The Relationship between the U.S. Hegemony and Japan as an Emerging Country in the 1960s: Three Asymmetries regarding Japan’s OECD Membership

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Introduction

Currently, the Organization of Economic Cooperation Development (OECD) is regarded as a “developed countries’ club”¹ or “rich countries’ club.”² Therefore, being a member in the organization implies that the nation has already become a developed country. However, when Japan became a member of the OECD in 1964, it had a smaller economic scale than that of some non-member countries and was still borrowing from the World Bank.³ Japan was “the only non-European, non-North American, non-Atlantic and the first Asian member in the organization”.⁴ Japan's membership appeared to be symbolic rather than a substantive status. The symbolic context was significant not only for Japan, but also for the U.S.

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³ The OECD Observer, Dec 1, 1964, pp. 19-22.
The two countries shared a common view that Japan’s OECD accession would strengthen the multilateral relationship between Japan and Western European countries. Even if the U.S. had the hegemony, it attempted to strengthen the multilateral cooperation among developed countries to maintain the existing order.\textsuperscript{5} During that time, the U.S. faced global problems due to the developing tension of the Cold War and the declining U.S. economic power. The U.S. needed to discuss “burden-sharing” among developed countries in order to defend the “free world” without a “free ride”.\textsuperscript{6} The U.S. expected Japan's OECD membership would encourage its commitment to keep the existing order whereas Japan expected to improve its international status. Although the two countries emphasized the membership, they had different objectives according to their status as a hegemonic country and an emerging country, respectively.

There are studies which analyze how a hegemonic country creates and maintains the global order.\textsuperscript{7} As a hegemonic country cannot solve global issues alone, it cooperates with other countries.\textsuperscript{8} “Even in the early years of the postwar era when the power of the United States in

\textsuperscript{5} Keohane, 1984.

\textsuperscript{6} The “free ride” issue was attracted attention especially during the 1980s to the 1990s. See Islam (Eds.), 1991.

\textsuperscript{7} Ruggie, 1996; Ikenberry, 2001.

\textsuperscript{8} Keohane, 1984.
most issue-areas was at its peak, the United States sought collaborators, particularly in Western Europe.\textsuperscript{9} That kind of cooperation is called “minilateral” approach, which means gathering the “smallest possible number of countries needed to have the largest possible impact on solving a particular problem.”\textsuperscript{10} The Atlantic “minilateral” cooperation provided the essential framework for a multilateral order after World War II.\textsuperscript{11} However, there are questions as to why and how major countries accommodate non-member countries in their “minilateral” forum although each country has different interests. For a case study of this issue, this paper focuses on Japan's OECD membership by analyzing three “asymmetries”.\textsuperscript{12}

The first asymmetry is associated with the power balance between the U.S. and Japan. Although the U.S. had dominance, it required Japan’s support to pursue its own international policies. In the late 1950s, the U.S. dominant power decreased gradually due to the developing tension of the Cold War and the increasing U.S. trade deficits. As these two factors undermined the U.S. power, the U.S. required other developed nations’ support to underpin the

\textsuperscript{9} Kahler, 1992, p. 686.
\textsuperscript{10} Naím, 2009, p. 135.
\textsuperscript{11} Kahler, op.cit., p. 686; Cooper (1968) also focused on “the Atlantic Community.”
\textsuperscript{12} Although Krasner (1987) focused on “Asymmetries in Japanese-American Trade” relationship, this paper analyzes three asymmetries in a broader context.
U.S.-sponsored order. Supporting Japan’s OECD membership was part of the U.S. policy for the “burden-sharing” to defend the free world because the membership would provide Japan an institutional basis for its commitment to keep the order as a developed country. The U.S. had its own intention when it supported Japan’s integration to the international community.

The second asymmetry is associated with the different interests between the U.S. and Japan. Although both countries recognized the U.S. support for Japan's OECD membership as significant, they did not share the same interest behind the policy. The U.S. government expected that Japan’s membership might trigger its contribution to maintain the existing order because it would coordinate its international economic policies with Western countries. However, Japan aimed to improve its international status because Western European countries continued restricting import from Japan. Both Japan and the U.S. were in the “same bed, different dreams”\(^\text{13}\) regarding Japan’s OECD membership.

The third asymmetry is associated with the different interests between the U.S. and Western European countries regarding Japan’s OECD membership. When the OECD was

\(^{13}\) Romberg (Ed.) (1990) focuses on the social difference between the U.S. and Japan by using the term, “same bed, different dreams.”
created, European countries opposed Japan’s accession whereas the U.S. supported it. Although European countries had no objection to bring Japan into a financial cooperation (G10) in 1962,\(^\text{14}\) they opposed Japan’s OECD membership in the same year. Even if both the OECD and G10 were common in “rich men’s club”, West European countries had opposite attitude toward Japan due to their own interests.\(^\text{15}\)

Analyzing the three asymmetries contributes in understanding why and how developed countries cooperated to maintain the international order while they accommodated non-member countries into their group. As single policy may occasionally contain multiple objectives in different parties, it is significant to consider the interests of related nations.

**Multiple objectives regarding Japan’s OECD Membership**

Japan started emphasizing multilateral economic cooperation in order to improve its international status as a developed country in the early 1960s. In 1960, Japan joined the

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\(^{14}\) Jacobsson, 1979, p. 382.

Development Assistance Group (DAG) in OEEC which provided economic assistance to developing countries. In 1962, Japan decided to participate in the Group of 10 (G10) which cooperated to strengthen the international monetary system with other developed countries. In 1963, it accepted the U.S. proposition to start a trade negotiation for the Kennedy Round in the following year. In 1964, it became a member of the OECD. In 1966, it created the Asian Development Bank (ADB) with the U.S. All the above examples were multilaterally-based. Among Japan's multilateral economic policies, acceding to the OECD was critical for the country because other multilateral institutions were limited in working for financial issues and only OECD served as a forum in coordinating economic policies in member countries.

Before the OECD was created in 1962, the U.S. government attempted to include Japan in the institution because there was little economic relationship between Japan and Western Europe.\(^{16}\) However, European countries opposed Japan’s OECD membership. They were afraid that Japan's membership might change the characteristic of the institution as an “Atlantic community”. Furthermore, they were worried that they could no longer regulate

\(^{16}\) “Memorandum for the President,” November 24, 1959, Eisenhower, Dwight D.: Papers as President, 1953-61, Box12, Eisenhower Library.
imports from Japan once they embarked on negotiations for Japan’s OECD accession. The U.S. gave up promoting Japan’s accession at the initial stage because there was economic and political instability in Europe. The U.S. President thought it was not “the best time” for Japan’s admission to the OECD since its membership would alter the Atlantic nature of the organization. Just before the organization was created, the Soviet Union and East Germany built the Berlin Wall in 1961 which was a symbol of the Cold War. Aside from the Cold War issue, the U.S. government was also afraid of the European disintegration as there were two trade blocks in the region. Western European countries created European Economic Community (EEC) established in 1957 and European Free Trade Association (EFTA) established in 1960. These two regional trade blocks deteriorated European integration because member countries discriminated other non-member countries with their exclusive trading. These political and economic issues eroded the unity of Europe and decreased U.S. export to Europe. Therefore, the U.S. placed higher priority in cooperating with European

18 “U.S. Balance of Payments,” October 1963, RG59, Bureau of European Affairs, Office of Atlantic Political and Economic Affairs, Alpha-Numeric Files 1948-1963, Box2, the National Archives at College Park (NA), MD, USA.
countries rather than pursuing Japan to become a member of OECD. The U.S. adjusted its support for Japan according to its policy priority.

The turning point came after a year in 1963 when the U.S. started to strengthen its support to Japan’s OECD membership. Unlike the previous year, the European countries did not oppose it anymore. Why and how did they shift their policies toward Japan? Previous studies regarding this issue tended to focus on three points which Western Countries considered: 1) strengthening Japan’s economy by improving its trade under the developing tension of the Cold War, 2) boosting Japan’s economic liberalization to promote the economic integration in the free world, and 3) increasing Japan’s commitment to support the existing order.\(^{20}\)

Even if these factors were critical in Japan’s membership, they were significant before European countries’ policy shift toward Japan. The determinant reasons remain unclear why Western countries changed their attitudes in a few years’ time. As there tend to be multiple policy targets behind a single policy, this paper aims to analyze significant factors while organizing bilateral or multilateral dimension and political or economic dimension.

\(^{20}\) For example, see Carroll and Kellow, 2011, pp. 157-8.
Figure 1: Significance of Japan’s Membership in OECD from U.S. Perspective

**Economic Issues**

1a) Strengthening the economic relationship
1b) Decreasing trade frictions between the two by increasing Japan’s imports from the U.S. and diversifying Japan’s exports
1c) Decreasing the U.S. trade deficit between the two

2a) Improving the U.S. balance of payment in general
2b) Pursuing trade and capital liberalization globally
2c) Solving multilateral discrimination against Japan
2d) Strengthening “reciprocal” principal in GATT
2e) Increasing the power of counterbalancing against regionalism in Europe
2f) Making OECD a global institution from regional framework in Atlantic in order to coordinate economic policies among developed countries
2g) Increasing Japan’s economic assistance towards the Asian developing countries

**Multilateral**

(U.S.-Japan and Beyond)

3a) Improving Japan’s standpoint as a developed country
3b) Deepening the relationship among developed countries
3c) Strengthening Asian economies by increasing Japan’s capital outflow and opening Japan’s market for Asian developing countries
3d) Increasing Japan’s involvement to the Asian regional order to decrease U.S. burden
3e) Providing export markets for Japan with other developed and developing countries in order to maintain the trade embargo to USSR and China

**Bilateral**

(U.S.-Japan)

4a) Stabilizing Japan’s politics after the revised security treaty between the two countries
4b) Strengthening political relationship between the two countries

**Political Issues**

Source: Author
Figure 1 illustrates major reasons why the U.S. supported Japan’s OECD membership. As these factors were interrelated in the same and other quadrants, they pushed the U.S. government to change its decision from abeyance to support in 1963. The vertical axis shows the economic and political issues while the horizontal axis stands for the bilateral and multilateral aspects. The U.S. expected that Japan’s membership in the OECD could contribute in solving both bilateral and multilateral problems (Figure 1).

When considering the bilateral economic relationship between the U.S. and Japan, it was significant for the two countries to strengthen their economic and political relationship (1a and 4a in Figure 1). They created “Joint United State-Japan Committee on Trade and Economic Affairs” in order to provide “an interim organ for discussion of economic and trade problems of the mutual interest as long as Japan is not full member of the OECD”. The U.S. required a framework to discuss the economic issues with Japan in order to solve their problems and strengthen the bilateral relationship at that time (1a). In the U.S., the growing anti-Japanese

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22 Memorandum for the President, June 9, 1961, National Security Files, Box 123A, JFK Library.
sentiment became a serious problem because increasing Japan’s export towards the U.S.
damaged the U.S. industries and employments especially in textile. Even though both
countries negotiated and implemented measures such as Japan’s Voluntary Export Restriction
(VER) and U.S. special import restrictions from the late 1950s, these measures didn’t work
effectively.\(^\text{23}\) They needed to decrease trade frictions between them by increasing Japan’s
imports from the U.S. and by diversifying Japan’s exports into Western European countries
\(^{1b}\). These measures would have contributed in decreasing the U.S. trade deficit between the
two \(^{1c}\) as well as improving the U.S. balance of payment \(^{2a}\).\(^\text{24}\) Pursuing trade and capital
liberalization was one of the important policies for the U.S. because economic liberalization
promoted the private sectors in the free world \(^{2b}\).\(^\text{25}\) As the governmental economic
assistance did not work well in strengthening the economy by itself, it required sufficient
capital inflow from the private sectors and export markets abroad.

The U.S. government expected that Japan’s membership in OECD negotiations might

\(^{23}\) Another solution was controlling export by the Japan’s government, which was called voluntary
export restrictions (VER) although it was not a structural solution.


become a trigger to discuss trade liberalization with Western European countries and Japan.26

Even though Japan was GATT member, European countries did not provide Japan the Most-Favored-Nation (MFN) status which was based on the Article XXXV of the GATT. Although the article permitted a member to control import from another member temporarily, the measure appeared to be discrimination from Japan’s point of view (2c). As long as Western European countries employed the article, “reciprocal” principle in the GATT lost substance (2d). At the same time, the U.S. government attempted to make use of Japan’s membership in the OECD as a counterbalance against European regionalism (2e). Western European countries created EEC in 1957 and EFTA in 1960. The U.S. government considered that one way to avoid European regionalism was to make the OECD a global institution from an Atlantic regional framework (2f).27 Japan’s accession toward the OECD would become a turning point for the institution as a global platform among developed countries to coordinate economic policies as well as improve Japan’s standpoint as a developed country (3a/3b).

Western countries had serious international problems after the outbreak of the Vietnam War in 1960. In the escalation of the cold war, developing countries appeared to go to the USSR’s umbrella if the economic gap between developed and developing countries remained unsolved. As developing countries faced export opportunities and shortage of capital, western countries needed to implement measures to cope with the two issues. Regarding the export opportunities, the U.S. started to prepare multilateral trade negotiations (Kennedy Round of GATT). As for the shortage of capital problem, Western countries required to increase economic assistance and investment towards developing countries. Japan's OECD membership would trigger its involvement in the economic liberalization and economic assistance towards developing countries since the organization was a forum to coordinate these policies among developed countries.\(^{28}\) This would work well for strengthening Asian economies while decreasing the U.S. burden to stabilize the area (3c/3d).

There was another serious issue while Western countries discussed Japan’s OECD membership. Japan started strengthening its economic relationship with communist countries,

\(^{28}\) OECD (1964) showed statistical data regarding the financial flow to developing countries before Japan’s OECD membership.
especially China, in order to expand its export markets (3e). As the U.S. government worried that its trade embargo would lose its effectiveness, it attempted to discourage trade relationship with China by promoting Japan’s trade to Western countries.29 Japan’s OECD membership provided an opportunity to expand its export markets and the achievement would contribute in stabilizing domestic politics in Japan (4a).30 The U.S. aimed to strengthen the political relationship with Japan by promoting Japan’s economic development (4b).31 Supporting Japan’s OECD membership had positive effect on the U.S. foreign policies.

A turning point was in December, 1962, after a prime minister meeting in the UK (Ikeda-Macmillan communique). The U.S. government noticed that there was “a somewhat surprising turn in European attitudes.”32 As Western countries acquired favorable economic conditions from Japan and admitted Japan’s significance to maintain the existing order, they found few negative reasons to oppose Japan’s OECD membership.33

29 Schaller, 1997, chap. 10.
31 Schaller, op. cit.
33 “Japan and OECD,” November 28, 1962, RG59, Decimal Files Related to the OECD, 1962-63, box2, NA.
Japan has the greatest stake in a smoothly functioning international economic system subject to agreed norms and rules. However, Japan had a lot of obstacles and conditions to join the system that contains GATT/WTO, IMF, OECD, and so on. Although the U.S. appeared to clear a path for Japanese economic development by promoting a liberal international trade environment, the U.S. policy contained its own background, intention and condition. There were multiple policy targets behind a single policy.

Conclusion

The case study of Japan’s OECD membership provides an analytical approach to understand why and how a hegemonic country and its collaborators attempt to develop an international institution by accommodating non-member countries. As MacComick pointed out, “American hegemony reached its pinnacle and simultaneously commenced its declines in 1958.” Around that year, Western countries had significant issues such as the worsening of

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34 Frank, 1975, p. 13.
the Cold War, the widening gap between developed and developing countries, the continuing rise of U.S. trade deficits, the losing integration of European political economy and so on. In order to cope with these issues, the Western countries reorganized the OEEC into the OECD.

The U.S. emphasized fair burden sharing of the existing order because “the deficit of the United States arises wholly from its commitments and actions in the common defense of the Free World.”36 In the global context, there were two specific problems for the U.S. : “the burden of the common defense; and the burden of long-term economic assistance to the underdeveloped areas.”37 The U.S. aimed to solve the former within the NATO and the latter within the OECD. As Japan was not a member of both institutions, the U.S. developed the bilateral Security Treaty with Japan and make Japan accede in the OECD around 1960.

If the U.S. hegemony was undermined, other OECD members would also experience the same negative impact. Both Western European countries and Japan should cooperate to underpin the flagging order. Therefore, Western European countries admitted Japan's OECD membership to encourage Japan’s involvement as a developed country although Japan offered

36 Department of State Bulletin (DOS), No. 1133, March 13, 1961, p. 370.
37 Ibid.
favorable conditions in order to make the negotiation smooth.

Japan's increased engagement in Asia strengthened its relationship with other Asian countries, which in turn, contributed in stabilizing their economies and the Asian regional order. Although the U.S. was the only country to support Japan’s accession to OECD from the beginning of the institution, the U.S. government attempted to utilize Japan’s membership in order to pursue its own interest.

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