

[Translation]

The Precarious Linkage between Trade and Security: A Trade-Off Involving Textile Limits and the Reversion of Okinawa?*

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Abstract

The Nixon administration tried to limit textile imports from Japan to protect the US industry. In return, the US would agree to return the administrative rights of the Ryukyu Islands, including Okinawa. This stood as the most important agenda item for the Sato administration in Japan. To get such a textile concession agreement from the Japanese, US officials had considered refusing to sign the Okinawa Reversion Treaty or to return the Senkaku Islands. However, Nixon and his advisors opposed those options since they were afraid that a confrontation over trade would spill over into defense and other security issues. Linkages among different issue areas, such as trade and security, tend to be precarious since the leverage obtained could be unclear, and various repercussions might be difficult to measure. When one country attempts to solve its domestic issues by linking them to other sensitive topics, domestic opposition might disrupt negotiation of the agreement or cause it to be rescinded.

Keywords

Japan-US relations, linkage politics, Okinawa Reversion, two-level games, Senkaku Islands

US security and diplomatic policy pursued under President Donald J. Trump and his administration have shaken relations with America's traditional allies since his inauguration in January 2017. The situation has been exacerbated by a series of Trump's remarks and actions that reflected his intension to make deals with certain traditionally unfriendly countries even at a cost to America's long-time allies. Trump, who continuously pro-

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claimed “America First” as a presidential campaign slogan, has already exited the Trans-Pacific Partnership (TPP) and the Paris agreement, defying widespread opposition to such moves from allies and friendly governments. Trump’s penchant to ignore or undercut multilateral frameworks has made US allies more concerned about unilateralism.

In its major policy papers, such as *National Security Strategy* and *National Defense Strategy* published between 2017 and 2018, the Trump administration officially identified Russia and China as revisionist powers and its major strategic competitors.¹ The administration announced that winning the strategic competition against these countries is a more significant challenge than the counter-terrorism operations that have been the centerpiece of US security policy for about two decades and that stressed the importance of cooperation with traditional allies. America’s partners abroad have taken it as a positive sign that the US has returned to “normalcy.” However, these policy papers also make clear that in order to address trade deficits, the Trump administration is eager to advance tough demands, even on allies. The administration repeatedly stressed that the US will pursue “fair and reciprocal” trade policies as well as economic growth, and in these policy papers such as *National Security Strategy*, it declared, “economic security is the national security.”²

As America’s mid-term elections approached in 2018, the administration’s strong interest in reducing trade deficits took shape as protectionist policies. On March 1, 2018, Trump announced that his administration would impose a 25% tariff on steel and a 10% tariff on aluminum imports. Thereafter, he signed the order imposing these tariffs. The main target was China, which had the biggest trade surplus with the US and was one of the country’s largest steel suppliers, but in June 2018, tariffs were extended to Canada, Mexico, and the European Union as well. As for financial burden-sharing on defense, Trump maintained that the North Atlantic Treaty Organization (NATO) allies, including Germany and Canada, should spend more on defense because the U.S. was being taken advantage of because “we’re subsidizing their militaries and billion and billions of dollars.”³

The way that the Trump administration linked the country’s trade deficit to security and defense policies brought US allies to difficult choices. As a result, dissatisfaction and distrust have increased among them. Canadian Prime Minister Justin Trudeau criticized US trade policy as an insult to longtime allies, referring to the conflict in Afghanistan, in which Canadian soldiers fought alongside US counterparts and got killed in the same war.⁴ However, Canada succumbed to pressure from the US and finally agreed to renegotiate the North American Free Trade Agreement (NAFTA) with more positive terms for the US.

Japan, the largest US ally in the Indo-Pacific region, faced similar pressures. Since his presidential campaign in 2016, Trump repeatedly complained that Japan had caused a huge deficit and should spend more to support the US military forces stationed there. His administration pushed for a more comprehensive trade agreement with the Japanese. After almost a year-long negotiation, Japan agreed to liberalize its agriculture market to

the extent that it did in the eleven-country TPP pact while the US maintains import duties on cars and auto parts from Japan, despite strong calls for their abolition.⁵

Prior US administrations traditionally were cautious about linking these two different issues because of its concern about negatively affecting its broader relationship with key allies. Now, the blunt diplomacy under Trump could transform the traditional dynamics. In this paper, we will consider whether the linkage between trade and defense can work in the US-Japan relationship, which has been based on deep interdependence in multiple areas. In particular, we will examine a past case, analyze related factors, and project results.

In fact, one of the most important prior cases occurred in the early 1970s, when the US and Japan negotiated returning the administrative rights over Okinawa to Japan. Here, in return for the reversion, the United States demanded that Japan agree to import more US-made textiles to protect domestic industries. The Japanese media reported it as the Okinawa-textile deal. However, ultimately, the talks turned into two bilateral negotiations, which ended up taking very different paths. On the one hand, on June 17, 1971, the United States and Japan signed the Okinawa reversion agreement, with the US-Japan security treaty being applied to Okinawa on May 15, 1972. On the other hand, the US-Japan textile negotiations dragged on into 1972, which caused much strain in this critically important post-World War II relationship.

Newly declassified documents of the US government show just how the US tried to get concessions on textile trade from Japan by linking the issue to the Okinawa reversion. This now makes it possible to examine more comprehensively the mechanism of linkage between Okinawa reversion and US-Japan textile issues. Prior to declassification, it was difficult to determine whether and how linkage had occurred. Also, interest concerning the textile negotiations faded over time since Japanese products lost their competitiveness to cheaper ones from less-developed countries in Asia, and Japanese textile exports to the US incrementally dwindled to lower levels under a series of agreed-upon quantitative restrictions.

In addition, related documents have been declassified in Japan as well. Based on these documents, we will analyze the secret proposals made by the United States to Japan as well as exchanges between the two countries in June 1971, when the textile negotiations were in their most difficult phase. Then, we will elaborate on the process in which the linkage between trade and security was being formed and examine its results.

Textile Dispute

On August 21, 1968, Republican candidate Richard M. Nixon, soon to win the presidential election, declared that he would take the necessary measures to restrain textile imports, including wool and mixed yarn, via extending international trade agreements. As Nixon pursued the presidential nomination, he highlighted textile import restrictions as an important campaign promise. At the time, Nixon was faced with tough competition from

Ronald W. Reagan, then governor of California. He regarded it as quite important to garner the votes of delegates from the southern states, where textile industries were active, and he especially courted Senator Strom Thurmond of South Carolina, who proved to be a key political ally. Nixon's "southern strategy," which focused on cooperation with the textile industry in the southern states, ended up working quite well, as Nixon not only obtained the party nomination but also organized a successful election campaign. On the campaign trail, even the Democratic contender, Hubert H. Humphrey, eventually felt compelled to express his support for import quotas.⁶

Richard Nixon basically supported free trade, and he was cautious about import regulations, but he had to justify the textile import quota as an exception because he felt the need to implement his campaign promise. In a speech on February 11, 1969, soon after his inauguration, Nixon expressed his concern about the surge of protectionism occurring in world trade, but he singled out the textile industry, where factory owners and workers suffered from hardship caused by a market increase in imports, and he said foreign exporters should make an effort to solve the problems voluntarily. One month later, Nixon warned that he could exert more pressure against exporters to force them to agree to an import quota.⁷

The main targets here were Japan and other East Asian countries, whose textile industries had been key to their economic growth. After World War II, when Allied bombing destroyed many factories and much equipment, the financial and technical support offered by the US government helped to rebuild the Japanese textile industry. By 1950, the total exports of cotton products surpassed its highest pre-war peak, and the growth was most conspicuous in the US market. After 1955, however, the US textile industry was intent on maintaining its market share and worked to curb any further expansion of Japanese products. John F. Kennedy won the presidential election in 1960, emerging victorious in the southern states of North Carolina, South Carolina, and Georgia. Thereafter, the Long-Term Arrangement Regarding International Trade in Cotton Textiles of 1962 limited import increases in eight categories from Japan.⁸ The agreement, which became the prototype for bilateral import regulations, put into place not only total volume controls. Japanese industry feared that it could be a devastating economic blow to companies that specialized in certain products.

Japan, much of whose economic growth had been tied to sales to the US market, endured the export restrictions to a certain extent. However, the Japanese government resisted Nixon's demands for more comprehensive restrictions because this could impair the growth potential of the synthetic fiber industry, which was about to take off even as the Japanese textile industry was declining. This coincided with an important shift in the US-Japan relationship. The United States, about a quarter-century after its victory in the Pacific War, began to see Japan as a real economic rival, while Japan, decades after its defeat, had gained renewed national pride and sought more independence from the US as an economic power in its own right.

Okinawa and Textiles, Intertwined Issues

In May 1969, the Nixon administration dispatched Secretary of Commerce Maurice H. Stans to East Asian countries, after a trip to Europe, to start negotiations for more textile import restrictions. Japan was the first stop of the tour. Minister of International Trade and Industry (MITI) Masayoshi Ohira argued that US demands for import controls could not be justified unless the United States proved an injury caused by Japanese imports. At the time, the Japanese government was faced with strong pressure from the domestic industry not to cave in to US demands. America and Japan soon became locked in irreconcilable opposition on this issue. Richard Nixon, looking ahead to the need to be re-elected in 1972, regarded textile import restrictions as a vitally important campaign promise and sought to use every possible leverage to get concessions from the Japanese. Thus, the issue of Okinawa reversion, the most important agenda item for Japanese Prime Minister Eisaku Sato, was destined to become merged with the ongoing textile debate.

With Okinawa still under US military control, in 1965, Sato had paid the first visit to Okinawa by any Japanese leader after the Pacific War. In a speech delivered at Naha Airport (part of Naha Air Base), Sato declared that unless Okinawa was returned to Japan, Japan's post-war period would never be over.⁹ Within Japan, the speech was taken as Sato's declaration identifying Okinawa reversion as his primary campaign promise, essential to retaining political leadership. Indeed, many saw it as reckless gamble at a time when Okinawa served as a vitally important US staging base for the war in Vietnam.

However, the events of 1968 showed that discontent and anger among the Okinawan people toward US military rule, more than 20 years after the end of World War II, had accumulated to a critical point. In the November election for the chairmanship of the Okinawa government, Chobyō Yara, a pro-reversion candidate, defeated by a large margin a rival supported by both the US and the Japanese governments. Then, the crash of a B-52 strategic bomber at Kadena Air Base escalated local pressure against US military rule and strengthened the push for reversion. The United States had reason to worry about the possibility that Japan might request that the security treaty be abrogated after 1970, when its term expired, unless Washington moved quickly on the Okinawan issue.

From its entry in office, the Nixon administration was very concerned about the situation in Okinawa. After noting that Okinawa reversion had been discussed at Nixon's first National Security Council meeting and first meeting with the Joint Chiefs of Staff, National Security Advisor Henry A. Kissinger observed:

The [Joint] Chiefs [of Staff] considered our Okinawa bases to be of inestimable value, not only because of their convenience for Indochina operations but also for our whole strategic position in the Pacific. The Chiefs were already coming to accept the judgment of the State Department, supported by me, that reversion to Japan was politically imperative. They wanted to make certain, however, that they would have the right to continue to use the bases with a minimum of interference (they hoped none at all).¹⁰

After noting the "massive demonstrations" staged by Okinawans in 1969 outside a US

airfield, “protesting the presence of B-52s used for our operations in Indochina,” Kissinger concluded:

The political reality was that the pressures in Japan for reversion were now unstoppable; agitation against our presence not only posed a physical danger to our use of the bases but also could jeopardize the political position of Sato and the governing Liberal Democratic Party, which had initiated and maintained Japan’s alignment with the United States for two decades. In short, the military and political risks of seeking to maintain the status quo outweighed the military cost of having somewhat less flexibility in operating the Okinawa bases under Japanese sovereignty. Indeed, our refusal to negotiate an accommodation could well lead as a practical matter to our losing the bases altogether.¹¹

These internal deliberations within the Nixon administration meant that US negotiators, from the president down through the upper foreign policy establishment, were primed to be reasonably receptive to Japanese demands regarding Okinawa.

On March 10, 1969, in a statement in the Diet, Sato declared publicly his desire to negotiate for Okinawa reversion, in which the island would have the status of *kakunuki hondo-nami*, signifying non-nuclear but upgraded home-level status with application to the security treaty. Sato said, “Military bases can’t function fully without the understanding of local people. Local people can’t accept bases if nuclear weapons, which they hate, are deployed there.”¹² With Japan the only nation to have been attacked by nuclear bombs, Sato saw a non-nuclear Okinawa as a key to retaining support from the Japanese people. In 1967, Sato had pronounced “Three Non-Nuclear Principles”: Japan would not manufacture, possess, or introduce nuclear weapons.¹³ This meant that Sato had to request to Nixon that the United States remove all nuclear weapons from Okinawa and apply all the agreements accompanying the security treaty to Okinawa, including the prior consultation obligation on the use of US military bases in Okinawa, which were then free from the restrictions on weapons and movement.

In preparation for the summit meeting, planned for November 1969, the United States tried to maintain broad military rights under its military rule as much as possible in opposition to Japan, while Japan pursued Okinawa becoming a part of the Japanese sovereign state. In May 1969, Nixon approved the National Security Decision Memorandum (NSDM 13), which outlined official US policy and, in particular, the government’s stance toward the reversion of Okinawa.¹⁴ NSDM 13 provided that there would be an agreement for reversion in 1972 if the United States retained the maximum free, conventional use of bases on Okinawa, particularly with respect to possible military actions regarding Korea, Taiwan, and Vietnam. It also mentioned that the president would consider withdrawing nuclear weapons from Okinawa, while maintaining emergency storage and transit rights, at the final state of the negotiations, if other elements were satisfactory. The document intentionally left the issue of nuclear weapons dangling over the negotiations as a question to be solved later. In that way, the United States hoped to gain concessions regarding Japanese commitments on relaxing prior consultations and other elements in the agreement.

Sato left negotiations on nuclear weapons in Okinawa to Kei Wakaizumi, a Kyoto Sangyo University professor who had also worked as a private emissary during the 1967 US-Japan summit meeting, when both countries agreed to discuss the disposition of Okinawa within a few years. This time, in 1969, Wakaizumi and his counterpart, National Security Advisor Kissinger, agreed to make two secret memoranda. One memorandum provided that Japan assured the US the right to introduce nuclear weapons to Okinawa in cases of emergency. The second outlined the textile agreement, where Japan would accept export restrictions on wool and synthetic fiber products for five years from 1970. According to the scenario projected by Wakaizumi and Kissinger, the United States and Japan were supposed to conclude the bilateral textile negotiation by the end of 1969, situating the countries to move on to multilateral treaty negotiations for export quantity limits at the General Agreement on Tariffs and Trade (GATT), which would include other exporters such as South Korea and Taiwan.¹⁵

In November 1969, a Nixon-Sato summit was held at the White House.¹⁶ On the first day of the three-day summit, the two leaders discussed mainly Okinawa reversion and other international issues.¹⁷ When the formal talks concluded, Nixon asked Sato to meet him along with Kissinger in an anteroom of the Oval Office. According to Wakaizumi, who later disclosed the secret nuclear negotiations with Kissinger in his book, Nixon and Sato signed a secret agreement about the emergency rights of re-entry and storage of nuclear weapons in Okinawa.¹⁸ On the second day, the leaders at the summit talked about economic issues, including textile problems, but Sato asked Nixon not to refer to textiles publicly because Sato feared that it could give the impression that he had traded the domestic textile industry for Okinawa, and as a result, it would decrease the political value of realizing his campaign promise.¹⁹ In a joint communique published on November 21, Nixon and Sato announced they had agreed on the reversion of administrative rights over Okinawa to Japan, consistent with the Japanese non-nuclear policy, but there was no reference to the textile issue.²⁰ Instead, the communique emphasized that nuclear-capable Mace B missiles would be removed to symbolize a non-nuclear Okinawa.

We now know that before the summit, the United States and Japan made another secret pact related to financial aspects of the Okinawa reversion. According to a declassified memorandum of understanding signed in 1969 by Japan's finance vice-minister for international affairs, Yuichi Kashiwagi, and his US counterpart, Anthony Jurich, Japan agreed to pay \$375 million to the US to cover the costs of Okinawa reversion. Of the \$375 million shouldered by the Japanese, \$175 million involved inheriting US commercial assets, and \$2 million was to be applied to other expenses, including base maintenance and improvement. In Japan, Sato and Finance Minister Takeo Fukuda kept the memorandum secret, revealing it to only a few in their inner circle for fear of the public reaction should it be exposed.²¹

In Japanese documents, newly declassified in December 2018, we can find other evidence that US and Japanese officials tried to avoid linking Okinawa reversion and textile negotiations so that interests of security and trade would not interfere with each other.²²

In a meeting on August 28, 1969, US Ambassador to Japan Armin H. Meyer told Foreign Minister Kiichi Aichi: “We do not intend to put Okinawa and textile problems in a single package.”²³ On the other hand, he said that there were strong opinions in the United States that it should not accept Okinawa reversion until textile issues were solved. Further, Myer mentioned, “We can’t deny that there is a connection between the two issues although President resisted the demand to take advantage of the linkage.”²⁴ In another meeting, on October 15, 1969, Meyer again said that he did not want to associate Okinawa with economic disputes because the economy itself is “a complete issue,” and the economic issues were to become the most significant for the United States and the Nixon-Sato summit. Mayer even made threatening remarks such as that there would be trouble unless some breakthrough was made in the textile negotiations.²⁵

Reacting to this attitude from his US counterpart, Japanese Ambassador to the United States Takezo Shimoda suggested that Japan should solve textile issues as soon as possible.²⁶ However, in a telegram dated September 3, 1969, Shimoda conveyed to Tokyo his concern about the mood in the US Congress, saying that Japan must be cautious about making concessions at an early stage of the negotiations without any prospects.²⁷ Given the mixed message from Shimoda to Tokyo, it was apparent that Japan had not yet decided its optimum position on textile issues.

Broken Promises

Both the US and Japanese governments publicly presented the Okinawa reversion agreement as a historic achievement. This led the Liberal Democratic Party (LDP) to a landslide victory in a snap election for the Diet’s lower house, where the LDP and its allies won 303 of 486 seats in December 1969. Then, Japan and the United States were supposed to play their respective roles in the scenario that had been secretly agreed upon. By the spring of 1970, however, it had become clear that not all of these promises were going to be kept. Although Japan was supposed to agree to comprehensive export restrictions in bilateral talks held in Geneva by the end of 1969, it ultimately rejected the US proposal based on the agreed scenario, and the textile negotiations came to a standstill.²⁸

It remains hard to discern exactly how Eisaku Sato tried to bring to fruition the secret agreement on the textile trade that had accompanied the 1969 Nixon-Sato summit. Sato never shared information on back-channel exchanges, and he never asked for the cooperation of Japan’s domestic industrial leaders to try to find a solution. Even MITI Minister Ohira and his successor Kiichi Miyazawa appeared not to have known about the secret textile accord. Although Sato must have been convinced that the secret accord was necessary to realize the reversion of Okinawa without nuclear weapons, he also might have thought it wise to keep the deal secret in order to maintain his leadership position, all with an eye on the snap election of 1969.

However, even as Sato strove to keep matters secret, the attitude of the domestic textile industry hardened as it came to suspect that Sato had made some kind of deal with

Nixon to sell them out. Faced with pressure from the industry, it became more difficult for the responsible ministers and bureaucrats to compromise in order to move the negotiations forward. In US government circles, discontent with Japanese reaction brought on views that the quota allocation law for textile imports should be strengthened further. Then, another negotiation round between Miyazawa and his counterpart, Stans, held in Washington, D.C., in June 1970, also ended without any breakthroughs.

On October 24, 1970, about a year after the Nixon-Sato summit with its agreement on Okinawa reversion, the two leaders met again in San Clemente, California, and this time textiles were the main issue. Sato explained that he faced strong pressures from the domestic industry, which was quite suspicious of secret deals, and asked for understanding concerning the delay. When Nixon asked whether Sato could settle the dispute before the mid-term election scheduled in the US for November 3, the Japanese prime minister assured him that Japan would agree to a comprehensive import restriction, pledging that he could find a way out before the coming election.²⁹

To break the stalemate, the respective chief negotiators for both countries were replaced by White House aide Peter M. Flanigan and Ambassador Nobuhiko Ushiba. Nevertheless, the negotiations soon reached an impasse in December 1970. Although Japan showed a more flexible attitude with regard to broader export restrictions than before, the United States did not see new proposals that it deemed satisfactory. Concerned with the broader threat posed to exporters by quota legislation that was moving rapidly through the US Congress, the Japanese industry tried to implement their own voluntary quotas. The powerful chairman of the House Ways and Means Committee, Wilbur Mills, decided to obviate the Congressional legislation and supported the Japanese move. However, three days after the announcement of Japanese voluntary quotas, President Nixon denounced them in a strongly worded statement. Nixon thought that a powerful Democratic rival might try to take credit for solving the textile dispute and in that way overshadow the efforts of the president and his administration.³⁰

These textile negotiations, dragged out and thorny, harmed the overall US-Japan relationship. On July 6, 1971, Nixon announced that he would visit China, a first for a sitting US president. The possibility that the United States would abruptly recognize the People's Republic of China had been the worst nightmare for Japanese diplomats, and the first steps toward that outcome very suddenly came to pass. Nixon choose not to consult with Japan about his travel to China, and the US administration notified Japan of the president's plan just a few minutes before he delivered his speech.

On August 15, 1971, one month after the "China shock," Nixon gave Japan another blow by announcing his new economic policy, which aimed to decrease US trade and payment deficits with trading partners such as Japan.

Nixon told national radio and television audiences that the new policy was "to protect the dollar from the attacks of international money speculators"³¹ and called on trading partners to "compete as equals."³² Nixon also declared that the United States would no longer "compete with one hand tied behind her back."³³ This meant that the United States

would suspend direct international convertibility of the US dollar to gold under the Breton Woods Agreement. It forced the Japanese Central Bank to intervene in the foreign exchange market to prevent the yen from increasing in value since it could hurt exports. Japan had to buy 1.3 billion dollars to support the yen-dollar exchange rate of 360 to 1, but it could not stop the yen from increasing rapidly. Ultimately, it accepted the upward float of the yen. The series of actions taken by Nixon shook the Japan-US relationship, whose foundation in the post-World War II era had been based on free trade and the security treaty.

These appeared to be calculated insults by Nixon to Sato, punishing him for not implementing the secret textile accord, which Nixon still considered an important campaign promise integral to his re-election efforts. In his autobiography, Nixon simply wrote, "The reaction abroad to our China initiative was generally favorable, but there were some understandable reservations. . . . The Japanese presented a particularly difficult problem. They resented the fact that they had not been informed in advance, but we had no other choice. We could not have informed them without informing others, thus risking a leak that might have aborted the entire initiative."³⁴

In Search of a Deal between Okinawa and Textiles

Even as political confrontation between Japan and the United States over textiles became severe, the US government tried to use negotiations on the Okinawa Reversion Treaty as leverage to extract concessions from Japan on textiles. While a stalemate on the textile negotiations continued into 1971, the Okinawa Reversion Treaty, with a planned signing date in the same year, reached its final stage. In a letter to Secretary of State William Rogers, the Chairman of the Senate Foreign Affairs Committee, William Fulbright, reasserted the Senate's treaty power, which required two-thirds of the senators present to cast their votes in favor of an agreement for it to become law. He thus urged that any settlement of the Okinawa issue be submitted in the form of a treaty to the Senate. Since the administration intended to acquire some kind of congressional approval, Rogers answered the request positively. The US media reported that the treaty could be used as a hostage by lobbying groups for the textile industry in the southern states or other protectionists, pushing their own agendas.³⁵ After both sides calculated the time needed for both governments to ratify the agreement, the signing date for the treaty was initially set for May 1971, but afterwards, it was pushed back to June 17, 1971.

The formal US-Japan negotiations for the Okinawa treaty, based on the agreement reached at the Nixon-Sato summit in November 1969, started with a meeting on June 5, 1970, between US Ambassador Meyer and Foreign Minister Aichi Kiichi.³⁶ After this, the bilateral negotiations proceeded through multiple diplomatic channels that included the ambassador, the deputy chief of mission, the attaché, and their Japanese counterparts. As the talks progressed, the details of the financial agreement and the description of the territorial rights regarding the Senkaku Islands surfaced as the most challenging items of

the Okinawa treaty.³⁷

In a meeting held on April 1, 1971, Aichi repeatedly demanded that the treaty specify the area whose administrative rights were to be returned to Japan, including the Senkaku Islands, and he also stressed the importance of early reversion of US bases in the area of Naha, Okinawa's long-time capital and largest city.³⁸ He made an especially strong claim that the US should return its rights with regard to Naha Air Base, which was seen as an important symbol of the Okinawa reversion to Japan. He also mentioned that it could shoulder the relocation cost of P-3 anti-submarine warfare (ASW) patrol aircraft from the air base, whose destination had not yet been determined.

The Senkaku Islands dimension of the negotiations was complicated by the interest of Taiwan (Republic of China) and China (The People's Republic of China). In 1968, the United Nations had issued a report identifying potential mineral deposits on the islands. Taiwan and China asserted territorial claims over the Senkaku Islands, with China also maintaining that Taiwan should also be properly considered a subdivision of China. In light of this situation, it became even more important for Japan to specify that the islands were a part of the area whose administrative rights were to be returned to Japan as a part of the Okinawa reversion. However, the United States was unwilling to get involved in the territorial issues and was quite cautious about dealing with it in the Okinawa treaty.³⁹ Furthermore, the US military regarded the unrestricted use of the Okinawa bases as one of the highest priorities in the negotiation of the reversion. Military officials strongly suspected that Japan would try to use the reversion as an excuse to reduce and realign the bases. They were thus reluctant to respond positively to Japanese demands on issues such as Naha Air Base.

In this delicate diplomatic situation, Japan made the following proposal: the Japanese would pay for the relocation costs of the P-3 aircraft units from Naha Air Base, but they proposed doing so by allocating money from the \$65 million that Japan had agreed to pay in the secret financial accord made with the US in 1969.⁴⁰ Japan had agreed to pay \$375 million in reversion costs as a whole, but since it would be quite difficult to pay all the expenses with cash, an adjustment had been made. The US and Japan later had come to agree that Japan would pay \$75 million in the form of goods and services, \$65 million of which would go toward the repair and maintenance of military facilities, and \$10 million for labor administrative costs. Then, according to a telegram dated April 2, 1971, sent by Meyer to the State Department, Yusuke Kashiwagi, Japan's Finance Vice-Minister for International Affairs, had claimed that "Naha Air Base without US military aircraft" had to be realized on the day of the reversion, an objective that both Foreign Minister Aichi and Finance Minister Fukuda strongly desired.⁴¹

The United States did not accept this Japanese proposal. The US government, trying to maximize Japan's payments, demanded that Japan pay the P-3 relocation costs from additional monies, beyond the \$65 million previously agreed upon. As for the Senkaku Islands, the US proposed that the Memorandum of Understanding, to be attached to the treaty, simply specify the longitude and latitude of the area whose administrative rights

would be returned to Japan, and Japan accepted it by April 1971. Although Japan had wanted the Senkaku Islands to be explicitly specified in the treaty, its demand would be partially satisfied since the islands would be inside the specified area.

A New US Negotiator Takes the Reigns

In March 1971, a pivotal change occurred on the US textile negotiation team. President Nixon named former Secretary of the Treasury David M. Kennedy to serve as the chief negotiator. After his tenure at the Treasury Department had ended in December 1970, Kennedy had stayed in the Nixon administration as ambassador at large. He emerged as a central figure to navigate the US-Japan relationship on this difficult economic issue since he was highly regarded by the Japanese. To support his effort, Kennedy then picked Anthony Jurich as a special advisor and called on a number of other close aides to help out, including Peter Peterson, a White House advisor on international economic affairs.⁴²

David Kennedy faced a formidable negotiating challenge: to conclude textile negotiations, not only with Japan but with other East Asian countries as well, specifically obtaining their agreement to export restrictions to the United States. Kennedy believed that a breakthrough in negotiations with other East Asian countries put pressure on Japan to make concessions. If Japan did not change its position, Kennedy intended to apply Section 204 of the Agricultural Act of 1956, giving the US government the ability to enforce import quotas unilaterally.⁴³ In a memorandum by White House Chief of Staff H. R. Haldeman to Peterson on April 23, 1971, Haldeman noted the “President wants to play a tough game against Japan in every field” and conveyed Nixon’s wish to “hit the Japanese at every chance we can.”⁴⁴

Kennedy started his first trip to East Asia at the end of April 1971, during which he had meetings with Japan’s Finance Minister Takeo Fukuda and Prime Minister Eisaku Sato on April 24 and 26. In one of these meetings, Sato explained to Kennedy that there was some “misunderstanding” about textile issues between the United States and Japan, but he was determined to push for an early solution of the issues. However, the hardliners in the Nixon administration were more convinced that the United States should try to force Japan to accept US demands by threatening that dragging out the textile negotiations would negatively affect the Senate ratification vote over the Okinawa treaty.⁴⁵

During his second trip to East Asia from the end of May 1971, Kennedy suggested to the White House that the United States should use the Okinawa treaty as leverage to change Japan’s attitude. In a memorandum to Peterson dated June 1, 1971, Kennedy pointed out that Japan had taken advantage of the US negotiating strategy and urged that the United States government postpone signing the Okinawa treaty until the bilateral textile negotiations had been concluded.⁴⁶ National Security Advisor Kissinger turned down Kennedy’s suggestion since to cancel the signing immediately before the ceremony could jeopardize the whole relationship, and the idea was “too extreme.” Nevertheless,

Kennedy continued to try to strike a deal that would link the Okinawa and the textile issues, even after this setback for him.⁴⁷

Using the Senkaku Islands as a Pawn

On May 31, 1971, Ambassador David Kennedy departed the United States for his second trip to East Asia, including Taiwan, South Korea, Hong Kong, and Japan. The first stop was Taiwan, and here Kennedy launched a strategy where the United States would make some kind of import restriction agreement with Taiwan and then use it as a prototype for negotiations with other countries. In this context, to conclude negotiations with Taiwan was the litmus test for Kennedy's game plan.

During the six-day negotiating session, the United States and Taiwan tentatively agreed that Taiwan would restrict its textile products exports to the United States for five years. However, the most important questions, such as the proper future export growth rate for the countries to adopt, were left unanswered, since options that would satisfy both American and Taiwanese industries were very difficult to find. In a memorandum dated June 7, 1971, Peter Peterson suggested to President Nixon that the United States should make a major decision and cater to Taiwan's principal demand, which was to exclude the Senkaku Islands from the areas to be returned to Japan as part of the Okinawa reversion.⁴⁸

According to Peterson, Kennedy believed that to postpone returning the islands was "the only way" to succeed in the textile negotiations. Explaining Kennedy's view that an agreement with Taiwan was "fatally important" to procure concessions from Hong Kong, South Korea, and Japan, Peterson stressed that to keep the Senkaku Islands under US administration was a conciliatory measure needed for Taiwan because it showed US support for Taiwan's position on the islands. Peterson also quoted Kennedy's remark that it would have a "needed shock effect" on Japan, which had not compromised on export restrictions.⁴⁹ By then, Taiwan had repeatedly asked the United States to reconsider its position on the Senkaku Islands. In April 1971, Taiwan's Ambassador, Chow Syu-kai, raised the question directly to Nixon, expressing his opposition to the US returning the islands to Japan. He argued that such a US move would chase the National Party into a corner when nationalist movements arose in Taiwan. However, the United States never responded to Taiwan's request. Still, in discussions within US government circles, Kennedy maintained that the United States should change its position on the islands, using it as an ace to find a breakthrough in the textile negotiations.⁵⁰

On the afternoon of July 7, 1971, a meeting was held for the president to make the final decision on Kennedy's proposal.⁵¹ Based on research overseen by Under-Secretary of State and former US Ambassador to Japan U. Alexis Johnson, at his instruction, National Security Advisor Kissinger explained that Japan retained the residual rights to the Senkaku Islands, but the administrative rights had been transferred to the United States when the San Francisco Peace Treaty in 1951 stipulated that the US military governed Okinawa. On account of this history, Kissinger maintained that to return the admin-

istrative rights to the Senkaku Islands as part of Okinawa was a done deal.⁵² He feared that Japan would react negatively if the United States abruptly decided to exclude the Senkakus from the Okinawa reversion package. This could cause the Okinawa reversion agreement to collapse and the textile negotiations to deadlock.⁵³

According to meeting records, Nixon criticized Sato for breaking the private promise he had made regarding voluntary textile export restrictions, and he indicated his understanding of the motivation of Kennedy's proposal, saying that the United States could be tougher on Japan on trade. However, while Nixon questioned "why we included the goddamn islands" in the areas to be returned, he rejected Kennedy's proposal on retaining the Senkakus on the grounds that "We can't go back in Okinawa."⁵⁴ The president recognized that the potential damage caused by the move Kennedy had advocated could be enormous, and he decided that the United States should not take such a risk. Peterson then delivered the result of the meeting to Kennedy by telegram, writing: "Deal has gone too far and too many commitments made to back off now."⁵⁵

Although Nixon decided to return the Senkaku Islands to Japan, as planned, a series of actions were taken to show US consideration for Taiwan. A memorandum on June 10, 1971, prepared by Under-Secretary Johnson, indicated that in a meeting held in Paris, Secretary of State Rogers had asked Japanese Foreign Minister Aichi to talk with Taiwan over the Senkaku Islands.⁵⁶ On June 16, 1971, the day of the signing of the Okinawa treaty, the State Department issued a statement declaring that returning to Japan the administrative rights of the Senkaku Islands did not contradict the basic rights of Taiwan.⁵⁷ At that time, Nixon was preparing for his first visit to China, and the administration might have recognized the necessity of more conciliatory measures toward Taiwan since it needed the cooperation of the country in the textile negotiations.

Relocating P-3s from Naha Air Base

For the US military, what was of paramount importance was not only maintaining base rights on Okinawa but also gaining considerable compensation on the basis of prior financial agreements with Japan. The Nixon administration thus tried to collect on the extensive investments made in Okinawa during the 25 years of US military control there. In calculating the costs of the reversion of Okinawa to Japan, the American government was looking to maximize Japanese payments to the US.

Let us turn next, then, to the ongoing bilateral negotiations. Here, in addition to the \$375 million specified in the secret accord of 1969, Japan had also agreed by May 1971 to pay \$20 million for the relocation costs of Voice of America (VOA) outside of Japan and compensation for restoring Okinawan lands that were damaged by the US military under the name of "ex-gratia." But of this total \$395 million, the Okinawa treaty specified only \$320 million.⁵⁸ The details of the treaty, which committed \$320 million and goods and services of \$75 million in the secret memorandum, were never explained to the public. Furthermore, the issue of costs related to the transfer of Naha Air Base to Japan and

the relocation of the P-3 aircraft units from the base remained unresolved. The Japanese side still very much wanted to allocate the money from the \$65 million specified in the secret agreement for base maintenance and improvement that was a part of \$75 million mentioned above. Since the government of Japan did not want to publicly disclose that it was paying these relocation costs, it wanted to extract the needed money from the secret \$65 million. But the US Department of Defense had already rejected this possible outcome. Even after the United States and Japan invented an explanation for all the payments, both sides could not find a solution to the stalemate related to Naha Air Base as of May 1971, shortly before the signing of the treaty. Japan argued that it would shoulder the relocation costs of P-3 aircraft units from the \$65 million that Japan had secretly agreed to pay for base maintenance and improvements, but the United States, especially the Department of Defense, did not accept the proposal.⁵⁹

Ambassador David Kennedy considered how this issue might affect the ongoing textile negotiations. In a memorandum dated May 12, 1971, Kennedy explained to Nixon that the Okinawa treaty negotiations were soon to be concluded on terms favorable to the US government, with the Naha Air Base item the only unresolved matter.⁶⁰ Referring to the fact that Japan had already agreed to pay \$300 million in cash, Kennedy argued that the Japanese financial contribution was large enough to offset the potential loss caused by the P-3 relocation, should it be carried out as Japan wished. He recommended that the US accept the Japanese proposal. Kennedy added the observation that Finance Minister Takeo Fukuda had taken charge of the financial negotiations regarding the Okinawa reversion and that he also had influence on the textile negotiations as well. Fukuda perceived having the Naha Air Base without US military aircraft as an important symbol of the reversion of Okinawa to Japan, and Kennedy commented that a negative impact on the textile talks could not be avoided if the US clung to its position on the P-3 relocation costs.

Many of the records of internal discussions within the US government over Naha Air Base remain classified; however, we can find that the Pentagon did finally withdraw its opposition after Kennedy sent the memorandum detailed above to the president. In a telegram dated June 2, 1971, Under-Secretary of State Johnson described to Kennedy the process in which Anthony Jurich had told Japanese counterparts that the United States now accepted the Japanese proposal to shoulder the P-3 relocation costs from the \$65 million allocated for base maintenance, and he concluded that it was an “important concession to GOJ as bargaining leverage.”⁶¹ Kennedy explained to the White House explicitly why the US had decided to concede on the P-3 relocation issue, commenting that it was to provide a favor to Fukuda so that the US could extract concessions from Japan in the textile negotiations.⁶²

Kennedy was trying to advance the textile negotiations through a negotiating policy involving both pressure and compromise. The possibility of canceling the signing of the Okinawa Reversion Treaty or of retaining the Senkaku Islands under US administration could be identified as sticks. Conceding on the P-3 relocation costs might be identified as

a carrot. What eventually happened was that P-3s (later replaced by P-3Cs) stayed at Naha Air Base until 1975, but the costs of relocating the unit were eventually allocated from the \$65 million for base maintenance and improvements.

The P-3 controversy arose in the context of a broader issue concerning US bases in Japan. The Japanese government understood that the \$65 million payment should be earmarked for relocation costs related directly to the Okinawa reversion. The United States, however, interpreted “relocation costs” to also include the relocation of the US military and its facilities around the Japanese main islands. It argued that the Japanese funds could be spent for base maintenance at bases located anywhere in Japan. Article XXIV of the US-Japan Status of Forces Agreement (SOFA) stipulates that Japan is obliged to offer areas and facilities to the United States while the United States has to shoulder costs related to maintaining its forces in Japan.⁶³ Arguably, then, the position had no legal foundation; nevertheless, in their negotiations, Fukuda and Kennedy found a solution to satisfy both sides.

On June 8, 1971, during a stay in Taiwan, Kennedy reported on his latest conversation with Fukuda and noted that Fukuda had agreed to relax Japan’s interpretation of Article XXIV of the SOFA so that the US could use the \$65 million for base maintenance all over Japan.⁶⁴ Under-Secretary Johnson also referred to this agreement in a telegram to Secretary of State Rogers, commenting that Fukuda had agreed that the US could use the \$65 million even to build new facilities.⁶⁵ At a meeting in Paris on June 9, 1971, Rogers and Foreign Minister Aichi then reached an agreement that the United States could use the \$65 million for broader base maintenance and improvements by relaxing interpretation of Article XXIV.⁶⁶ For Fukuda, who was hoping that Prime Minister Sato would choose him as his successor, advancing the Okinawa Reversion Treaty negotiations smoothly was quite significant. The fact that the Japanese side agreeing to relax interpretation of the SOFA coincided with the American side conceding over allocating relocation costs from the \$65 million payment suggests that Fukuda may have tried to match Kennedy’s concession with his own concession.

An Armistice in the Textile Negotiations

The disputes over textile trade, which had shaken the postwar US-Japan relationship, finally came to an end on October 15, 1971. The US and Japan first noted in a Memorandum of Understanding (MOU) that Japan would voluntarily restrict wool and synthetic fiber exports for three years. A US-Japan agreement, officially signed on January 3, 1972, included the same terms found in the MOU of the memorandum and was in line with US demands on the issue. Nevertheless, it is hard to conclude that an economic armistice came about by linking textile negotiations to the Okinawa reversion.

During Kennedy’s second trip to East Asia, Taiwan had agreed to textile export restrictions to the United States. However, the US negotiations with South Korea and Hong Kong did not progress as Kennedy had hoped. Kennedy’s broad negotiating

strategy, in which he hoped that the US could use an agreement with Taiwan to push other countries to make similar concessions, lost its viability. Two cardinal events, the announcement of the New Economic Plan by the Nixon administration and a Japanese cabinet reshuffle, changed the course of the textile negotiations.

What hit Japan hardest were referred to as Nixon's twin shocks: the delivery of the New Economic Plan address and the announcement of the president's upcoming visit to China. Obviously, the main target of the New Economic Plan was Japan, which had run a trade surplus with the US of over \$3 billion in 1971. It reflected the Nixon administration's view that tough measures were necessary to change Japan's economic policy, whose extensive regulations and closed market were seen as barriers for US goods. On announcing the New Economic Plan, the US government implied that it could invoke the Trading with the Enemy Act, passed by Congress in 1917 and amended after the Pearl Harbor attack by Japan, which made a unilateral import quota possible as part of a new policy. This was meant to emphasize that Japan would have to accept US demands on textile trade to prevent the bilateral relationship from deteriorating. In the Japanese cabinet's reshuffle, which occurred on July 5, 1971, Kakuei Tanaka, another aspirant to become prime minister after Sato, was appointed Ministry of International Trade and Industry (MITI) minister. Tanaka had strong motives to solve the trade disputes as soon as possible in order to obtain Sato's support for his political ambitions.

Faced with continuing pressure from the domestic industry, Tanaka kept a strong posture against the US position, declaring that Japan could not cave in to the US on export controls. However, despite the bravado, he secretly conferred with Kennedy and began to set the stage for an agreement along the lines of the US demands. At the same time, he organized a 20 million yen relief package for Japanese industry that included low interest loans. Tanaka also tried to negotiate some concessions from the United States in return for relaxing the terms of the export restrictions.

Ironically, the international economic situation after 1971 seemed to show that the time and resources that both countries had poured into the bilateral textile negotiations might have been for naught. By December 1973, under GATT auspices, the countries concerned had concluded a broad agreement on the international textile trade. However, by then, other Asian producers had stripped Japanese industry of its competitive edge. Japan's textile sales to the US fell below the quota, and this brought the United States and Japan in 1974 to decrease the number of the items subject to export restrictions.

Conclusion

Between May and June 1971, when the United States struggled to advance textile negotiations, Ambassador David Kennedy and US officials sought ways to strike a deal with Japan by linking textile issues to Okinawa reversion, which was the most significant issue for Prime Minister Sato at that time. However, the negotiations did not develop as the US had hoped.

Kennedy proposed hitting Japan with a “shock effect” by cancelling signing of the Okinawa treaty or retaining the Senkaku Islands under US administration in an effort to cause Japan to cave in to US demands on export restrictions. However, President Nixon and National Security Advisor Kissinger refused his proposals because they were thought to put at risk the whole US-Japan relationship. Instead, accepting the Japanese offer to shoulder the relocation costs for P-3 units from already allocated monies, coupled with a flexible interpretation of monies that could be used for base maintenance, provided a path to finalizing Okinawa reversion. Nevertheless, this did not lead to a solution to the textile issues.

Nixon was angry with Sato for not keeping the promise on textiles made during their 1969 summit meeting, but at the same time, he was not prepared to take actions to jeopardize the Okinawa treaty right before its scheduled signing. The Nixon administration saw Okinawa reversion as an opportunity to turn Japan into “a responsible partner” to complement US leadership in the region, and it also believed that Japan could be more cooperative in continuing base rights for the United States.⁶⁷

In this context, the signing of the Okinawa treaty was a very important step toward serving broader US interests. As long as those interests were served, the US government did not want to extend confrontation over textiles to the security relationship. When the policy areas to be linked together are asymmetrical, as here in trade and security, the motivation to retain the linkage when difficulties and pressures arise is weak because it is difficult for the countries to meet their interests on the different issues in an agreement that both sides find to be mutually beneficial. In his memoirs, Kissinger underscored the disparate interests at stake when he wrote about linking the Okinawa reversion and the textile dispute as follows: “I was far from enthusiastic about linking an issue of fundamental strategic importance with a transient domestic political problem, and in effect blackmailing the Japanese on a matter of this kind. But I was not in a strong enough position in 1969 to block the collective judgment.” Later, he reflected more generally:

While Japan, the United States, Canada, and the nations of Western Europe are political and military allies, we are also inevitable economic competitors. As democracies, indeed, our systems disperse economic power as well as the political authority by which decisions are made on economic questions. No government has solved the problem of how autonomous national economic policies can be pursued without growing strains with political allies who are also trade rivals; even less have we solved the challenge of coordinating economic goals to reinforce the cohesion of free peoples. We proclaim interdependence but we have been reluctant to accept that this involves a measure of dependence.⁶⁸

We should also point out, however, that Nixon did not hesitate to put more economic pressure on Japan in the textile area. The New Economic Plan, canceling the conversion of US dollars to gold, complemented his determined posture on trade issues. The administration’s basic policy was to revive the US economy, damaged by the Vietnam War, by relieving the US dollar of its burden as the world’s reserve currency. The Nixon shocks of the New Economic Plan and the visit to China might have appeared in Japan as a US

president gaining revenge, but the major purpose was to decrease the financial burdens on the US. This shows that linkage tends to be established when the areas to be linked are symmetrical since then actors understand how many gains they could achieve by linkage.

In these negotiations with Japan, even if Nixon had accepted Kennedy's proposal that the US hold the Okinawa treaty hostage in order to force Japan to concede on trade, it was not at all certain that such a move would produce the desired results for the United States. The central idea of an Okinawa-textile deal was political in that it would please specific US interest groups, but Sato was faced with the same kind of pressure from the Japanese textile industry to not make concessions. If two actors, each with similar domestic issues, are in a difficult situation and become ready to compromise, linkage between symmetrical issues could be established. Thus, the Okinawa Reversion Treaty was signed with both parties making concessions but both also achieving important policy goals. However, if US attempts to link Okinawa reversion to textiles had endangered Okinawa reversion, which was the most important item on Sato's agenda, it would have been much more difficult for Japan to make concessions on textile trade. With both the United States and Japan playing a two-level game of domestic politics and diplomacy, if one country succeeded in making the other cave in, the result could be nullified by the outcome of the domestic political game each was also playing.

We also should take note that how eager countries are to link trade to a security relationship depends on the actors involved. When Nixon weighed the advantages against the disadvantages of linking textile negotiations to Okinawa reversion, he was careful to avoid options that might negatively affect the whole bilateral relationship. However, other leaders might respond differently.

In the 2020 Presidential election, former Vice-President Joe Biden blocked the re-election of President Trump. President elect Biden has already shown his willingness to restore the relationship with allies and change course from the "America first" agenda that Trump pursued. However, in the midst of the recession caused by COVID-19, pressures for Biden to enhance domestic interests over other countries' concerns are strong. If nations care less about weakening traditional alliances in order to get support from their domestic base, they may tend to take a risk and link trade to security and defense.

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