

## JAPAN CHAIR PLATFORM

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**Managing Rising Powers: China and the Lessons of U.S. Strategy toward “Japan Inc.”**

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During the 1980s and early 1990s, the United States confronted a rising power challenge in the form of “Japan Inc.” What lessons does this experience hold for U.S. strategy toward contemporary China?

**A Theoretical Framework: Why Leading Democracies Want to “Bind”**

The U.S. response to an economically ascendant Japan is one example of a leading democracy navigating a rising power challenge. In all such cases, binding should represent a preferred strategy. Binding—embedding the rising power in international institutions—incur few costs other than the time and attention of diplomats. This should appeal to political elites in a leading democracy who want to avoid imposing burdens on the public for fear of an electoral backlash. Moreover, the benefits accrued from binding extend beyond the domestic sphere. As the rising power becomes more dependent on institutions, its behavior is increasingly constrained. Membership in institutions may also incline the rising power to value preexisting rules and norms that govern the international system.

Binding is viable as a stand-alone strategy when the rising power features decentralized authority and transparency—attributes that define an open political system. Checks and balances preclude a single actor from rapidly enacting policy changes. Transparency ensures that decisionmaking processes in the rising power are visible to outsiders, so the leading democracy operates in an environment of complete information. Access opportunities exist in an open political system. Where authority is decentralized, disagreements among domestic actors invariably arise. Transparency uncovers such cleavages, and the leading democracy can manipulate them to shape the rising power’s external behavior. Consequently, an open political system lends predictability, enables confident assessments of intentions, and renders the rising power more susceptible to outside influence. This mitigates the risk of neglecting military preparations and relying entirely on binding.

That risk becomes prohibitive when centralized authority and opaqueness—the hallmarks of a closed political system—characterize the rising power. The absence of checks and balances allows for policymaking by individual fiat. Without transparency, decisionmaking processes are a black box. A closed political system also restricts opportunities for access. Internal divisions emerge less frequently when authority rests in the hands of a few. Opaqueness will prevent the leading democracy from identifying any domestic cleavages that exist. The implications of a closed political system are thus three-fold: the rising power’s behavior defies prediction, its intentions remain veiled, and its permeability to outside influence is low. Alone, binding would create a dangerous vulnerability, so the leading democracy simultaneously hedges by developing new military capabilities.

**The United States and “Japan Inc.”**

The U.S. response to Japan’s rise was to bind through consolidating alliance ties and establishing new institutions for managing the bilateral economic relationship. Japan’s open political system inclined the United States to adopt binding as a stand-alone strategy by fostering three perceptions:

*Predictable behavior:* The United States viewed Japan as highly predictable. One reason was the overall stability of Japan’s foreign policy—a by-product of decentralized authority. The other reason was that information about internal decisionmaking processes was widely available. Freedom of the press promoted transparency. U.S. officials in Tokyo could glean insights simply by reading Japanese newspapers and conversing with local journalists. Consultations with knowledgeable members of the Japanese government also provided a valuable source of information. With authority decentralized, such contacts existed in large numbers.

*Benign intentions:* The United States might have inferred intentions from bilateral trade disputes. Instead, transparency enabled successive U.S. administrations to look beyond economic tensions and conclude—correctly—that Japanese intentions were fundamentally benign. The administrations of Ronald Reagan and George H.W. Bush sought to wall off security relations from economic tensions. Although the early Clinton administration pursued a hard line on trade, Japan was never considered an adversary.

*Access opportunities:* U.S. officials perceived access opportunities in the Japanese political system. When framing the Structural Impediments Initiative, the first Bush administration reached out to Japanese consumers and recognized the Liberal Democratic Party (LDP) as a potential ally against recalcitrant bureaucrats. In discussions concerning the Framework Agreement, Clinton officials also identified sympathetic constituencies within Japan.

The U.S.-Japan alliance undoubtedly strengthened these perceptions but did not solely account for them. One ally can still view another as erratic, potentially hostile, and resistant to outside influence. The Sino-Soviet split is a case in point. Notably, Maoist China—the rising power in that dyad—had a closed political system.

### **Lessons for the Rise of China**

Like “Japan Inc.,” contemporary China poses a rising power challenge to the United States. Yet China differs along one key dimension: it has a closed political system. From a U.S. perspective, China’s domestic institutions generate difficulties that were not present when confronting the earlier rise of Japan. Specifically, the potential for surprise is considerable, intentions are unclear, and access opportunities are comparatively modest.

For the United States, greater openness by China would mean a safer power transition. By promoting the rule of law within China, the United States can facilitate the development of limited checks and balances. Clearly, the Communist Party will not permit the formation of alternative centers of authority. But even rule-based interactions within the Communist Party would give China’s foreign policy greater predictability.

The United States can also work to advance transparency. To date, efforts to this end have largely focused on China’s military budget. However, one lesson from the case of “Japan Inc.” is the inseparability of transparency and freedom of the press. Demands that China ease state censorship will likely make little headway. But the United States can support conferences and other venues that bring Chinese journalists together with their overseas counterparts. Such exposure may, over the long run, boost internal demands for press freedom.

If China’s political system becomes more open, the United States will enjoy new access opportunities. As the number of checks and balances grows, the United States will be more likely to find sympathetic domestic actors. Efforts to shape China’s external behavior will prove more effective if reinforced from within.

China’s domestic institutions generate uncertainty about its rise. More than ideological differences or shifts in relative power, this is the taproot of U.S. mistrust. Greater openness would reassure the United States and reduce the need to hedge against China. In this sense, a more open political system could significantly improve China’s international position.

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