

# ***The Changes in Japan's Economic Strength after World War II and Its Impact on Japan-US Bilateral Relations***

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**Abstract:** After World War II, the bilateral relations between Japan and America has undergone ups and downs. In the early post-war period, the relationship between these two countries was very tense and unfriendly due to the hostile relation. However, after the policies of Japan and America changed when America started occupying and managing Japan, their relationship improved. Japan ushered in an economic miracle of 50 years after the war, one of the most essential reasons for it is the support of America. Also, the growth of the economy has brought Japan more opportunities to cooperate and negotiate with America, and the relationship between the two countries has shifted from unilateral support to competition through cooperation. This paper is mainly focusing on the Impact of Japan's Economy on Japan-US Bilateral Relations. In order to find out the process and changes of the Japan-US Bilateral Relations, this paper analyzed some references about this topic and found out that the economy has deeply influenced the relations between these two countries and Japan's economic miracle and stagnation made America restart locating the diplomatic relationship with Japan. This paper could help scholars have a better understanding of the influences of Japan's economy on US-Japan Bilateral Relations.

**Keywords:** Japan-US bilateral relations, postwar economic miracle, economic foam

## **1. Introduction**

The study of Japan-US relations has a considerable history, involving multiple fields such as politics, economy, security, etc. In recent years, with the advancement of digitization and big data technology, researchers have begun to explore this topic using new methods and tools, such as corpus-based text analysis and social media data mining. However, despite numerous research results, there are still some gaps and issues that require further in-depth research, such as:

**Research perspective issues:** Most researchers ignored the Japanese impact on the relations between these two counties but merely focused on the changes in American policies on Japan-US relations.

**Economic and trade issues:** Although the economic cooperation between Japan and the United States is very close, there are still disputes and frictions in certain fields, such as agriculture and automobiles. In addition, some researchers pointed out that the tendency of unilateralism and protectionism in the United States may have a negative impact on Japan's economy. Therefore, in order to make up the empty part of the research on Japan-US relations. This paper started with the impact of Japanese economic strength on the relations between these two countries and checked the

references about the economic miracle and stagnant of Japan and its impact on the Japan-US relation, summarized them to make clear the reasons for these issues, and let the researchers be more meticulous when analyzing about these issues and think deeper about them.

## **2. The Economic Counterbalance Between Japan and the United States after World War II and the Relationship Between These Two Countries**

### **2.1. Japan-US Relations under the Bretton Woods System**

#### **2.1.1. The Bretton Woods System**

In July 1944, representatives of major Western countries established the system at the United Nations International Monetary and Financial Conference, which was called the "Bretton Woods System" because it was held in Bretton Woods, New Hampshire, United States. Its basic contents include that the US dollar is linked to gold, and the currencies of IMF member countries maintain a fixed exchange rate with the US dollar. It established the world hegemony of the US dollar and laid the foundation for the US to lead world economic development.

#### **2.1.2. The Impact of the Collapse of the Bretton Woods System on Japan-US Relation**

The main factor that led to the collapse of the Bretton Woods System was the rising inflation in the US beginning in 1965. Before this year, the U.S. maintained low inflation and attached significance to the balance of payment deficit and the monetary gold stock. After 1965, the U.S. shifted to an inflationary policy. This policy shift was a reflection of the rising fiscal deficits due to the Vietnam War [1]. The inflationary policy of America directly leads to the collapse of Bretton Woods system in order to keep their gold safe. Under this circumstance, Japan seized the opportunity and its economy has rapidly risen to become the world's second largest economy, while the United States is beginning to face issues such as trade deficits and unemployment. Japan developed various industries, such as automobiles, semiconductors and daily items. Which caused a huge impact on the American market and its own industry. These factors have caused trade tensions between Japan and the United States, leading to fluctuations and instability in the relationship between the two countries.

### **2.2. Japan-US Relations During the Postwar Economic Miracle in Japan**

#### **2.2.1. The Postwar Economic Miracle in Japan**

The post-war economic miracle of Japan refers to the phenomenon of Japan's rapid economic rise and becoming the world's leading economy after World War II. This process mainly occurred between the 1950s and 1980s, including factors such as rapid growth, technological innovation, and export orientation, which led to significant success and international status for the Japanese economy in a short period of time.

Japan ended in defeat in World War II. Due to the devastation of war, the economy was in a state of disrepair. At that time, production was stagnant, materials were scarce, the economy was riddled with holes, and people's lives were very difficult. In 1950, Japan's GDP was only 10.9 billion US dollars, less than one-sixth of the United States at the time. However, after 30 years of rapid economic development, by 1980, the GDP had exceeded one trillion US dollars, accounting for one-tenth of the global GDP at that time, equivalent to 41% of the US GDP or the total of the entire Asian and African countries [2]. During the Korean War period, America took Japan as their host in Eastern Asia, and brought plenty of military orders, which had provided many Japanese enterprises with a primitive accumulation of capital. For example, Mitsubishi and Toyota were all developed due to the orders of America. And in this case, Japan had the ability to develop its own industry and economy. So the

Japanese government took a lot of positive industrial policies to stimulate the growth of economy, including Massive public investment and fiscal stimulus measures and so on. Also, they emphasized the creation of technologies to improve efficiency and reduce cost. All of these factors induced the Economic Miracle of Japan.

### **2.2.2. How Japan's Economic Strength Changes Japan-US Relations**

Japan's post-war economic growth has had a profound impact on Japan-US relations. With the continuous development and growth of the Japanese economy, Japan has gradually become one of the largest economies in the world and surpassed the United States in multiple fields. This situation has caused concern and disgust in the United States, leading to intense fluctuations in Japan-US relations.

Firstly, Japan's post-war economic growth made it more dominant in the global market, which posed pressure and threat to the United States. Due to the increasing competitiveness of Japan's manufacturing and export industries, even some Japanese companies have further expanded their global influence by acquiring American companies and investing in the US market, it caused America quickly began to complain that these policies harmed the interests of the United States and led to a trade deficit.

Secondly, Japan's post-war economic growth changed its role in geopolitics. For decades after the end of World War II, Japan had been an important ally of the United States, jointly resisting the influence of the Soviet Union and China in Asia. However, as Japan's economy grows and its international status improves, it is gradually attempting to play a more independent role on the international stage. This change has caused dissatisfaction and vigilance in the United States, and has led to a series of political controversies and conflicts.

## **3. The Impact of Japan's Economic Foam on Japan-US Relations**

### **3.1. Japan's Economic Foam**

#### **3.1.1. The Formation of Japan's Economic Foam**

The economic foam: the price inflation of a series of assets (especially Fictitious capital), which means that the market price rises significantly in a continuous process, making its market price far exceed the value it actually represents, forming a false prosperity and an economic aggregate with too many "foam".

During the late 1980s to 1990, the rapid growth of the economy brought flourish to Japan, but due to these reasons, Japan formed a fake and empty prosperous economy. First, the monetary policy promotes the development of a foam economy: In 1984, in order to stimulate economic growth and curb inflation, Japan carried out the reform of "financial liberalization", which has relaxed controls on interest rates and exchange rates. This change has led to a decrease in the interest rates of Japan's domestic bank lending and credit system, as well as related real estate regulations surge in investment that led to a large influx of funds into the real estate industry. More gold is invested in the real estate and stock markets, leading to a continuous increase in land prices. A significant increase in net asset value on the accounting book. Society was in a speculative atmosphere, neglecting production scale, and directly investing existing funds into the market, leading to an increase in land prices [3]. Second, excessive luxury in folk consumption: Due to the soaring stock prices and housing prices, many people have started to consume excessively, especially in pursuit of a luxurious lifestyle. Japan formed a very irrational social environment where even fresh graduates could have comparatively high salaries to sustain them live in luxurious life.

In 1985, the United States forced Japan to accept the appreciation of the yen, and the *Plaza Accord* was signed. The increasing purchasing power of the Japanese yen has more than doubled the ability of young people to consume imported goods. From cars, clothing, to alcohol, college students at that time had the opportunity to enjoy it. In the same year, the Tsukuba World Expo was held, the Tokyo Stock Exchange opened up to global markets, the Aohei Tunnel connecting Hokkaido and Kyushu Island was built, and everything seemed to be thriving. Young people's fashion is also rapidly changing, with four-wheel drive cars, CD players, and electronic game consoles selling well [4].

### **3.1.2. The Fracture of Japan's Economic Foam**

The collapse of the real estate market: In the 1980s, the price of the Japanese real estate market continued to rise, and a huge foam formed. However, in 1991, the real estate market suddenly collapsed, causing the financial situation of many companies and banks to deteriorate.

Huge non-performing loans: Due to excessive credit expansion and inappropriate investment behavior, many companies and individuals are unable to repay their loans, resulting in huge non-performing loans, which further affects the banking industry.

Consumption shrinkage and deflation: Due to the bursting of the economic foam, many people lost confidence and cut consumption expenditure, leading to consumption shrinkage and deflation.

### **3.1.3. Thirty Years Lost in the Japanese Economy**

After the collapse of Japan's economic foam, the growth of Japan's economy was stagnant from the early 1990s to the early 2010s. During this period, Japan's economic growth rate was lower than that of other developed countries, and it faced problems such as deflation, a weak job market, and an aging population. The global financial crisis and the rise of emerging markets such as China have weakened Japan's advantage in exports.

## **3.2. New Positioning of the United States Towards Japan after Japan's Decline in Economic Strength**

### **3.2.1. The Change of US Policy Towards Japan When Japan's Economic Foam Had Burst**

United States government had a totally new policy toward Japan when Japan's economic foam just burst, it has begun to shift the focus of economic cooperation to other countries in the Asia Pacific region like cooperating with South Korea and Taiwan province in the semiconductor field, transferring manufacturing to countries with abundant labor resources such as China and Vietnam. This is mainly because the United States recognizes the economic potential of the Asia Pacific region and hopes to promote its economic development by strengthening economic relations with other countries in the region.

However, though the economic strength of Japan has declined, America started strengthening the security cooperation between these two countries. The deployment of the United States in Northeast Asia has always been based on Japan and provides significant military assistance to address security threats in the region. Although the Japanese constitution stipulates that it cannot have the capability to engage in war, with the changing geopolitical situation and the severity of the North Korean nuclear issue, the United States has gradually accepted Japan's stance of strengthening its defense capabilities and actively promoted Japan to update its defense policy. Also, the United States hopes that Japan can play a more active role in international affairs to enhance the influence of both countries in regional and global affairs to face the challenge of the risen of China [5].

### 3.2.2. Future Prospects for Japan-US Relations

In order to keep the proceeding positions on the World Stage for both sides, Japan and America will continue their cooperation in lots of aspects including economy, security, politics and innovation. As the biggest and the third-biggest economy, the integration of trade and investment between the two sides will continue to keep their leading positions in the economy. And in order to ensure the implementation of America's Asia-Pacific policies, they will strengthen their collaboration in defense technology, intelligence sharing, and counter-terrorism.

The Japan-US alliance will not disintegrate for a foreseeable period of time in the future but will continue to be maintained; This alliance will even continue to be strengthened in the near to medium term; During this period, the "US dominance and Japan subordination" will continue to be the most fundamental framework for framing Japan-US relation [6].

## 4. Conclusion

This paper researched the economic growth of Japan after World War II and its impact on the Japan-US relation and analyzed the cooperation between Japan and America. Obtained a conclusion that Japan is the core of America's Asia-Pacific policies, it is the important reason for Japan's up and down. But Japan's economic growth provided it a great power status and caused a lot of threats to America, prompting the Japan-US relation to become from unilateral obedience to cooperation with competition. This paper could have more precise research about why America was one of the biggest reasons that induced the collapse of Japan's economic foam and the sign of *Plaza Accord*, and there could be more research about the future alliance of Japan and America under a new world pattern.

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