current state of world, and it is only the result that logic is a twist of 'New Right' in the American style.

Chapter10 How should we evaluate the Political Economic System since the 'Plaza Accord'?

1. Contemporary States in Mercantilization

The financial economy exists within the international context due to the global financial system and the current merits of each currency. The international financial system limits the scope of the domestic economic policies, and is an indicator of differences in economic power among countries. The financial economy cannot be thus analyzed domestic economic policies without considering international relations [Herr, 1997: 124].

A mercantilism was originally an economic system aiming at expanding trade to maintain the military purpose of state and the oligarchy of royalty and titled nobility. Its form is similar to the 'state capitalism' or the 'managing trade' in the modern version. Governments think it is the aim to promote the expansion of their share in world activity for the benefit of their own people [Robinson, 1973: 5]. It is not only a simple economic entity but also a political and military actor that defends the national interests. The mercantilist form is regarded as contradicting the current flow of globalization at first glance. However, as the globalization focuses on how to favor some of the multinational corporations and investors, it is pointed out that the contemporary states have a mercantilist character rather the free trade of nation [Shibayama, 2001: 92, 100]. This trend began in the second Reagan administration during the 1980s in the US.(16)

Modern mercantilism gives priority to the distribution of national economic and political goals to global economic efficiency. It seeks wishes for a balance of payments surplus, exports of unemployment and inflation, import restrictions, export restrictions, expansion of export share, securing raw materials, promoting advanced industries.

A mercantilist's view of world emphasizes the nation's 'security and control' among states, even though it is in the globalization era. The surplus is the top priority in the financial circumstances. Since the surplus can be translated the wealth into gold (i.e. accumulating a fortune) on the contrary the deficit is regarded as a decline of nation-state. So the state pursues a surplus. The winners and the losers had to co-exist within the game of 'zero-sum'. If we ignore at the degree of difference and use with the extreme expressions, there exists not much difference between capturing the territory through military occupation and sea robber as money piracy in the high seas.

The mercantilism, the economic rule, and the instability of international financial system are interrelated. The mercantilism can be defined as an economic policy that results in continuing currency accounting surplus (or deficit). The surplus on currency accounting is the result of the domestic low growth, the exchange rate competition compared to the tariffs barriers and custom-free trade or global economic growth.

When thinking about the way of the mercantilism, even with the same economic nationalism, it is classified into the two types. One is the ‘stability-oriented mercantilism’, and the other is the ‘devaluation-oriented mercantilism’. The former is the case that the surplus on current accounting is stable, associated with exchange rate or currency value. This is the defensive mercantilist Japan after war. The latter case is the case that the surplus on currency accounting is linked to devaluating the value. This represents the aggressive mercantilist US since late 1980s.

Table 11: Two Types of Mercantilism and Features

<table>
<tr><th></th><th colspan="2">Stability-oriented mercantilism</th><th>Devaluation-oriented mercantilism</th></tr>
<tr><td>Definitions</td><td colspan="2">The surplus on current accounting is linked to a stable exchange rate or currency value</td><td>The surplus on currency accounting is linked to devaluation of the price</td></tr>
<tr><td rowspan="2">Measures</td><td colspan="2">How to trade barriers
↙ ↘</td><td rowspan="2">・High trade barriers
・Restrictions on capital movement</td></tr>
<tr><td>・Low level trade barriers
・Free capital movements</td><td>・High trade barriers
・Restrictions on capital movement</td></tr>
<tr><td>effects</td><td>・Foreign exchange accumulation
・Possibility of international currency
・Low growth</td><td>・High (export oriented) growth
・High value currency accumulation</td><td>・High (export-oriented) growth under moderate inflation</td></tr>
<tr><td>cases</td><td>Japan since the 1980s</td><td>Japan until the 1970s
China since the 1980s</td><td>The US since 1985
Japan from the end of war to the mid-1980s</td></tr>
</table>

Note, partially modified and added to Herr, 1997: 136

The stability-oriented mercantilist market depends on the stable inflation wage increases and stable domestic prices. High growth will support the stable labor costs. This arrangement brings about the accumulation of foreign currency in the mercantilist state. Said differently, the stability-orientation is characterized by a relatively low interest rate on the one hand. Countries that have deficits or weak currencies on the current account balance are forced to adopt high-interest policies to import capital to handle deficits on the other hand [Herr, 1997: 135-136].

The US, despite the fact that it was a debtor, fell into debt due to its own currency in the 1980s. If the mercantilist country adopted the low trade barriers and free capital movements, the currency would develop into an international currency.

The stability-oriented mercantilist country leads to the trade barriers and the currency control. The trade barriers lead to underestimated exchange rates, rather than to the global protectionist movement. However controlling currency can ease the pressure on the local currency. The mercantilist country desires a high-value currency, but regulating the trade and capital movement cannot be considered to reach the stage of international currency on the one hand. The external regulation tends to protect the conditions of domestic growth on the other hand.

Japan was a stable-oriented mercantilist country at that time. Japan was able to 'limit' the imports by measures of non-tariff barriers, and then gradually approved free capital imports, which made Japan a surplus on the current account and acquired the international currency position from the mid-1980s. This also explained the reasons for relatively high growth rates [Herr, 1997: 139].

The devaluation aims to preserve surplus on currency accounting, or to create it on another front. It therefore does not aim to raise the accumulation of currency in a certain country. This may improve the domestic producers' competitiveness, and increase the value of currencies. The devaluation, in a sense, will aim at the stability-oriented mercantilism. However the devaluation tendency requires the specific domestic conditions.

Workers in the US judged the government and its policy to develop their employment and status, because relatively employment was secured. They were thus oriented toward economic nationalism [Arakawa, 1977: 206]. The US government could not ignore this domestic factor.

It is necessary, for example, that the wages are strictly controlled; declines in real income arising from currency decline, and confidence from currency stability are maintained in other words. So it is the devaluation of parity that is unlikely to be applicable to countries with inflation problems [Herr, 1997: 141].

Considering the two types, Japan in the 1980s showed a stability-oriented mercantilism, but the US shifted from a stability-oriented mercantilism through the 'Plaza Accord' parity to the devaluation-oriented mercantilism in era of the second Reagan administration. The monetary policy changed greatly between first and second of the Reagan administration. The devaluation means that the government and the central bank intentionally or effectively reduce the value of local currency against other currencies. Its objective is to cut the budget deficit. The deficit of current account got huge due to a large import overshoot in the second Reagan administration, and as 'policy cooperation', through the line with appreciation of yen and depreciation of dollar, the par value devaluation was selected as a de facto method. The US had the next dilemma.

First if the US balance of payments was not in the red (deficit), liquidity (foreign exchange reserves) could not be expected to increase.

Second the US had to be in the red in order to increase liquidity and extend world trade, but the US deficit causes for dollar concern.

Third if it was in the red, the dollar's credibility would decline and the dollar would lose international liquidity.

It took an attitude that protecting own wealth from economic competition among capitalist countries affects security. Mercantilism and geo-economic recognition spread. The idea took up 'viewpoint of Japan's Threat' over the 1980s [Yamamoto, 2009: 13].

2. Reexamination of Nation-State Model from International Political and Economic Process

We understand the idea that it is necessary to order according to the hegemon countries that provide the common 'international public goods' of trade relations and stability of international currency and their guidance to the political economy of world. A hegemon country would bear much of the cost providing international public goods, and seek a corresponding burden also on the participating countries to prevent free riders.

It can be regarded as a consequence that the hegemony of US declined from the 1970s; economic fluctuations such as the international monetary system and the foreign exchange, the trading capacity and market, and the imbalances in foreign economic relations. The US tried to stop even a bit of decline of its hegemony by incorporating Japan into a junior partner. Japan continued to cooperate with the US to match its interests in the long run [Gilpin, 1987: 331-334]. This is a hegemonic perspective.

There exists an objection to the theory of hegemony. Since the world economy is formed on the basis of market mechanisms, the international currency problem is based on market forces. Whether or not to think about the relationship between Japan and the US in terms of hegemonism can be explained from the difference between the theory of 'structural power' and the theory of 'relative power'. The former means that the US government unilaterally structured the power of influencing monetary policy on other governments. The latter specifically emphasizes the mutual influence in power relations between Japan and the US.

The US could not always exercise power unilaterally to Japan, but Japan has been necessarily accepted unconditionally to the US's demands. The US must also consider Japan's position. This relationship may be reversed. We must consider the interaction of influence here. There is not always the exercise of power from the US to Japan as stipulated by the relationship between the Japan and US at that time [Strange, 1988: ch. 8].

The globalized finance has the effect of weakening the national power because private companies and individuals can freely transfer wealth abroad, since the balance of state (politics) and market (economy) is broken. Japan is considered to be in a position where it is hard to be independent in terms of security of military and economics. Japan depends on the US market for exports and military for security under the 'nuclear umbrella' of the US. Japan could have chosen its own route against the US, but since it has benefited from the liberal market economy, it places a certain burden on the route in the international cooperation, and has to find a place where it should be. It is necessary for Japan to maintain cooperation while limiting the burden to a reasonable extent in response to the power of the US sometime during that period [Calder, 1988a: ch.11].

This is an explanation from the 'reactive state' theory. The grounds come from the fact that Japan has economic strength, but has continued economic diplomacy and security policy reacting passively to the pressure from the US. Japan has a vested interest in the self-restraint of national ability, the protectionist mercantilism, the reliance on the US market, etc in order to rely on defense in alliance with the US in consideration of the volatile security and unstable resources, adjusting (or reacting) the interests of the domestic various groups that defend themselves according to changes in the international environment. There may be a lack of political leadership or the like [Calder, 1988b: 517-541].

Considering Japan to date, we will have to look back on the political and economic situation of Japan from the 1980s once again.

Japan's economic power has continued the principle of national cooperation despite receiving challenges from domestic and foreign countries in the 1980s. The economic policy of Reagan administration increased exports of goods and capital to the US. And the 'Plaza Accord' in 1985 (and the 'Louvre Accord' in 1987) turned to a booming economy linked to the Bubble Economy. That process relaxed most of the tension within Japan's developmentalist institution.

The price of stocks and land prices soared in the 1980s. The Japanese government adopted Japan's easy money and tight fiscal policy since the 'Plaza Accord', in particular the 'Louvre Accord'. It was a mirror image of the Reagan administration aimed at supply-side economy. The Japanese government intended to optimize the value of yen in its policy motive, and at the same time to maintain high levels of exports and investment to the US.

Part of the trade surplus is also the result of investing in US treasury bills and stocks. The economic downturn of US was caused by the twin deficits of fiscal and trade. Japan was certainly able to increase its tax revenues by export-oriented economic expansion, and liquidate previous government bonds. The Japanese government was furthermore able to drown out criticism from inside and outside to the development-oriented till then with a long-term economic boom.

Japan's economic dependence on exports remained unchanged regardless of the huge trade surplus. Although the capital market in Japan was further liberalized, the scope of liberalization was not based on the requirements of domestic fiscal system, but rather the international constraints of opening domestic financial instruments globally. Indeed, the Japanese government relaxed the regulation.

However there existed no indications for Japanese economic bureaucrats to change their basic policy. Although the main bank system certainly weakened after the collapse of Bubble Boom, it was not that it was defunct. The keiretsu that is a business practice in Japan also survives.

The Japanese people thought Japan's developmentalist cooperation style would last forever in the Bubble period at that time. Even 'Pax Japonica' would appear and be even publicized in the 21st century. However, in the first half of the 1990s, the Bubble Economy collapsed, effectively revealing the declining trend of Japanese developmentalism. The Japanese economy had to experience the prolonged recession called the 'lost decade' in the 1990s. Later, due to inactive investment and consumption, the Japanese economy declined real GDP growth rate and resulted in massive unemployment [Streeck and Yamamura, 2003: 8-10].

The establishment of Bubble Economy, its collapse, and its aftermath were responsible for political economical management of the Japanese government. It is evidence that policy of the Reagan administration in the US (including the successive government since then) could not be dealt with appropriately in policies such as economy and defense.

Given these circumstances, did the Japanese developmentalist model transform into a liberal market model? But it did not happen [Gilpin, 2001: 190]. Governments and industries in Japan have adjusted the Japanese style and model after being conditioned on the incentives and constraints of model so as to cope with institutional changes [Vogel, 2003: 325].

Japan contributed nearly one-half of foreign aid to Southeast Asian countries and direct investment for the past 20 years before the 'Plaza Accord'. The appreciation of yen had increased Japanese investment since 1985. It doubled from 1951 to 1984. Japan has continued the flow of aid and investment while repeating the trade surplus in the Southeast Asian region. The governments of Southeast Asian countries have implemented deregulation and incentive, and have approved foreign investment. The Japanese developmental state model has furthermore become highly appreciated [Katzenstein, 2003: 107].

The Government of the G5 in 1985 began the appreciation of yen in the 'Plaza Accord'. Many Japanese companies have responded by shifting production sites to Southeast Asia to reduce production costs. Japanese companies expanded the Japanese supply network (national supply network) to the Asian region [Vogel, 2003: 325].

From the above, it is necessary to develop a discussion that fully takes into account 'path dependence' in Japan's political economic process after the ‘Plaza Accord’. Then what kind of Japanese model can we think in the process?

Table 12: Contrasted Models of Japan’s Foreign Policy

	Reactive State	Strategic State	Adaptive State
Japanese political system	Patterned pluralism	Elitistit; “Japan Inc.”	Pluralist
Japanese policymaking	Fragmented and prone to paralysis; reliance on *gaiatsu*	Opaque but sufficient	Fragmented: gradualistic
Underlying conception of national interest	Narrow national interest: anti-militarism	Techno nationalism or defensive nationalism	Low-key; liberalism
Trade and foreign economic policy	Protectionist-mercantilism	Strategic trade— aggressive mercantilist; the “flying geese”	Incomplete liberalism
Defense and national security	Limited national capacity; alliance-centric	Free rider: surreptitious building of major military power	International contribution within shifting limits

Source, Berger, 2007: 268

3. The End of the Development Nation - State Model?

In considering the ideal way of the state (see Table 12), one of the three models falls into Japan [Berger, 2007: 267-268]. The ‘reactive state’ model is based on a protectionist mercantilist principle pursuing the limited national interests by large corporations and bureaucratic coalition (e.g. Japan between 1960s and 1970s), as the Japanese political system is fragmented and stagnant. The ‘strategic state’ model employs a ‘flying goose’ pattern based on elitist political system, but uncertain in policy formation only the efficient and aggressive mercantilism, and is militarily the ‘free rider’ (e.g. Japan between 1950s and 1960s). This is thought to be the models of Japan until now. The ‘adaptive state’ model is fragmentary but gradualistic and flexible in the policy formation for those previous two state models, so gradual reform can be institutionalized. It shows incomplete but suppressed liberalistic features regarding trade and foreign economy, and contributes to international situation within the constraints on security. I think that it may be good to think on the assumption that this might represent Japan's state model since 1980s.

It may be stated that considering the Japanese state model since the 1980s from the theory of 'structural power' or 'hegemonic power', and the theory of 'relative power', it was in a state of transitioning from the 'reactive state' to the 'adaptive state'. Japan's foreign policy has been seeking the Japan's unique, mercantilist preferences for managed trade and national-led economic growth on the one hand, while controlling pressures from both of the world market and the world trade system on the other hand [Berger, 2007: 281-282].

The reason why international cooperative actions since the 'Plaza Accord' brought about the Bubble Economy and its collapse, and the subsequent long-term stagnation were hardly to eliminate this structural weakness, and still less to provide an alternative and passive internationalization to the pressure of globalization on a day-to-day basis. It can be thought that it is because it has dealt with it through multilateral cooperation. However such an indication is not the whole story. We might deal with the political process in the 1980s from the historical perspective that the relation of Japan and the US had changed at that point in the Post-World War greatly.

As I indicate about the SDI relationship between Japan and the US (see ch. 8 in this paper), it should also be pointed out that the 'relative power' exists in the relationship between Japan and the US. It is necessary for mutual relations of depending on each other. While understanding that the own hegemony can be carried out independently, the US must regard an interactions such as Japan's economic power as an indispensable factor. Japan tends to assume a 'reactive state' model, but we should also consider the aspect that is an 'adaptive state' model much further.

Geo-economical perspectives have emerged in the US since the end of Cold War. While the US implemented a strategy to 'contain' the Soviet Union geopolitically on the one hand, it has begun to move into action strategies to shrink Japan's economic power economically on the other hand. The US government considered export-oriented routes that became a unified public-private partner of Japan (e.g. 'Japan Inc.') as a new mercantilist strategy in Japanese style, and has sought to revise it. This trade policy continued until the mid-1990s after the end of Cold War ［Yamamoto, 2009: 137］.

Some researches that support the regime would argue that the decline of the US would not be a basis for aiming for the 'Plaza Accord' or the 'Louvre Accord'. Countries sharing stakeholder relationships were forced to advance the international economic regime ［Koehane, 1984］. The process from the 'Plaza Accord' to the 'Louvre Accord' also had a trace of efforts to stop the international financial order from fluctuating due to the 'policy coordination', and the international cooperation was the 'historical process concerning negotiation and policy adjustment'. we should scrutinize whether the participating countries in the 'Accords' were formed in equal fashion for realization, the US persisted the long past time when the US was a hegemon country, or the US acquired the ability of the new order-building ［Kano, 2006: 224］.

The view of 'strategic trade' as a matter of policy, which called for opening up the market to Japan, became the basis for the result-oriented trade policy of from the Reagan administration to the Clinton administration. When the US requested one after another based on the policy, Japan responded passively. Unless the expanding the domestic demand, the aggressive finance, the regulatory reform, the market opening up and so on was progressing, the US pursued Japan using the 'high yen card'. However Japan accepted the yen appreciation to a certain extent, and carried out its own intent while 'stroking' the US in order to avoid international coordination [Kano, 2006: 305]. This view, at first glance, seems to be explained by the theory of 'structural power', but coping with Japan can also be regarded as the viewpoint from the 'relative power' trying to maintain a regime centered on Japan and the US. It could not be nevertheless thought that these relationships would last forever. We need remind that variations in the circumstance of international political economy and change such as innovation occur.

The national economic policy control was based on the Bretton Woods regime after the Second World War. It relied on the approval of economic hegemony of US among the capitalist states, and the fact that each country acknowledged financial and monetary policies within the border. However the advanced capitalist countries have come to realize that the economic problems they face were rooted in a set of fundamental fluctuations since the 1980s; in particular, from the national policy of products and financial markets, the decline of secondary industrial production and the rise of the service sector of tertiary industry, semi-skilled production line of the 'flexible specialization', the Post-Fordism, and the differentiated production and so on. These dramatic fluctuation effects were further strengthened for advanced capitalist countries by the end of the Bretton Woods regime and the two oil crises in the 1970s.

The Bretton Woods regime was the dominance of dollar as an uncompetitive key currency, based on the US economic, political and military rule. It was inevitable that Western European and Japanese economic growth gradually eroded the dominant position of US. As the value of doll declined since the late 1960s, Mark of West Germany and the yen of Japan have become an important reserve currency [Herr, 1997].

Conclusion

The form of economic policies was almost altered by the first half of the 1980s. Means of monetary policy and financial macro-economic policy in a country was bound to the international economic system, profoundly affected by it, and could not take independent measures. The reduction of official rate that made production work and increase of government expenditure, on the contrary, became counterproductive effect, and stimulated the outflow of capital. The government was trying to stabilize the currency fixedly, but the policy of one country faced the international pressures, and such acts cost extraordinary expenses [Kitschelt, Lnange, Mards, and Stephens, 1999: 3, 5].

It was the revival of the US economy since the 1990s that was driven by the business productivity not of the result of the traditional manufacturing industry but by a knowledge-intensive new economy such as finance and IT industries. This may be a result of practicing the 'Young Report' in the long-term, whereas the effect of the second Reagan administration based on the 'Morgan Report' was from a short-term strategy of the 'Plaza Accord'. It could be said that the US dualistic, globalized strategy was seen in a gap between Japan and the US in the 1990s. And Japan struggled with the aftereffect of the Bubble Economy, so that it stagnated for a long time, and it came to the ‘lost decade’ [Kano, 2006: 306].

The formal legal authority in many regimes is shared between national and supranational governance organizations, especially in the context of assumed standard. The state is a key player within the ‘web of influence’ where the regulation created by the super-national regime emerges and develops. However, because its characteristics determine the approach adopted by the regime, it should become independent of the capabilities of individual nations. The governments are limited in the scope of strategies that must rely on forces that are nearly uncontrollable far from it [Scot, 2003: 644].

This force will impose constraints on hegemon countries by the ‘boomerang effect’. The US governments needed to maintain its style of international market order and to support the own authority of society and politics in the international society. However we must also be consider to cause another side effect if this style becomes mercantilist. Once again, by defining mercantilism, mercantilism is based on belief that the economy will increase through the trade surplus and the accumulation of valuable goods resulting from it.

The state previously managed its surpluses to build their reserves (previously gold, now mainly) to build foreign exchange and to pursue their own defense from ‘external shocks’. Naturally, as one of its defensive measures even in modern times, the mercantilist doctrine is supported. The adherents believe that the economic, political and military power of nation can be covered by the trade surplus, in particular the operation in the manufacturing industry and related service industry [Bergsten and Gagnon, 2017: 2].

Trade is thus recognized as the ‘zero- sum competition’. If a country wins in economic competition, it shall lead to another country being defeated. That thinking is certainly not an anti-trade strategy, but rather a strategy to nurture the domestic industry, at the same time to maximize export and minimize imports. And the mercantilist doctrine is not only to increase national revenues, but also to reach its political control to other countries. The US governments have recognized that its economic failure and misconduct necessarily resulted in a geopolitical retreat in Asia.

The US is no longer in a position to exercise a strong clout in international political and economic relations like before 1970. The US had to choose a variety of different ‘partners’. They are Western European countries and Japan, and now it may be China.

The term ‘absolute gain’ is the political economy principle that the US adheres as the key currency country. The US pursues the prosperity of world while enjoying the merit of core currency. The two ‘philosophies’ coexist in the international monetary system. However they cannot be realized with the deterioration of the US economy. This has been repeated after the ‘Plaza Accord’ every now and then, with the decline of US economy. The US, in fact, has been aiming for the ‘negative gains’ in a lighter direction of poorness. “The dollar is my home currency, but the issue of dollar is your problem,” said the Treasury Secretary Connolly before the Nixon Shock toward European countries and Japan. This historical quote, in a sense even now, is the ‘truth’.

We should think of irrationality to use specific country currency as international reserve currency. It is also necessary to consider protecting the world currency system from instability arising from the currency of specific country at the same time. That means that governments should seriously rethink arguments and discussions on rebuilding political and economic frameworks to resolve the challenge caused by current the 'yen appreciation and dollar depreciation' and its imbalance.(17)

* I have once published a paper on the 'Plaza Accord' in Japanese (*Nara Law Review,* vol. 30, 2018). This paper is put Japanese into English. I revise and add for this English version.

Note

(1) For New Right, see Furuta, 2015: 58 - 67.

(2) Treasury Secretary Regan said in a lecture in Tokyo in 1983, as follows. "We think the yen is weak against the dollar, perhaps because the yen is not an international currency. If there is more demand for yen, the yen is stronger against the dollar. It is not that we want a weakening dollar. I want to raise yen to the dollar level. If there is more demand for yen, I think that we can achieve it." He did not seek weak dollar by raising yen's depreciation to yen appreciation. However equilibrium recovery between yen and dollar was to cooperate with the currency policy makers of the major countries and actively intervene in the exchange market by the US government. Foreign exchange intervention was expected to be able to effectively change the range and speed of rate fluctuations.

(3) Baker was a lawyer known as a tough bargainer with his political skill. He took up a post of the second Reagan administration as a secretary of finance. In place of his predecessor monetarist and supply-sider, which was an obstacle to his policy change, he nominated to Darman as the leader of a practicing unit. This unit was to act in the international currency diplomacy while restraining the protectionist movement of Congress [Kano, 2006: 165, 168].

(4) Yen and dollar negotiations influenced on the MOF greatly. The MOF was obliged to concede to the external pressure from the US, despite the intent of slowly advancing financial liberalization. It can be said, in a sense, that Nakasone's attitude to 'focus on Japan-US relation' and 'breakthrough bureaucratic politics' has helped the US as a result [Nakanishi, 2002: 317-322;

Tadakoro, 1988: 222-255].

(5) Foreign Minister Abe agreed in a foreign ministerial talks on September 26, 1986 with Secretary of State Schultz on; Japan's reduction of surplus to the US, and the suppression of protectionism within the US. These agreements were a posture to strive for trade imbalance even in diplomatic routes between Japan and the US.

(6) J. A. Amyx points out that Japanese Parliamentarians are not interested in the exchange rate and international financial crisis management, so they have delegated policy making to the MOF considerably [Amyx, 2004: 100]. However, regarding the political negotiations surrounding the 'Plaza Accord', the political initiatives of some influential politicians played a major role.

(7) Nakasone pushed through the neo-liberal route that was rage of the times in 1980s, such as the reform on the ground of deregulation and privatization, but it is doubtful whether he himself was a neo-liberalist. Nakasone was a politician who adapts well to the currents of times, even if he had a solid thoughtful nucleus behind the disjunctive discourse, its political attitude alterd according to jump on the bandwagon [Otake, 1994: 257, 259, 263].

(8) The 'Plaza Accord', from a different point of view, also guaranteed to take Japan's initiatives in the dynamism of Asian economy. Japanese manufacturing industry shifted production base to Asian countries in search of low wage due to the appreciation of yen other phrased [Pyle, 2007: 258-259; Kohno, 2007: 35]. In addition, Japanese companies implemented part of the Japanese version of globalization one after another since the 'Plaza Accord'. Meanwhile, the investment for the real estate gained more than electric and automobile profits. The currency value of Asian emerging industrialized countries (NICs) also rose after the 'Louvre Accord' [Hook, Gilson, Hughes, Dobson, 2012: 117, 217].

(9) K. Kondo (the former MOF officer) summarizes the plaza strategy as follows [Kondo, 1999: 159 - 160]. ① The US Department of State prepared the plan well, and Japan supported it, ②demonstrated the effect of unexpected, cooperative intervention achieved the short-term effects, but the excessive dollar drop could not come up with an act form effective cooperative measures, ③the policy officials needed to deal with the worst situation, ④it was necessary for the policy coordination to respond to the globalization, but ⑤ the 'coordination' and the 'cooperation' could not direct the reconstruction of international monetary system, ⑥it led to the Asian economy long-term effect of developing, and ⑦it

became the primary cause of the Bubble Economy, inviting hollowing out of the Japanese economy.

(10) We confirm that there remains, beyond doubt, controversy over the role the BOJ played in the asset inflation phase.

(11) Such remarks are repeated within the US even now, keeping in mind that the exchange rate of current Chinese renminbi is too low.

(12) The Japan-US Construction Talks submitted the final report in June 1990; ① spending 430 trillion yen in public investment in 10 years, ②effective use of low priced and undeveloped land, ③reformed the large store law, ④monitoring illegal cartel and strengthening penalties, ⑤formulating guidelines for affiliated dealings (keiretsu)⑥redressing differences between domestic and overseas prices, and follow-up, ⑦follow-up meeting, ⑧not activating Super 301 Article. This report led to the US Government's Annual Reform Request Form based on the Japan-US partnership.

(13) The Clinton administration had to perform the bold improvement measures since 1993. It moved into action of the austerity measures to reduce the fiscal deficit of 140 billion dollars over four years. It also ratified the North American Free Trade Agreement (NAFTA) in January 1993 in order to revitalize the economy. The administration had undergone the significant reforms to rebuild the US economy (promoting employment).

(14) The case of Toshiba Machine, which violated the CCOM (the Coordination Committee for Multilateral Export Controls), did not directly affect financial negotiations from the 'Plaza Accord' to the 'Louvre Accord', but the incident caused to criticize Japan from the citizens in the US. The Toshiba Machine exported four machine tools to the Soviet Union in the beginning in February 1982. The Soviet Union succeeded in combining Norwegian companies' computers to lower the submarine's screw noise. A violation of the CCOM was discovered, and voices of sanctions against Toshiba from the US rose. A Senator (Republican Party) proposed the Toshiba Sanctions clause to Congress. He was a boss-like conservative in the banking and finance field, Rep. D. Hunter, member of the military committee (the Republican Party), made a sanction bill incorporating the import prohibition of the Toshiba products. The banking committee passed a sanctioning bill to eliminate from the US government procurement market against a company that violated CCOM at the Senate on April 30 in 1986. Wilson (the Democratic Party) appointed a bill to prohibit the

import of Toshiba products for five years [Obi, 1991: 199-200].

(15) The ‘Maekawa Report’ (Report of the ‘Study Group of Economic Structure Adjustment for International Cooperation’) as following; ①deregulation as a policy based on the market principle, ②the policy coordination with the government as a measure from a global perspective, correcting the Japanese economic structure, and ③ the continuation of medium- and long-term efforts. They coexisted the shortening current account surplus due to short-term domestic demand expansion and the need for long-term structural reform. The developed countries such as the US sought domestic demand-led growth in Japan, but it was based on structural reform [Nakanishi, 2002: 337, 329].

(16) The US’s external economic policy acts in the form of the ‘Washington Consensus’ [Pieterse, 2003: 67-94]. It is said that the Washington Consensus was formed in the 1980s. It is tied to the traditional American exceptionalism of the US. The exceptionalism makes free market and democracy coexist. The Washington Consensus’s belief (tenet) can be considered to be monetarism, reduction of government spending and regulation, privatization, liberalization of trade and financial markets, and promotion of export-oriented growth. Washington Consensus was newly requested from domestic policies to international policies. The footprint is also indicated in the policy of the international financial system. Stated in a different fashion, the end of Cold War has been tied to the expanding politicization of the IMF and the US. The US government has repeatedly the ‘reward-oriented appointment’.

The Washington Consensus has been implemented through IMF stabilization lending and the World Bank’s structural adjustment program. “The IMF and the World Bank were agreed upon at the Bretton Woods as a result of the US Treasury Department; the US Treasury could instruct and direct other countries as having international prestige.

The Washington consensus embodies the Anglo-American capitalism that represents the perspective and benefits of the Wall Street-Treasury-IMF complex. The Washington Consensus thus serves as a response to financial instability and its financial instability and crisis management. The Washington Consensus declares free trade and export oriented growth, but under free trade, the real policies become more complicated and from using foreign policy measures (e.g. the most favored nation treatment and the high tariff measures), introducing legislativeism into the world trade rules via the World Trade

Organization (WTO) and affecting exchange rates in other countries (e.g. the 'Plaza Accord' in 1985 and the appreciation of yen).

(17) The phenomenon is called a 'trade war' between the US and China since the inauguration of Trump administration in 2017. It is said to be 'protected trade', while it is political in a trade agreement with Japan, the US and other countries. He uses his powers and is active in creating conditions that favor the US. It is difficult to distinguish between the Trump administration's 'protectionist' policy and 'beggar-my-neighbor' policy. If protectionism is 'limits for nurturing and expanding domestic demand', his 'beggar-my-neighbor' policy is 'a policy to expand its exports and deprive other countries of domestic demand by unfair trade agreements etc.' It is defined, as if we think, that Trump's foreign trade strategy is closer to the 'beggar-my-neighbor' policy, it may be defined as 'protectionism without fiscal spending'. Such thinking can, beyond doubt, see its sprout already in the Reagan administration.

The US has, therefore, advocated economic nationalism in which globalism is attached to 'America First'. Put another way, the policy of 'beggar-my-neighbor' as a result of globalism is established.

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