

# Linkage Diplomacy

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## Economic and Security Bargaining in the Anglo-Japanese Alliance, 1902–23

**P**owerful states have long used trade and aid policies to buy influence. Albert Hirschman in his classic work, *National Power and the Structure of Foreign Trade*, explained the logic of dependency with the example of Nazi Germany's use of bilateral trade policies to control its neighbors. After the end of World War II, the United States offered the Marshall Plan as economic aid to support European allies and turned a blind eye to protectionist policies by allies such as Japan and Korea even as their exports flooded U.S. markets. But in many other cases, economic policies have not been used to support allies. Hirschman criticized U.S. President Woodrow Wilson for the "premature breaking up of agencies of Allied economic collaboration which had been created for war purposes."<sup>1</sup> Even the U.S. willingness to open its markets to allies during the Cold War encountered limits—in 1969 President Richard Nixon forced Japan to accept voluntary quotas to restrain its textile exports, which was one of many such trade disputes to follow. This article argues that while the strategic value of an alliance motivates the provision of one-sided economic gains to allies, economic competition and domestic opposition shape the ability of states to use economic policy to serve security interests.

The capacity of states to offer economic side payments has direct importance for international security. First, economic ties bind allies more closely together.<sup>2</sup> Joanne Gowa explains that the security externality produced by income gains from trade makes states prefer trading with allies.<sup>3</sup> Side payments

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1. Albert O. Hirschman, *National Power and the Structure of Foreign Trade* (Berkeley: University of California Press, 1980), p. 67.

2. Paul A. Papayoanou, *Power Ties: Economic Interdependence, Balancing, and War* (Ann Arbor: University of Michigan Press, 1999); and Andrew G. Long and Brett Ashley Leeds, "Trading for Security: Military Alliances and Economic Agreements," *Journal of Peace Research*, Vol. 43, No. 4 (July 2006), pp. 433–451.

3. Joanne Gowa and Edward D. Mansfield, "Power Politics and International Trade," *American Political Science Review*, Vol. 87, No. 2 (June 1993), pp. 408–420; Edward D. Mansfield and Rachel Bronson, "Alliances, Preferential Trading Arrangements, and International Trade," *American Political Science Review*, Vol. 91, No. 1 (March 1997), pp. 94–107; and Joanne Gowa and Edward D.

are one tactic within an overall strategy to build alliances to balance against threats. Stephen Walt notes the common belief that “the more aid, the tighter the resulting alliance.”<sup>4</sup> Paul Papayoanou argues that high levels of economic interdependence between allies are necessary for stable balance of power politics.<sup>5</sup> The support of vested economic interests helps to mobilize resources for security policies and to signal to revisionist states that alliance partners will engage in firm balancing. These arguments suggest that side payments will vary according to the strategic value of the alliance. The significance of economic ties among allies highlights the need to explain the conditions under which allies are more or less willing to use this strategy to strengthen their alliance ties.

Second, economic interdependence is a key variable in studies of conflict, but its role is contested at both the theoretical and empirical levels. Realist theories argue that economic interdependence fosters clashes of interest from economic competition.<sup>6</sup> Liberal theories contend that common interests from interdependence raise the costs of conflict.<sup>7</sup> Both sides of this debate recognize the need to understand the conditions that support economic interdependence. As is further explored in this article, security interests represent one motivation for policies to promote economic interdependence. The simultaneous relationship between economic and security cooperation hinders inferences about the effect of interdependence on conflict. Various statistical approaches have yielded mixed results.<sup>8</sup> Recent studies cast doubt on the liberal claims by showing there is little significance or predictive power from variables of interdependence.<sup>9</sup> Such sharp differences call for further research.

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Mansfield, “Alliances, Imperfect Markets, and Major–Power Trade,” *International Organization*, Vol. 58, No. 4 (Fall 2004), pp. 775–805.

4. Stephen M. Walt, “Alliance Formation and the Balance of World Power,” *International Security*, Vol. 9, No. 4 (Spring 1985), p. 27.

5. Paul A. Papayoanou, “Interdependence, Institutions, and the Balance of Power: Britain, Germany, and World War I,” *International Security*, Vol. 20, No. 4 (Spring 1996), pp. 42–76.

6. Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979); and Katherine Barbieri, “Economic Interdependence: A Path to Peace or a Source of Interstate Conflict?” *Journal of Peace Research*, Vol. 33, No. 1 (February 1996), pp. 29–49.

7. Solomon William Polachek, “Conflict and Trade,” *Journal of Conflict Resolution*, Vol. 24, No. 1 (March 1980), pp. 55–78; and Bruce M. Russett and John Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: W.W. Norton, 2001).

8. Edward D. Mansfield and Brian M. Pollins, *Economic Interdependence and International Conflict: New Perspectives on Enduring Debate* (Ann Arbor: University of Michigan Press, 2003), p. 19.

9. Omar M.G. Keshk, Brian M. Pollins, and Rafael Reuveny, “Trade Still Follows the Flag: The Primacy of Politics in a Simultaneous Model of Interdependence and Armed Conflict,” *Journal of Politics*, Vol. 66, No. 4 (November 2004), pp. 1155–1179; and Michael D. Ward and Peter D. Hoff, “Persistent Patterns of International Commerce,” *Journal of Peace Research*, Vol. 44, No. 2 (March 2007), pp. 157–175.

Moreover, many studies in the existing literature on economic and security linkages are unable to distinguish between multiple possible causal mechanisms that could explain the same observed pattern. Few provide a model of state-society relations that would give rise to the expected patterns.<sup>10</sup> In their study, Omar Keshk, Brian Pollins, and Rafael Reuveny acknowledge that “we offer no specification of how the interests of private actors and the state might complement or compete with one another to change trade flows with particular partners.”<sup>11</sup> Using side payments to promote closer security relations is neither easy nor cost-free. Tariff policies, budgets, and other economic policies are all highly contested, and an extensive political economy literature explains the role of interest groups and political institutions in determining their outcomes.<sup>12</sup> Even when economic policies are motivated by security interests, domestic political conditions may act as a constraint. Looking closer at the process of making linkages between economic and security interests is necessary to understand the mechanism by which they influence policy outcomes.

In this article, I argue that side payments play an important role in alliance formation and maintenance, but that domestic political pressures constrain the ability of a state to offer one-sided economic gains to an ally. High strategic value for an alliance creates incentives for side payments, whereas growing economic competition between allies generates demands from domestic actors to use the alliance for bargaining leverage on economic policy. When state leaders confront these conflicting pressures, domestic constraints will influence the choice among options for linking economic and security policies. Both partisan stakes and policy process shape the level of domestic constraint. I hypothesize that domestic political autonomy for foreign policy decisions increases the likelihood of side payments, whereas legislative involvement and opposition from groups closely associated with the ruling party restrict their use. The executive is likely to use policies within its jurisdiction to offer side payments, and may be pushed to use the alliance as leverage to extract economic concessions from its partner when facing legislative involvement and complaints from core constituency groups.

I evaluate my argument using the historical case study of the Anglo-

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10. Beth Simmons, “Pax Mercatoria and the Theory of the State,” in Edward D. Mansfield and Brian M. Pollins, eds., *Economic Interdependence and International Conflict: New Perspectives on Enduring Debate* (Ann Arbor: University of Michigan Press, 2003), pp. 31–43.

11. Keshk, Pollins, and Reuveny, “Trade Still Follows the Flag,” p. 1165.

12. James E. Alt, Jeffrey Frieden, Michael J. Gilligan, Dani Rodrik, and Ronald Rogowski, “The Political Economy of International Trade: Enduring Puzzles and an Agenda for Inquiry,” *Comparative Political Studies*, Vol. 29, No. 6 (December 1996), pp. 689–717.

Japanese alliance. Many studies of the relation between economic and security policy have focused on the aggregate correlation between levels of trade and conflict.<sup>13</sup> My goal instead is to analyze how economic and security issues are linked in the policy process. The case-study approach allows me to compare the alternatives presented for specific decisions of whether or not to offer economic gains to an ally. I use diplomatic records and historical scholarship to analyze the intentions of decisionmakers when they weighed economic and security interests. In addition, I am able to include a broader range of policies than existing analysis. Previous studies have focused on trade flows where there is readily available data, which overlooks other important dimensions of economic policymaking such as loans and investment policies.<sup>14</sup>

The empirical evidence of the article examines economic-security linkages in the context of decisions over alliance formation and economic policy between Britain and Japan from the 1890s through the 1920s. The Anglo-Japanese alliance, formed in 1902, renewed in 1905 and 1911, and ended in 1923, offers a particularly useful case for studying the relationship of economic cooperation and security cooperation. First, as an alliance during a multipolar period, it represents a hard test of theories that alliance relations promote economic cooperation, for existing evidence has emphasized that this relationship is conditional on a bipolar system.<sup>15</sup> Andrew Long and Brett Ashley Leeds highlight formal economic security linkages as a strategy to maintain European alliances during the interwar period (1920–38), but they find that there was no such pattern prior to World War I.<sup>16</sup> I explore whether, even in the absence of formal commitments to economic cooperation in the text of alliance agreements, one still observes the use of such strategies. Second, the case offers a unique control for endogeneity. The newness of British relations with Japan, a country that had only opened to the outside world in the 1850s, sets both security and economic cooperation at low initial levels. Starting from such low interaction on

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13. For notable exceptions, see Papayoanou, *Power Ties*; Dale C. Copeland, "Economic Interdependence and War: A Theory of Trade Expectations," *International Security*, Vol. 20, No. 4 (Spring 1996), pp. 5–41; Peter Liberman, "Trading with the Enemy: Security and Relative Economic Crisis," *International Security*, Vol. 21, No. 1 (Summer 1996), pp. 147–175; and Norrin M. Ripsman and Jean-Marc F. Blanchard, "Commercial Liberalism under Fire: Evidence from 1914 and 1936," *Security Studies*, Vol. 6, No. 2 (Winter 1996/97), pp. 4–50.

14. Mansfield and Pollins, *Economic Interdependence and International Conflict*, p. 21. On capital flows, see Erik Gartzke, Quan Li, and Charles Boehmer, "Investing in the Peace: Economic Interdependence and International Conflict," *International Organization*, Vol. 55, No. 2 (April 2001), pp. 391–438.

15. Joanne Gowa, *Allies, Adversaries, and International Trade* (Princeton, N.J.: Princeton University Press, 1994).

16. Long and Leeds, "Trading for Security."

both dimensions provides an opportunity to observe the development of economic and security ties without contingency on historical relations. Finally, over the two decades of the alliance, the international system experienced substantial changes, which permits me to compare choices made under different threat levels in terms of security concerns and economic rivalry.

The first section begins with a discussion of the literature and presents the argument about how security concerns provide motives for economic cooperation, but domestic opposition to economic costs may limit the form and extent of such linkages between economic and security policies. The second section presents a detailed analysis of the Anglo-Japanese alliance as a case study of decisionmaking over alliance choices and economic cooperation. The third section concludes with a discussion of the implications for the literature and suggestions of future research to extend beyond this case.

### *Economic and Security Interests*

The literature offers contradictory claims that strategic relations determine economic relations and that economic interdependence promotes cooperation.<sup>17</sup> For realists, mutual gains from economic ties fail to offset clashes of interest that arise during economic competition. From a perspective that emphasizes the importance of power competition in a world of relative gains, states are reluctant to contribute to the wealth of another state or become vulnerable through economic interdependence.<sup>18</sup> The common security interests of an alliance relationship, however, account for why a state would be willing to share its economic wealth through economic policies that strengthen an alliance partner. Gowa contends that states are likely to pursue cooperative economic relations and promote free trade within an alliance while avoiding trade across alliances.<sup>19</sup> Lars Skålnes shows that leaders use foreign economic policy as a strategic instrument to discriminate in favor of allies and thereby increase the strength of the alliance.<sup>20</sup> In this case, states would be more willing to offer side payments when facing threats and to alliance partners of high strategic value. The level of threat reflects an evaluation of the power capacity, proxim-

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17. For reviews of this extensive literature, see Katherine Barbieri, *The Liberal Illusion: Does Trade Promote Peace?* (Ann Arbor: University of Michigan Press, 2002); and Mansfield and Pollins, *Economic Interdependence and International Conflict*.

18. Gowa, *Allies, Adversaries, and International Trade*; and Robert J. Art, "American Foreign Policy and the Fungibility of Force," *Security Studies*, Vol. 5, No. 4 (Summer 1996), pp. 7–42.

19. Gowa, *Allies, Adversaries, and International Trade*.

20. Lars S. Skålnes, *Politics, Markets, and Grand Strategy: Foreign Economic Policies as Strategic Instruments* (Ann Arbor: University of Michigan Press, 2000).

ity, and intention of the potential opponent so that states will want to use economic policies to support allies that are necessary to confront the highest threat to a state's survival.<sup>21</sup> The realist hypothesis would predict that changing security interests will affect incentives for economic policies. As states face greater threats, they would be more willing to offer side payments.

In contrast, liberal theories contend that economic interests shape security policies. The classic argument portrays mutual business interests as a factor that dissuades states from opting for war because such conflict would interrupt the welfare-enhancing gains from peaceful economic relations.<sup>22</sup> In addition, interdependence promotes peace by creating communication channels for signaling intentions and by providing the means of solving disagreements without the use of force.<sup>23</sup> Finally, the liberal perspective emphasizes that economic interests can become a factor to motivate alliance formation and cohesion. Papayoanou argues that a high level of economic interdependence between potential allies may strengthen the willingness of political groups representing vested economic interests to support costly security policies to balance against mutually threatening forces.<sup>24</sup> In one example from the late nineteenth century, financial incentives were a decisive factor in pushing Russia to accept an alliance with France that it probably would not have chosen on the basis of security interests alone.<sup>25</sup> A failure to deliver expected economic benefits can also undermine an alliance. Long and Leeds attribute the refusal of France to provide market access to Belgian exporters and repeated failures to negotiate a new commercial agreement as reasons for Belgium's decision in 1936 to unilaterally terminate its alliance.<sup>26</sup> The liberal hypothesis would predict that changing economic interests will affect incentives for security policies. The economic gains and losses to domestic actors will influence the state's ability to adopt policies to maintain the alliance.

The two contrasting realist and liberal claims have yielded mixed empirical results. Some studies offer evidence that trade increases cooperation, whereas other studies provide counterevidence that increased trade leads to conflict.<sup>27</sup>

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21. Walt, "Alliance Formation and the Balance of World Power."

22. Polachek, "Conflict and Trade"; and Russett and Oneal, *Triangulating Peace*.

23. Robert O. Keohane and Joseph S. Nye Jr., *Power and Interdependence* (Boston: Little, Brown, 1977); Gartzke, Li, and Boehmer, "Investing in the Peace"; and James Morrow, "How Could Trade Affect Conflict?" *Journal of Peace Research*, Vol. 36, No. 4 (July 1999), pp. 267–293.

24. Papayoanou, "Interdependence, Institutions, and the Balance of Power."

25. Paul A. Papayoanou and Scott L. Kastner, "Sleeping with the (Potential) Enemy: Assessing the U.S. Policy of Engagement with China," *Security Studies*, Vol. 9, Nos. 1–2 (Autumn 1999/2000), pp. 157–187.

26. Long and Leeds, "Trading for Security," p. 439.

27. Polachek, "Conflict and Trade"; Mark J. Gasiorowski, "Economic Interdependence and Inter-

Quantitative analysis of alliances has also produced opposite results regarding their impact on trade.<sup>28</sup> Some scholars have questioned the underlying logic of security-driven economic policies. James Morrow argues that the relative gains at stake in the transfer of wealth from trade income into military spending are too small to determine trade policies during peacetime.<sup>29</sup>

To move beyond the either/or debates, the literature has begun to consider conditions that limit the realist and liberal arguments. Alliances are more likely to increase trade when they institutionalize their commitment to link economic gains to security cooperation.<sup>30</sup> Case studies of major power relations during the periods leading up to World Wars I and II suggest that expectations about the nature of future trade and threat from another state influence incentives to increase or decrease economic dependence vis-à-vis other states.<sup>31</sup> Finally, research has shown the need to look at the specific interests of those in power. Kevin Narizny demonstrates that partisan politics influence grand strategy because the constituent base of the government affects how it will weigh the economic costs and security risks of a policy choice.<sup>32</sup> Deepening interdependence has the potential to transform state interests, but only when actors with stakes in enhanced economic ties become advocates for improving political relations.<sup>33</sup> This research agenda suggests the need to derive more nuanced hypotheses about the nature of an alliance relationship, economic conditions, and the political context.

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national Conflict: Some Crossnational Evidence," *International Studies Quarterly*, Vol. 30, No. 1 (March 1986), pp. 23–38; Edward D. Mansfield, *Power, Trade, and War* (Princeton, N.J.: Princeton University Press, 1994); Barbieri, "Economic Interdependence"; and Gartzke, Li, and Boehmer, "Investing in the Peace."

28. Contrary to Gowa, *Allies, Adversaries, and International Trade*, James D. Morrow, Randolph M. Siverson and Tressa E. Tabares find that alliances do not have a significant effect. Morrow, Siverson, and Tabares, "The Political Determinants of International Trade: The Major Powers, 1907–90," *American Political Science Review*, Vol. 92, No. 3 (September 1998), pp. 649–661. In "Alliances, Imperfect Markets, and Major-Power Trade," Gowa and Mansfield dispute their finding and show that alliances increase trade. In "Trade Still Follows the Flag," Keshk, Pollins, and Reuveny find mixed effects of alliances depending on data set and model specification.

29. James D. Morrow, "When Do 'Relative Gains' Impede Trade?" *Journal of Conflict Resolution*, Vol. 41, No. 1 (February 1997), pp. 12–37.

30. Long and Leeds, "Trading for Security."

31. See Liberman, "Trading with the Enemy"; and Copeland, "Economic Interdependence and War."

32. Kevin Narizny, "The Political Economy of Alignment: Great Britain's Commitments to Europe, 1905–39," *International Security*, Vol. 27, No. 4 (Spring 2003), pp. 184–219; and Kevin Narizny, *The Political Economy of Grand Strategy* (Ithaca, N.Y.: Cornell University Press, 2007).

33. Etel Solingen, *Regional Orders at Century's Dawn: Global and Domestic Influences on Grand Strategy* (Princeton, N.J.: Princeton University Press, 1998); Papayoanou and Kastner, "Sleeping with the (Potential) Enemy"; and Miles Kahler and Scott L. Kastner, "Strategic Uses of Economic Interdependence: Engagement Policies on the Korean Peninsula and across the Taiwan Strait," *Journal of Peace Research*, Vol. 43, No. 5 (September 2006), pp. 523–541.

TWO FORMS OF ECONOMIC-SECURITY LINKAGES IN ALLIANCE RELATIONS

States face a dilemma because they want to promote both security and economic interests. Some alliance partners enjoy a complementary economic relationship that reinforces a close security relationship. But when both countries produce similar goods, competition for market shares and development rights may push them toward economic rivalry. Under conditions of economic competition, allies face a trade-off between sacrificing their own business interests for the sake of maintaining their alliance partnership or helping their business interests at the expense of their alliance partner.

There are two kinds of economic cooperation with different distributional consequences—giving side payments or bargaining over reciprocal concessions. Even when the exchange is mutually beneficial, economic transactions may still represent an influence attempt. David Baldwin contrasts a positive sanction policy of opening markets to trade and capital flows with a negative sanction policy of discriminatory tariffs and capital controls.<sup>34</sup> I use the term “side payment” to emphasize the subset of positive sanctions in which there is asymmetric economic gain for one side. Aid and loans are a clear example, but there are other less direct ways for a state to confer a transfer of resources. For instance, trade liberalization offers asymmetrical gains if one government opens its market while the other maintains trade barriers, which stands in contrast to the mutual gains that arise from an exchange of reciprocal access. Finally, economic gains may be conferred by recognition of another state’s expansion of economic, political, and even territorial rights in another region (i.e., the recognition of special investment rights, colonial acquisitions, or a customs union). All of these policies facilitate income gains by one partner state, with varying degrees of opportunity cost for the other state.

Economic side payments increase the scope of the alliance to include both economic and military dimensions. Differential value for two issues allows both sides to gain from the issue linkage so that mutual agreement is possible.<sup>35</sup> For the wealthier state, the military value of the alliance has to be sufficient to justify the cost of side payments.<sup>36</sup> The weaker state gains from the relationship on both economic and strategic dimensions.

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34. David A. Baldwin, *Economic Statecraft* (Princeton, N.J.: Princeton University Press, 1985).

35. R. Harrison Wagner, “Economic Interdependence, Bargaining Power, and Political Influence,” *International Organization*, Vol. 42, No. 3 (Summer 1988), pp. 461–483; Robert D. Tollison and Thomas D. Willett, “An Economic Theory of Mutually Advantageous Issue Linkages in International Negotiations,” *International Organization*, Vol. 33, No. 4 (Autumn 1979), pp. 425–449; and Christina L. Davis, “International Institutions and Issue Linkage: Building Support for Agricultural Trade Liberalization,” *American Political Science Review*, Vol. 98, No. 1 (February 2004), pp. 153–169.

36. Skalnès, *Politics, Markets, and Grand Strategy*.



As an alternative strategy to offering side payments, states can use the strategic value of the alliance as bargaining leverage. In this case, one ally uses the special security relationship to justify a demand for better economic outcomes (i.e., preferential terms in a trade agreement), and the other ally may offer a concession to avoid negative spillover from an economic dispute that could harm the security relationship. One observable outcome is that allies are more likely to trade with each other and have preferential trade agreements.<sup>37</sup> My argument about bargaining leverage, however, suggests a different causal mechanism: a state that advocates lower trade barriers with an ally may be demanding favorable terms for its export interests rather than granting trade profits to an ally for the sake of security benefits. To specify when states are more likely to make side payments versus bargaining demands, it is necessary to examine the domestic political stakes and policy process.

#### DOMESTIC POLITICS AND THE CHOICE OF LINKAGE STRATEGY

Much of the debate about the role of economic interdependence neglects the difficulty of implementing economic policies that impose costs on domestic political actors. The unitary state actor of realist models weighs the trade-offs from making a concession on an economic policy for the sake of gains for security cooperation without any domestic political constraints. It is significant to note that Hirschman illustrated his classic argument about the strategic use of economic policy for security ends with the case of Nazi Germany.<sup>38</sup> Democracies, in contrast, are subject to lobbying from a wide range of domestic interests that will influence their capacity to offer one-sided economic gains to an ally. Democratic leaders seek to maximize both their political support and state security. Liberal models of economic interdependence recognize a role for domestic pressure, but adopt an overly simplified view of foreign economic policy in which business interests that gain from international economic transactions dominate government decisions.<sup>39</sup>

Lobbying, however, is undertaken not only by businesses that favor interdependence, but also by those harmed from open economic policies. Empirical studies show that domestic political institutions, sectoral interests, and partisanship account for whether the democratic response to business pressures will favor protectionism over openness.<sup>40</sup> Studies on sanctions and engage-

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37. Gowa, *Allies, Adversaries, and International Trade*; and Mansfield and Bronson, "Alliances, Preferential Trading Arrangements, and International Trade."

38. Hirschman, *National Power and the Structure of Foreign Trade*.

39. Simmons, "Pax Mercatoria and the Theory of the State," p. 36.

40. Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crises*

ment policies also emphasize the importance of looking at which domestic economic interests influence policy choices. For example, U.S. economic sanctions have often been undermined when import-competing groups use sanctions as a proxy form of trade protection, whereas U.S. engagement policies have been more effective when internationally oriented business groups are close to decisionmakers in the foreign country.<sup>41</sup>

Domestic opposition could prevent governments from offering side payments. National-level officials may view the relationship as mutually beneficial across the combined security and economic calculations, but subnational business actors focus their lobbying exclusively on their own interests in the economic side of the relationship. Legislators must respond to these concerns, which can loom large for their electoral districts. The political difficulty of opening markets has led states to rely on reciprocal bargaining to promote domestic coalitions of exporters in support of liberalization policies that would otherwise have been blocked by protectionist groups.<sup>42</sup> But the unilateral nature of most side payments prevents building such cross-cutting coalitions. To the extent that a side payment offers unilateral market opening or business opportunities, it disadvantages domestic businesses that compete with goods produced by the ally at home or in foreign markets. Security gains will not help the bottom line for business groups harmed by the distributional costs of the side payment. Consequently, asymmetrical distribution of economic benefits presents political problems for an alliance relationship. When domestic opposition is high, leaders may calculate that side payments are too costly both for their own political fortunes and for the goal of maintaining public support for the alliance.

Two domestic-level variables, partisan stakes and executive autonomy, influence how leaders evaluate the trade-off between security and economic interests. First, it matters whether the party in power represents the business interests that stand to suffer distributional costs. Little attention is given to partisan difference in research on security policy. Realist studies assume that the state is a unitary actor, whereas most liberal theories focus on variation of regime type. Research on U.S. foreign policy finds no impact from partisanship

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(Ithaca, N.Y.: Cornell University Press, 1986); and Fiona McGillivray, *Privileging Industry: The Comparative Politics of Trade and Industrial Policy* (Princeton, N.J.: Princeton University Press, 2004).

41. Michael Hiscox, *High Stakes: The Political Economy of U.S. Trade Sanctions, 1950–2000* (Cambridge: Cambridge University Press, forthcoming); and Papayoanou and Kastner, “Sleeping with the (Potential) Enemy.”

42. Michael J. Gilligan, *Empowering Exporters: Reciprocity, Delegation, and Collective Action in American Trade Policy* (Ann Arbor: University of Michigan Press, 1997); and Davis, “International Institutions and Issue Linkage.”

on the use of force.<sup>43</sup> In political economy research, however, it is widely noted that partisan orientation shapes incentives for a range of economic policies.<sup>44</sup> The role of partisanship in alliance strategies has been highlighted by Narizny, who argues that conservative parties favor alignment policies more than liberal parties because the latter's constituency base is more hostile to raising revenue for rearmament.<sup>45</sup> Similarly, in the decision of whether to offer a side payment to an ally or to drive a hard bargain for economic gains, the partisan orientation of the government influences the importance given to the distributional outcomes. A party will find it more costly to offer side payments when the policy harms its own constituency base.

Second, the executive will have more freedom to maneuver around domestic opposition for policy issues that do not require legislative input. When diplomatic officials enjoy full autonomy, decisions are likely to privilege strategic objectives and give less attention to the preferences of domestic business groups. The unilateral offer of asymmetrical economic gains is possible in this policy environment. On the other hand, legislative involvement and lobbying by business groups are likely to encourage leaders to use the alliance for bargaining leverage to extract a quid pro quo with reciprocal agreements. Policies discussed in legislatures, such as tariff agreements, are particularly vulnerable to intervention from business interests.

The role of domestic constraints must be evaluated relative to the importance of a state's security interests. The underlying premise of my argument is that security interests motivate states to offer side payments to an ally. Here I specify conditions that may account for variation in when and how states will choose this strategy. The realist hypothesis posits that side payments occur when the allied partner plays a necessary role in countering a serious security threat. These would be most likely to occur when one ally has more strategic need for the alliance than the other partner. Only a decline in the security importance of the alliance would lead to the risky policy of using an alliance for bargaining leverage in pursuit of economic gains. In contrast, the domestic politics hypothesis contends that the policy process may influence the form and timing of side payments. Variation in the willingness of a state to offer

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43. Joanne Gowa, "Politics at the Water's Edge: Parties, Voters, and the Use of Force Abroad," *International Organization*, Vol. 52, No. 2 (April 1998), pp. 307–324.

44. Susanne Lohmann and Sharyn O'Halloran, "Divided Government and U.S. Trade Policy: Theory and Evidence," *International Organization*, Vol. 48, No. 4 (Autumn 1994), pp. 595–632; McGillivray, *Privileging Industry*; and Lawrence Broz, "Congressional Politics of International Financial Rescues," *American Journal of Political Science*, Vol. 49, No. 3 (July 2005), pp. 479–496.

45. Narizny, "The Political Economy of Alignment"; and Narizny, *The Political Economy of Grand Strategy*.

such payments will be a function of the costs to the ruling party and the level of executive autonomy. The use of an alliance for economic bargaining leverage is most likely when the ruling party has a constituency base that includes the affected business interests and when the policy issue requires legislative involvement.

### *The Anglo-Japanese Alliance*

At the onset of their diplomatic contact in the late nineteenth century, Britain stood as a major world power while Japan was a newly modernizing state just joining the world stage. How did Britain use one-sided economic benefits to sway Japan? When did Britain and Japan instead use the alliance as bargaining leverage to improve their own economic gains? These questions are examined over the years leading up to the formation of their alliance in 1902 and during critical decisions on finance, trade, and investment over the course of the alliance period.

Table 1 summarizes the basic interests of the two parties in the alliance over the three alliance periods. A key change was the shift in the targeted opponent from Russia to Germany. For Britain, the alliance provided strategic gains and budget savings in an era of declining relative power. Britain sought to preserve its status quo interests in China, where it possessed the territory of Hong Kong, a sphere of influence centered around the Yangtze River Basin area of Southern China, and extensive commercial activities throughout China. Strengthening the alliance during the second period to include defense of India and the rising threat to Britain from Germany made the alliance assume increasing strategic importance for Britain, which continued through the end of World War I. The relative decline of British power created greater need for an alliance even as economic problems generated more friction. Japanese interests encompassed a range of economic policies. From 1902 to 1910, Japan required foreign loans to finance its military and developmental needs. By the time of World War I, however, it no longer needed such assistance. Japan sought recognition for its assertion of its own “special rights” in China and Korea, which was the euphemism for intervention into these countries’ political affairs and assertion of preferential economic access for trade and investment (i.e., railway and mining concessions). Japan’s growing military strength and the fact that Germany was a less proximate threat to Japan than Russia made the alliance assume decreasing strategic importance to Japan after 1910. Thus while many underlying interests in the alliance remained constant, the relative power of the two partners and the threats they faced underwent dramatic change over the three periods.

Table 1. Strategic and Economic Interests Connected to the Anglo-Japanese Alliance

Interests	First Alliance, 1902–04	Second Alliance, 1905–10	Third Alliance, 1911–23
Britain			
Strategic	Balance Russia Defend China	Balance Russia, Germany Defend China, India	Balance Germany Defend China, India
Budget	Reduce military spending	Reduce military spending	Reduce military spending
Japan			
Strategic	Deter third parties	Balance Russia, Germany	Balance Germany
Finance	London market loan issues	London market loan issues	China loan consortium
Trade Investment	Market access Exclusionary rights in Asia	Market access Exclusionary rights in Asia	Market access Exclusionary rights in Asia

Even at different levels of democracy, both Britain and Japan had to contend with domestic pressures from business interests. By the late nineteenth century, Britain had expanded public participation to become a representative parliamentary democracy. Economic issues were central in political debates—whereas the Liberal Party was committed to free trade, the Conservative Party split over trade issues, and mercantilist pressures were frequently raised. Conservative Party rule from 1900 to 1906 oversaw the signing of the first and second alliance. After a decisive victory in 1906, the Liberal Party resumed control until 1915, which began the period of coalition government that continued until 1922. Japan, on the other hand, had only established itself in 1889 as a constitutional monarchy modeled after Western parliamentary systems. The Meiji Constitution gave considerable formal powers to the emperor and the cabinet he appointed, and informal authority was exercised by the “elder statesmen” (*genrō*) who served as imperial advisers.<sup>46</sup> But the constitution also established the Diet as an assembly with a popularly elected lower house. The Diet had the authority to debate and approve budgets and legislation, and it became increasingly assertive over the period examined in this study. Parties developed, but because they remained marginal until after the emergence of party government in 1918, partisan differences are not a key factor in Japan during the periods examined in this article. Suffrage restrictions let only

46. Peter Duus, *The Rise of Modern Japan* (Boston: Houghton Mifflin, 1976), p. 114.

the wealthy vote, which concentrated political influence in the hands of business interests and landlords. One Diet leader said in 1898, "If you do not have the confidence of the businessmen you cannot manage state affairs smoothly."<sup>47</sup>

#### ALLIANCE FORMATION

During the period from 1868 until the formation of the two countries' alliance in 1902, security interests motivated Britain's attention to Japan, while both economic and security interests led Japan to favor an alliance with Britain over other security arrangements. British grand strategy at the time was to defend the empire while reducing the cost of defense.<sup>48</sup> This led to a complex set of negotiations aimed to increase burden sharing with new allies while deterring the formation of opposing alliances. The leaders of Meiji Japan in the late nineteenth century were determined that Japan must develop a strong army and economy to avoid the fate of China and maintain its independence. Given British prominence as the dominant economic and military power, several Japanese missions went to Britain seeking advice on how to modernize the Japanese economy. Britain was supportive of Japan's efforts, and several railway loans were concluded in the 1870s. The historian Ian Nish comments that there was a political motive behind Britain's decision to provide Japan with loans, technical training, and advice: "Britain was ready to co-operate in these ventures in order to influence the Japanese in her favor."<sup>49</sup>

STRATEGIC RATIONALE FOR THE ALLIANCE. Britain and Japan shared a strategic interest in the containment of Russian ambitions in the Far East. Britain feared that Russian intervention in the region would threaten its interests in Southern China and India. The strategic interest in Anglo-Japanese cooperation grew as Russian expansion in China reached new levels. In November 1900 Russia tried to force an agreement on the Chinese government that would have granted Russia exclusive privileges, particularly with regard to Manchurian railway construction. The perception that Russia was trying to make Manchuria into a de facto Russian protectorate created a sense of crisis. Both Britain and Japan urged the Chinese government to resist the Russian agreement. The crisis was temporarily resolved when Russia backed down in April 1901, but the Russians continued to hold temporary control over

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47. Quoted in *ibid.*, p. 161.

48. Aaron L. Friedberg, *The Weary Titan: Britain and the Experience of Relative Decline, 1895–1905* (Princeton, N.J.: Princeton University Press, 1988).

49. Ian H. Nish, *The Anglo-Japanese Alliance: The Diplomacy of Two Island Empires, 1894–1907* (London: Athlone, 1966), pp. 8–10.

Manchuria and to deploy more ships in the east. Negotiations toward an Anglo-Japanese alliance to balance against the Russian-French alliance began in the summer of 1901.

Britain wanted an alliance to protect its Far East economic interests without additional expense. The Boer War (1899–02) had worsened England's financial situation to the point where defense spending cuts were deemed unavoidable.<sup>50</sup> An alliance with Japan would substitute for an expensive naval ship-building program to compete with Russia's ship-building program. Following the conclusion of the alliance, Britain and Japan combined would have eleven battleships in the eastern waters while France and Russia would have nine, which was thought to provide sufficient deterrence to avert a major war.<sup>51</sup>

Japan also feared Russian influence and had its own ambitions to extend Japanese influence into neighboring regions. An alliance with Britain would help Japan in a future war with Russia over Korea and Manchuria by forestalling intervention by France. Japan hoped to receive British approval of Japanese "special rights" in China and Korea.

In the background of the negotiations for an Anglo-Japanese alliance was the possibility that Japan might instead conclude a separate agreement with Russia. The Japanese government was divided between those favoring closer ties with Britain and those favoring an understanding with Russia that would allow both nations to exploit areas in China and Korea.<sup>52</sup> The influential military leader and imperial adviser Aritomo Yamagata had visited Russia in 1896 to make a secret pact with Russia recognizing their respective spheres of influence and setting limits on expansion in Korea. Through the beginning of negotiations for an alliance with Britain in late 1901, factions within the Japanese government remained divided over which course to pursue. The elder statesman Hirobumi Itō visited Russia to explore possibilities for a Russo-Japanese understanding.<sup>53</sup>

British officials sought to preempt a Russo-Japanese agreement. British Prime Minister Lord Salisbury wrote in response to a letter from the minister in Peking, Ernest Satow, that "what you tell me about the apparent disinclination of the Japanese Government generally to cultivate our exclusive friendship, rather confirms the suspicion that in the end they will be convinced that it is rather their interest to join with Russia and perhaps with France in cutting

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50. Friedberg, *The Weary Titan*, p. 107.

51. Lord Selborne, memo, September 4, 1901, quoted in Nish, *The Anglo-Japanese Alliance*, p. 174.

52. Alfred L.P. Dennis, *The Anglo-Japanese Alliance* (Berkeley: University of California Press, 1923), p. 34.

53. They did not discuss a formal alliance, but rather an agreement of shared interests.

up China than to exchange platonic assurances of affection with us.”<sup>54</sup> Britain feared that Japan might opt for an agreement coming to terms with Russia, or that Japan would go to war with Russia and be crushed by a joint coalition of Russia and France, thus leaving Russia, France, and Germany free to expand their influence in China with only Britain in opposition.<sup>55</sup> To prevent either of the above scenarios, Britain chose to pursue the alliance with Japan.

ECONOMIC MOTIVATIONS FOR THE ALLIANCE. The fact that the British government was led by the Conservative Party, which favored strong defense of the empire’s economic interests, facilitated reaching the alliance agreement. By the time of their electoral victory in 1900, the Conservatives had grown from a party of landed gentry to one with a strong middle-class base that had dominated in London and the Lancashire district, which were the centers of British finance and export industries.<sup>56</sup> Narizny notes that by encompassing the London-based trade and financial services sector in its constituent base, the party held special interests in the preservation of empire.<sup>57</sup> In contrast, the Liberals had a broader working-class base and were more averse to the risk of alliance entanglement.

The security of British economic interests in China from the threat of foreign intervention was a major concern for British trade and investment classes during the period 1900–02. Alarmist media reports about threats to British markets, daily petitions from the Lancashire cotton industry, and resolutions by organizations of the chambers of commerce all expressed fears about interference in trade from foreign powers.<sup>58</sup> Merchants warned that Russian influence in China would close off important markets for British trade and investment. Such demands heightened government interest in an alliance that would strengthen its position in East Asia. Although the Manchester Chamber of Commerce recognized the potential commercial rivalry with Japan as a low-cost competitor for markets in the Far East, it did not yet see this as a threat.<sup>59</sup>

For Japan, economic relations with Britain helped build support for closer relations. The British Empire was the largest trading partner of Japan and the

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54. Chung-Fu Chang, *The Anglo-Japanese Alliance* (Baltimore, Md.: Johns Hopkins University Press, 1931), p. 40.

55. *Ibid.*, p. 77.

56. Malcolm Pearce and Geoffrey Stewart, *British Political History, 1867–2001: Democracy and Decline*, 3d ed. (London: Routledge, 1992), p. 99.

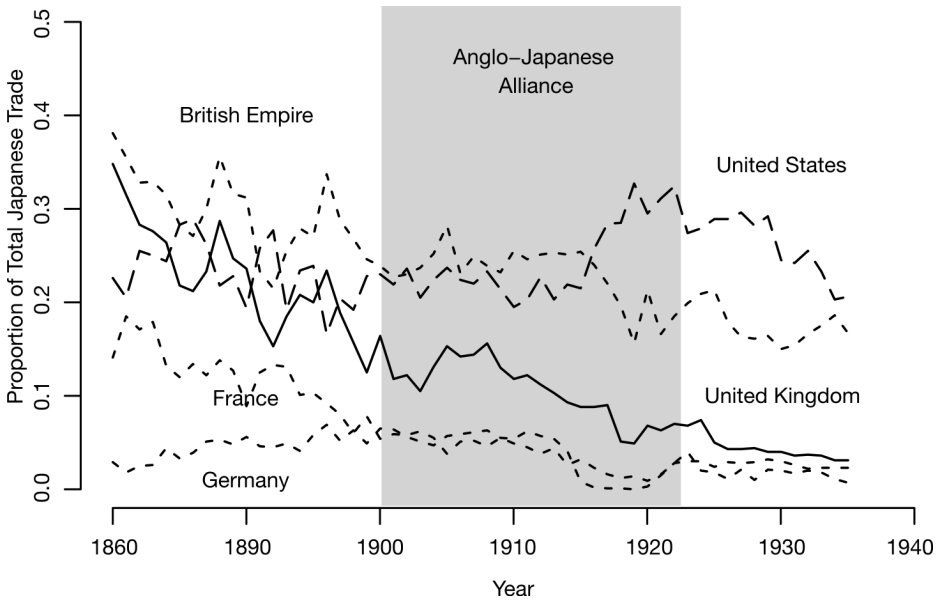
57. Narizny, *The Political Economy of Grand Strategy*, pp. 160, 185.

58. Frank Goodman Williston, “The End of British Isolation: The Origins of the Anglo-Japanese Alliance,” Ph.D. thesis, University of Chicago, 1935, pp. 40, 49–50.

59. Arthur Redford, *Manchester Merchants and Foreign Trade*, Vol. 2: 1850–1939 (Manchester, U.K.: Manchester University Press, 1956), p. 99.



Figure 1. The Pattern of Japanese Trade with Major Trading Partners



SOURCE: Brian Mitchell, *International Historical Statistics: Africa and Asia* (New York: New York University Press, 1982).

NOTE: The figure shows the shares of Japan's total trade with the British Empire (figures include United Kingdom, India, and Australia), France, Germany, and the United States.

source of capital equipment imports. Japan received vital raw material imports such as the cotton from India and wool from Australia that were necessary for Japan's textile industry, which was its largest income earner.<sup>60</sup> Trade flows between Japan and Britain rose substantially in the years after the conclusion of the Treaty of Commerce and Navigation in 1894.<sup>61</sup> One could not conclude, however, that trade relations explain Japan's move toward closer political relations. During the years prior to the formation of the alliance, the British trade share was declining as Japan further diversified its trade (see figure 1). Cross-national shares of Japanese trade show that the United States stood on nearly equal terms with the British Empire as a trade partner with Japan in 1901,

60. R.P. Dua, *Anglo-Japanese Relations during the First World War* (New Delhi: S. Chand, 1972), pp. 436–437.

61. Aggregate trade volume between Japan and the British Empire rose from 45 million yen in 1893 to 121 million yen in 1900. Brian R. Mitchell, *International Historical Statistics: Africa, Asia, and Oceania, 1750–2000* (New York: New York University Press, 1982), p. 436.

yet neither considered forming an alliance. Even while political relations between the United States and Japan were strained by disagreements over China policy, the United States grew to become Japan's largest trade partner.

As Japan wavered between two different security strategies, financial and investment benefits favored an alliance with Britain. During the summer of 1901, Japan experienced a financial crisis that led the government under the administration of Tarō Katsura to seek foreign loans in the amount of 58 million yen.<sup>62</sup> Britain had refused to offer Japan a loan in the summer of 1901, and Japanese officials were hopeful that an alliance with Britain would lead to loan approvals in the future. Foreign Minister Jutarō Komura discussed in a memo that an alliance with Britain would bring financial benefits beyond that possible from Russia. He noted, "The result of an agreement [on alliance] with Britain would be to improve our credit in commercial circles throughout the world."<sup>63</sup> In addition, Japanese willingness to ally with Britain was helped by the view that this would facilitate Japanese projects to build railroads in China and Korea.<sup>64</sup> Itō spoke of his hope that the treaty would result in "progress for our commerce and industry."<sup>65</sup> The Japanese historian Shigeru Kurobane cites economic factors as an impelling force that moved the Japanese government toward alliance.<sup>66</sup> Nish concludes that economic factors were not the primary cause of the alliance, but agrees that Japanese leaders anticipated economic gains from the alliance.<sup>67</sup> In sum, both strategic and economic interests favored Japan's decision to ally with Britain.

REACTIONS TO THE ALLIANCE TREATY. The treaty draft was submitted in October 1901, and the final text was agreed upon and then released to the public in February 1902. The treaty preamble affirmed the Open Door policy in China while recognizing the special interests that Britain and Japan held in China and Korea and their right to act in protection of those interests.<sup>68</sup> The

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62. Shigeru Kurobane, *Nichiei dōmei no kiseki* [The course of the Anglo-Japanese alliance] (Tokyo: Bunka shobo, 1987), p. 97.

63. *Ibid.*, p. 384.

64. Yuichi Inouye, *Higashi Ajia tetsudō kokusai kankei shi* [Railway diplomacy in East Asia] (Tokyo: Keio University Press, 1989).

65. Nish, *The Anglo-Japanese Alliance*, p. 225.

66. Shigeru Kurobane, "Nichiei dōmei no seiritsu to kokka zaisei mondai" [The Anglo-Japanese alliance and the national finances problem], *Rekishi Kyoiku*, Vol. 5 (1957), pp. 13–19, 50–59.

67. Ian H. Nish, *Alliance in Decline: A Study in Anglo-Japanese Relations, 1908–23* (London: Athlone, 1972), p. 10.

68. Dennis, *The Anglo-Japanese Alliance*, p. 99. The endorsement of an Open Door policy nominally called for support of Chinese sovereignty and equal access to China's markets for all states, but quickly devolved into both Japan and Britain insisting on their rights within respective spheres of influence.

core security agreement established the obligation that if one nation became engaged in a war in defense of those interests, the other allied partner would remain neutral unless a third power intervened, in which case both allies would together fight the two hostile powers. This pact offered to protect Japan from the threat of facing an overwhelming two-power force, and yet it did not require Britain to involve itself directly in a war between Russia and Japan.

There is little evidence of lobbying either for or against the treaty in Britain. The treaty had not been publicly advocated in Britain, and indeed fear of criticism had made the British government eager to keep the negotiations secret and the announcement low-key. Conservatives gave overwhelming support, and the Liberals were split between imperialists such as Sir Edward Grey who favored the alliance and those who criticized the loss of foreign policy autonomy. The Foreign Office and the Admiralty were the key players advocating the alliance in Britain.<sup>69</sup>

In Japan the alliance met with a warm welcome, particularly in industrial circles.<sup>70</sup> A news magazine noted expectations that foreign investors who had spurned Japan would now come seeking business opportunities.<sup>71</sup> The Diet eagerly supported the military buildup. The Katsura cabinet had come into office with the mandate to acquire loans to resolve Japan's budget dilemma without cutting defense spending.<sup>72</sup> The alliance was the ideal solution, bringing both the expectation of economic gains and security guarantees for Japanese freedom of action against Russia.

The security guarantee from Britain in the two-power war scenario facilitated Japan's decision to enter the Russo-Japanese War in 1904. As hoped, France did not enter the war, and Britain maintained a neutral stance. This outcome was consistent with the expectations of the Japanese government that the alliance was necessary to deter third-party intervention, but that it would not yield concrete military assistance in fighting a war.<sup>73</sup> Surprising many, by 1905, Japan had inflicted a major defeat on the Russian Navy. For Britain, this was a remarkable strategic gain achieved without British military engagement.

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69. *Ibid.*, p. 183.

70. Shigeru Murashima, *The History of Anglo-Japanese Relations*, Vol. 1: *The Political-Diplomatic Dimension, 1600–1930* (London: Macmillan, 2000), pp. 159–196.

71. "Nichiei dōmei to shyokogyo no eikyo" [The Anglo-Japanese alliance effect on commerce], *Taiyo*, March 5, 1902, in *Nichiei dōmei to nihon no masumedeia* (Tokyo: Keio University, 2002).

72. Kurobane, *Nichiei dōmei no kiseki*, p. 96.

73. Japan Defense Agency (JDA), *Nichiei dōmei gunjiteki kosatsu* [A military assessment of the Anglo-Japanese alliance], Technical Report (Tokyo: Japanese Defense Agency Research Institute, 1975), p. 15.

British Cabinet discussions referred to the new naval balance as “eminently satisfactory.”<sup>74</sup>

ECONOMIC GAINS TO JAPAN FROM THE ALLIANCE. As expected by the realist hypothesis, in support of security goals, Britain encouraged trade and loans with Japan and facilitated its expanding role in East Asia. At this stage, economic rivalry remained sufficiently low for there to be little domestic opposition from business interests, and instead the alliance offered a benefit to protect the economic interests of the British Empire that were threatened by Russian influence. For Japan, the alliance yielded both security and economic gains.

Given the defensive form of the alliance, Britain did not offer direct side payments to Japan but rather worked through informal means to support the revenue needs of its new ally. Voicing concern not to violate its neutrality, the British government declined Japanese requests for a direct loan to finance the war. When asked by British financiers about its view of commercial loans to Japan, however, the Foreign Office voiced its preference “that Japan should be able to raise in this country, rather than elsewhere, the money which she requires and they hope that she will obtain a loan in London on reasonable terms.”<sup>75</sup> At the urging of the Foreign Office, the Treasury agreed to the inscription of the bonds at the Bank of England before they were offered on the London market, which was an unusual step taken to support the loan offering.<sup>76</sup> A letter from the private bank Baring Brothers noted that the cooperation from the Bank of England was necessary for its decision to issue a loan to Japan.<sup>77</sup> Another banker spoke skeptically of the enthusiasm for buying Japanese securities when better investments were available elsewhere.<sup>78</sup> The series of four loans raised in London financial markets for a total of 800 million yen provided the essential funding for Japan’s war with Russia and its military buildup.<sup>79</sup>

The alliance was followed by increased capital and trade flows between Britain and Japan. The British Empire’s share of total Japanese trade rose from 24 to 28 percent of Japanese trade during the period of the first alliance (figure 1). The majority of Japanese government-issued bonds that provided the

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74. See statement by Sir John Fisher, quoted in Friedberg, *The Weary Titan*, p. 199.

75. Nish, *The Anglo-Japanese Alliance*, p. 254.

76. *Ibid.*

77. Frederick Warner, *Anglo-Japanese Financial Relations: A Golden Tide* (Oxford: Basil Blackwell, 1991), p. 54.

78. *Ibid.*, p. 53.

79. Kurobane, *Nichiei dōmei no kiseki*, pp. 101–102.

capital necessary for both the Russo-Japanese War and economic development were raised in London financial markets, and in total represented 21 percent of all of London's government loan issues from 1900 to 1913.<sup>80</sup> Japanese municipalities and private companies also raised the majority of their funding in London markets. The alliance helped facilitate these commercial transactions by reassuring both foreign investors and the Japanese government about the risks involved. According to Nish, "In the past Japan had not been a very attractive place for the foreign investor because of the lack of security for his money. The alliance created an atmosphere of confidence in Japan and improved the security felt by British investors there. This tended to reduce the interest rates charged on loans and overcame some of the reluctance which Japanese leaders still felt over accepting foreign loans for national development."<sup>81</sup>

One of the main areas of both economic and strategic interest for Japan was Korea. The alliance treaty offered explicit recognition of Japan's special interest in Korea. Frank Goodman Williston notes that "less than a week after the publication of the terms of the alliance, a change of ministry took place in Seoul, and Japan began a successful campaign for railway, port, telegraph, and mining concessions in the Hermit Kingdom."<sup>82</sup> Military victory over Russia further increased Japan's influence. The peace treaty terms accepted in June 1905 were disappointing to Japan because they included no cash indemnity, but Japan gained control of Port Arthur in Manchuria and the pledge by Russia not to interfere with any "measures of guidance" that Japan might deem necessary in Korea, while administration of Manchuria returned fully to Chinese control. British officials took a benevolent view toward allowing Japan to make inroads into China and Korea with policies similar to those it had opposed in the hands of Russian authority.

#### THE SECOND ALLIANCE

The changing strategic significance of both the Anglo-Japanese alliance and rising economic competition affected policies taken for alliance maintenance. Focusing on British and Japanese clustered decisions in the period 1907–11 allows analysis of how domestic constraints influenced linkage diplomacy.

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80. Janet E. Hunter and S. Sugiyama, "Anglo-Japanese Economic Relations in Historical Perspective, 1600–2000: Trade and Industry, Finance, Technology, and Industrial Challenge," in Hunter and Sugiyama, eds., *The History of Anglo-Japanese Relations, 1600–2000*, Vol. 4: *Economic and Business Relations* (New York: Palgrave, 2002), pp. 1–109, at p. 42.

81. Nish, *The Anglo-Japanese Alliance*, p. 255.

82. Williston, "The End of British Isolation," p. 240.

STRATEGIC RATIONALE FOR ALLIANCE RENEWAL. The alliance that was created to resist Russian power was renewed under dramatically different circumstances. Japan's victory over Russia in 1905 delivered a major setback to Russian plans for expansion in Manchuria. Renewal of the Anglo-Japanese alliance occurred in August as the Russo-Japanese Peace Conference was still in progress.

The alliance revisions strengthened the level of commitment and scope of application. First, the agreement was modified to provide for assisting each other in combat in the event of a war against a single power, whereas the first alliance had called only for activation in a two-power war. This step was seen as necessary to deter any renewal of hostilities by Russia. Second, at Britain's request, Japan agreed to expand the scope of the alliance to include defense of India. Russian railway development and troop movements in Central Asia had heightened British fears about the vulnerability of India to a Russian invasion, which were only partly alleviated by the defeat of the Russian Navy. As the government debated the need for raising troop reinforcements for India, a Conservative member of Parliament proposed expanding the Anglo-Japanese alliance to defend the empire without having to send additional British forces.<sup>83</sup> The government readily agreed that alliance expansion offered the ideal solution to its need to address possible threats to India within an era of extreme budget constraints and unwillingness to raise troops through conscription. The alliance affected British military deployment decisions, as Britain now relied on the alliance for both maintenance of naval supremacy in the Far East and land support for protection of India.

For Japan, expansion of its control in Korea and China was the primary motivation behind renewing the alliance.<sup>84</sup> The alliance treaty offered formal recognition (article 3) of Japan's right to take measures to protect its political, military, and economic interests in Korea. Japan also gained technology transfer from Britain on production of larger naval weaponry.<sup>85</sup> In addition to its security guarantee, for Japan the alliance had become the "mainstay of Japanese diplomacy" and its ticket as a player in great power politics.<sup>86</sup> Japanese mili-

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83. Friedberg, *The Weary Titan*, p. 267.

84. Shigeru Kurobane, *Nichiei dōmei no kenkyū* [Research on the Anglo-Japanese alliance] (Sendai, Japan: Tōhoku Kyoiku Tosho, 1968), pp. 201, 330.

85. Ian Gow, "The Royal Navy and Japan, 1900–1920: Strategic Re-evaluation of the IJN," in Gow, Yoichi Hirama, and John Chapman, eds., *The History of Anglo-Japanese Relations*, Vol. 3: *The Military Dimension, 1800–2000* (Hampshire, U.K.: Palgrave Macmillan, 2003), p. 42.

86. Marius B. Jansen, *The Making of Modern Japan* (Cambridge, Mass.: Harvard University Press, 2000), p. 439.

tary headquarters saw the second alliance as more important for political goals than for operational military strategies.<sup>87</sup>

During the course of the second alliance, alignments in Europe underwent major shifts that turned the strategic focus of the alliance from deterrence of Russia toward balancing against Germany. By 1907 Britain's security position had improved following agreements to open a period of entente with France and Russia. Yet this did not reduce the strategic need for the Anglo-Japanese alliance. At the same time, the German naval spending program accelerated to the point where the question of whether to build more ships provoked a British Cabinet crisis in 1909.<sup>88</sup> Whereas the earlier threat posed by Russia concerned the security of British interests on the periphery, the German challenge was a more serious threat because of its immediate proximity and greater fears of hostile intentions. Responding to this threat placed renewed importance on alliances. The concentration of British naval resources in Europe to counter Germany was facilitated by the Anglo-Japanese alliance, which allowed Britain to transfer five battleships from China to reinforce the Channel fleet.<sup>89</sup> Aaron Friedberg notes that in the Far East, "Britain had chosen to place its fate increasingly in the hands of the Japanese."<sup>90</sup>

The growing strength of Japan as a power in its own right reduced its strategic reliance on the alliance. Japan followed the British example by signing an agreement with France for mutual support of peace in China in June 1907. That summer, Japan also signed a friendship convention with Russia and concluded a secret treaty agreement to delimit areas for Russian and Japanese economic penetration of China.<sup>91</sup> When negotiating terms for military cooperation with Britain in 1907, Japanese officials requested British advice on naval education and research without asking Britain to maintain specified naval fighting capacity in the region. Nish describes this as a turning point, stating that Japan now "regarded herself as navally self-sufficient."<sup>92</sup>

SIDE PAYMENTS AMID RISING ECONOMIC COMPETITION. Japanese exports began hurting British commercial interests, while the levels of trade between Japan and Britain declined. Japanese and British trade rivalry was most intense in the world textile market; from 1909 to 1921, the British share of the world market in cotton and cotton goods exports declined from 72.5 percent to

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87. JDA, *Nichiei dōmei gunjiteki kosatsu*, p. 67.

88. Pearce and Stewart, *British Political History*, p. 282.

89. Nish, *The Anglo-Japanese Alliance*, p. 353.

90. Friedberg, *The Weary Titan*, p. 299.

91. Dennis, *The Anglo-Japanese Alliance*, pp. 28–29.

92. Nish, *The Anglo-Japanese Alliance*, p. 357.

57 percent while the Japanese share rose from 1.4 percent to 12.3 percent.<sup>93</sup> This competition in cotton and other products was focused in the Asian markets. Japanese promotion of its Manchurian trade was viewed as coming at the expense of Britain and provoked many British merchants to lodge protests with the government about Japanese unfair trade practices. As a result, "opinion in Parliament was critical that the country's industrial and commercial interests had been seriously injured by the Japanese method of underselling Britain, their commercial rival."<sup>94</sup> Newspapers such as the *Manchester Guardian* were highly critical of Japan and the alliance, and there was a general sense that the alliance was losing popularity in Britain.<sup>95</sup>

Commitment to the alliance led the British government to ignore the protests by British merchants over Japan's trade practices and expansion of influence in Manchuria. Evidence abounded that Japan used various means of government intervention to divert trade away from other countries. For example, Japanese merchant shipping, which began to make inroads into British coastal shipping in India, received large Japanese government subsidies. The British government did not protest or try to counter Japan's aggressive economic policies by providing subsidies to its own industries or threatening to retaliate.<sup>96</sup> The government accepted Japan's annexation of Korea in 1910 without criticism. The historian Chung-Fu Chang concludes that "British economical interests in the Far East were sacrificed on the altar of British political designs."<sup>97</sup> After having resisted Russia's efforts to assert privileged trade rights in Manchuria and Korea, Britain tolerated Japan's assumption of these same rights. During this period, Britain opposed all German efforts to expand its sphere of influence in China.

In part, the noninterventionist policies of the British government reflected the political commitment to free trade. The Liberal Party had won a major victory in the 1906 election running on a free-trade platform. Conservative Party policies calling for Imperial preferences and retaliatory tariffs to bring foreign trade concessions were rejected by voters who feared higher prices. Core industries such as textiles and business groups such as the Manchester Chamber of Commerce remained committed to free trade. Nonetheless, the British policy represented a choice to allow the erosion of economic power when threats

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93. Hunter and Sugiyama, "Anglo-Japanese Economic Relations in Historical Perspective," p. 53.

94. Dua, *Anglo-Japanese Relations during the First World War*, pp. 86–87.

95. Morinosuke Kajima, *The Diplomacy of Japan, 1894–1922*, Vol. 2: *Anglo-Japanese Alliance and Russo-Japanese War* (Tokyo: Kajima Institute of International Peace), p. 457.

96. Chang, *The Anglo-Japanese Alliance*, p. 140.

97. *Ibid.*, p. 146.



of discriminatory policies could have been used to force other states to open markets for more reciprocal trade.<sup>98</sup>

Railroad development in Manchuria best illustrates the benevolent attitude of the British Foreign Office toward Japanese economic advances. In China the favored policy of the Manchester merchants for gaining new markets for trade was through building railways.<sup>99</sup> Years earlier when Russia had gained an edge in China railway concessions, Salisbury had warned that the fall of Chinese railways into foreign hands could harm both construction orders and overall trade in the area.<sup>100</sup> Yet when it came to Japan's advance in railway concessions, Sir Edward Grey, who became foreign secretary for the new Liberal government in 1905, adopted an entirely different attitude. In 1907 he rejected a Chinese proposal to contract with a British railway company to construct a new railway line in Manchuria. Grey justified the decision saying that because the proposed commercial venture would compete with the Japanese railways, he could not support a plan that "would depreciate the value of the Japanese section of the Railway, the only asset of commercial value which the Japanese gained by their war with Russia."<sup>101</sup> Two years later, he declined a proposal by U.S. Secretary of State Philander Knox for the United States and Britain to cooperate in the development of railways in Manchuria.<sup>102</sup> In both cases, the Japanese government protested the proposals as an infringement against its special rights in Manchuria that were affirmed in the Anglo-Japanese alliance. The Japanese newspaper *Jiji Shimpō* reported that Britain had "adopted an eminently impartial attitude, which is in some measure due to her inborn respect for fair play but chiefly to the warm friendship which sprang from the Alliance."<sup>103</sup> In contrast, British business and news media complained bitterly.<sup>104</sup>

In another example of support for Japanese interests in China, Grey backed Japan's position regarding loans to the Chinese government. Britain, France, Germany, and the United States had organized a cartel of banks to coordinate issuing loans to the Chinese. When this consortium in 1911 proposed to offer loans for development of Manchuria, which was within the Japanese sphere of influence, it was met with vehement protests by the Japanese government.

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98. Friedberg, *The Weary Titan*, p. 85.

99. Redford, *Manchester Merchants and Foreign Trade*, p. 87.

100. Williston, "The End of British Isolation," p. 42.

101. Nish, *Alliance in Decline*, p. 18.

102. *Ibid.*, p. 31; and Chang, *The Anglo-Japanese Alliance*, p. 143.

103. Nish, *The Anglo-Japanese Alliance*, p. 31.

104. Peter Lowe, *Great Britain and Japan, 1911–15: A Study of British Far Eastern Policy* (London: Macmillan, 1969), p. 19.

Grey undertook extensive negotiations to change the terms of the first loan against the wishes of the bankers in the consortium, and he supported Japan's application for membership to the consortium the next year.<sup>105</sup> France matched the British in advocating for the admission of Russia. Given that Japan lacked surplus capital, its motivation was simply to have input on loan conditions that provided political influence over China.<sup>106</sup> As a result of Grey's backing, Japan gained a voice in decisions despite its lack of financial power.

Grey could more easily take such measures because his party had less backing from the investor class than the Conservative Party.<sup>107</sup> Moreover, the railway issue did not involve consultation with Parliament. He did encounter critical questions in Parliament over the monopoly practices of the China loan consortium and its expansion to include Russia and Japan.<sup>108</sup> Yet this, too, was a policy within Foreign Office jurisdiction because of its coordinating role for policies toward the Chinese government.

ALLIANCE TIES AS BARGAINING LEVERAGE. The complaints of British merchants over tariff negotiations with Japan could not be ignored. The Foreign Office had taken a passive attitude toward their complaints, but concern in Parliament was growing. In their negotiations for the commercial treaty, the Foreign Office had to engage in extensive consultations with Parliament.

The Japanese government proposed a uniform increase in the levels of most Japanese tariffs from their former 10 percent level to an average of 13 percent. In effect, the proposal represented a request for a side payment in the form of a one-sided tariff agreement. A memorandum from the Japanese government to the British government justified the draft tariff revisions in the following terms: "Taking into consideration the fiscal requirements of Japan, and having in mind as well the very limited sources from which she is able, without unduly crippling private enterprises and activity to draw the needed revenue, it cannot be said that the new tariff exceeds bounds of moderation, nor can that tariff be regarded as excessive, if it be compared with schedules of many countries having greater taxable resources than Japan."<sup>109</sup> The Japanese proposal only offered British goods most-favored-nation status, which was the principle to extend equal tariff treatment to all trade partners.

When Britain sought to gain a conventional tariff that would set preferential

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105. *Ibid.*, pp. 124–125.

106. *Ibid.*, p. 136.

107. Narizny, "The Political Economy of Alignment," p. 192.

108. Lowe, *Great Britain and Japan*, p. 131.

109. Foreign Office, 371/922[42913], memorandum of a conference held on November 16, 1910.

tariffs for specific British exports, Japan resisted.<sup>110</sup> Foreign Minister Komura said in comments to the Diet that it would be impossible for Japan to grant a conventional tariff to Britain because Britain's free-trade policy left no room for reciprocal tariff concessions. Tariff autonomy had been a major goal for the Japanese government ever since the "unequal treaties" were forced on Japan by foreign powers after its opening to the West in 1858. Japan's leaders saw reciprocity as the symbol of full tariff autonomy, and so resisted unilateral concessions.

Strong opposition to the proposed new tariffs from Parliament tied the hands of British negotiators. In April 1910, members raised fears about the negative impact of Japan's proposed tariff revision on goods from Lancashire and Yorkshire.<sup>111</sup> One representative declared that the Japanese tariff proposal would "inflict a severe blow on some of the greatest of our staple industries."<sup>112</sup> Conservative Party representatives Gilbert Parker and Henry Page Croft suggested that the government raise retaliatory duties against Japanese exports unless Japan modified its proposal.<sup>113</sup> Although the Liberal Party had soundly defeated the Conservatives in 1906 following a campaign on a free-trade platform, there may have been some caution about appearing weak in defense of the manufacturing interests of their working-class coalition. The political crisis in 1909 over budget reform led to the holding of two elections at the end of 1910, making this a year of heightened political sensitivity. The elections brought the Liberal Party and the Conservative Party to parity in their number of seats, so that the Liberal Party relied on its coalition with Labour to retain ruling status. Winning working-class seats in Lancashire and London Districts contributed to Liberal victories in both 1906 and 1910 elections.<sup>114</sup> Citing repeated visits from members of the House of Commons, a British Foreign Office official told the Japanese ambassador, Takaaki Katō, that it would be impossible for him to defend the Japanese position on the proposed tariff revisions.<sup>115</sup>

Business lobbying was extensive. Both the Manchester and London Chambers of Commerce sent deputations to Grey protesting the proposed in-

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110. Foreign Office, 371/921[26060], minutes of meeting on Japanese Tariff and Commercial Treaty Negotiations, July 8, 1910.

111. Parliamentary Debates, House of Commons, 5th ser., Vol. 17 (1910), cols. 5–6.

112. Parliamentary Debates, House of Commons, 5th ser., Vol. 19 (1910), col. 1459.

113. Parliamentary Debates, Vol. 17 (1910), cols. 5–6, 29.

114. Martin Pugh, *The Making of Modern British Politics, 1867–1945*, 3d ed. (Oxford: Blackwell, 1982), p. 131.

115. Foreign Office, 371/921 [26060], minutes of meeting, July 8, 1910.

crease of duties on cotton goods.<sup>116</sup> Merchants said that on some items tariff rates would be doubled and “compel many British firms now trading in Japan to abandon their business there.”<sup>117</sup> The *Times* published a letter to the editor from the president of the Bradford Chamber of Commerce (a district dominated by textile interests) stating that “if the tariff should come into force without amendment, a vital blow would be struck at the trade of the district.” The letter urged the government to tell Japan that raising tariffs against British goods “would influence our diplomacy in future dealings.”<sup>118</sup> The China Association, which was an organization of British trading interests in China, wrote to the Foreign Office claiming that the tariffs would “pave the way to that Japanese hegemony of the Far East which would certainly not be to the advantage of British merchants.”<sup>119</sup>

Given that Britain gave almost all Japanese goods duty-free entry, British officials and merchants expected favorable treatment. The British Board of Trade calculated that under the proposal there was almost no difference between the treatment of Britain and Germany, and if anything, Germany would benefit more.<sup>120</sup> In consultation with the chambers of commerce, the Board of Trade concluded that the new tariff would have ruinous effects.<sup>121</sup> The issue continued to be addressed in parliamentary debates, becoming a rallying point for Conservative criticism of unconditional free trade.<sup>122</sup> Foreign Minister Komura sparked outrage in Britain with his remarks that Japan could not grant Britain concessions because existing low British tariffs made it impossible for Britain to grant equivalent concessions. The bottom line to satisfy Parliament was special consideration for British trade interests. In July Britain submitted a counterproposal for a tariff schedule to be annexed to the treaty that would grant reductions on fourteen selected items in which Britain held the dominant market share.<sup>123</sup>

British officials used the alliance for bargaining leverage to gain tariff concessions from Japan. When the new tariff was first under discussion in the Diet, the British ambassador to Japan, Claude MacDonald, met with Komura and told him he hoped that Britain would receive favorable treatment and that

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116. Redford, *Manchester Merchants and Foreign Trade*, p. 83.

117. “The New Japanese Tariff,” *Times*, May 26, 1910.

118. Duncan G. Law, “The Japanese Tariff,” *Times*, June 17, 1910.

119. Lowe, *Great Britain and Japan*, p. 21.

120. Foreign Office, 371/921 [11362], C. MacDonald to Edward Grey, March 18, 1910.

121. Foreign Office, 371/921[23678], Edward Grey to C. MacDonald, June 28, 1910.

122. Austen Chamberlain, Parliamentary Debates, House of Commons, 5th ser., Vol. 21 (1911), cols. 295–296.

123. Foreign Office, 371/921 [26094], Board of Trade to Japanese ambassador, July 15, 1910.

Japan would show a willingness to make sacrifices on behalf of its ally, reminding Komura that Great Britain had been a strong supporter of Japan on the issue of railways and other questions in China and also damaged its relations with the United States on behalf of the alliance in the process.<sup>124</sup> Repeatedly, British officials mentioned the negative effect on British public opinion from Japan's tariff proposal. In July Ambassador Katō sent a telegraph to Foreign Minister Komura warning that adoption of the Japanese tariff proposal would damage the alliance by reducing the closeness between the countries and strengthening the hand of those in Britain who were already critical of the alliance.<sup>125</sup>

The linkage between trade policy and the security relationship became more explicit as the commercial treaty negotiations remained deadlocked. There was concern in Japan that further delays to reach a tariff agreement would result in the problem overlapping with the scheduled renewal of the alliance, for which discussions would begin in the fall of 1910. The timing of Japan's annexation of Korea in August 1910 added further weight to comments about Britain's support of Japan and the current turn in public opinion. Japanese officials wanted Britain to recognize the annexation and thereby legitimize Japan's action. In October 1910, MacDonald met with Prime Minister Katsura to discuss both tariff issues and the annexation of Korea. MacDonald informed Katsura that the tariff negotiations were largely responsible for the rise in public criticism of Japan and the unpopularity of the alliance, ominously warning that "these sentiments the Government in power would have to take into account when the time came to negotiate regarding the renewal of the alliance."<sup>126</sup> Katsura responded that because it was unthinkable for allies to fail to conclude a commercial treaty, he thought that the Japanese proposal could be modified to meet the British concerns. Mentioning that the Japanese parliament must be dealt with, he stated that the information about the impact of tariff revisions on the alliance's prospects would be a "very powerful lever in the Diet."<sup>127</sup>

The final agreement represented a face-saving compromise to satisfy British economic interests while maintaining Japan's principle that obligations were reciprocal. In a November memorandum, Japan suggested that it would view as a concession a commitment from Britain to conventionalize the freedom from duty heretofore enjoyed by major Japanese exports such as silks and por-

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124. Foreign Office, 371/921 [11362], C. MacDonald to Edward Grey, March 18, 1910.

125. Ministry of Foreign Affairs, *Nihon Gaikō Bunsho* [Japan's foreign policy documents], Vol. 43, No. 1, p. 661.

126. Foreign Office, 371/922 [39117], C. MacDonald to Edward Grey, October 9, 1910.

127. *Ibid.*

celain wares. Britain agreed—in effect promising to keep at zero the existing zero tariffs.<sup>128</sup> This resembled the British July proposal that Japan had found unacceptable. Now, however, the Japanese government agreed to accept these British “concessions” in exchange for its own concessions, which were included in a special reduced schedule for conventional tariffs on some leading British exports to Japan such as select textiles and iron and steel products. Komura telegraphed to Katō that Japan would reduce tariffs on these British imports in the spirit of friendship with Britain, while noting that doing so would have a serious adverse impact on national revenues.<sup>129</sup> Given the fear of backlash in the current Diet session, in January 1911, Katō urged the British negotiators to keep the concessions made to Britain an absolute secret and delay the signing until April.<sup>130</sup>

The Foreign Office was widely praised for having used political leverage to counter Japanese protectionism. In Britain, the *Times* congratulated the government on its success to use “side considerations of a different order” related to the alliance given that it was unable to offer concessions on customs duties.<sup>131</sup> The newspaper reviewed the detailed agreement and concluded that, on the whole, it reduced by one-third the duties on key British exports to Japan relative to the duty those British exports would have been charged without negotiating the reductions in the statutory tariff. The president of the Board of Trade evaluated the outcome as “substantial concessions to British trade.”<sup>132</sup> The Manchester Chamber of Commerce congratulated the Foreign Office on using the alliance to keep Japanese duties to a minimum.<sup>133</sup>

The tariff negotiation shows the potential utility of an alliance relationship to apply pressure in economic negotiations. Initially, Japanese officials showed surprising disregard for the alliance in the tariff revision process. Japanese officials seemed to expect that Britain would be sympathetic to its revenue needs and supportive of Japan’s economic development, as it had been in other instances. Under political pressure, British officials refused to accept Japan’s draft and put the alliance on the line for the sake of pushing Japan to compromise on its tariffs. Only when confronted by the full implications of British opposition to Japan’s tariff proposal and the risk posed to the alliance relationship did Japanese leaders accept the British amendments.

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128. Foreign Office, 371/922 [42913], memorandum of a conference.

129. Ministry of Foreign Affairs, *Nihon Gaikō Bunsho*, p. 59.

130. Foreign Office, 371/1137[2323], Edward Grey to C. MacDonald, January 16, 1911.

131. “The Anglo-Japanese Treaty,” *Times*, April 6, 1911.

132. “London Chamber of Commerce: Mr. Buxton and the Japanese Commercial Treaty,” *Times*, April 29, 1911, p. 8.

133. Redford, *Manchester Merchants and Foreign Trade*, pp. 83–84.

The tariff negotiation case fits with the expectations of the hypothesis that domestic conditions can lead a state to use an alliance for bargaining leverage in economic negotiations. The tariff issue directly threatened manufacturing interests central to the Liberal Party base and required extensive consultation with Parliament. The opposition advocated an even more aggressive policy to threaten Japan with retaliatory tariffs. Under these conditions of high partisan interest and a policy issue with low executive autonomy, domestic political constraints made it impossible for Britain to accept a one-sided tariff agreement. Given that the tariff negotiations took place against the backdrop of intensifying hostility with Germany, which increased the importance of the alliance, the realist hypothesis would suggest greater willingness by Britain to offer side payments to support alliance cohesion. Instead, domestic political stakes led Britain to use the alliance for bargaining leverage.

#### THE THIRD ALLIANCE

Only four months after signing the commercial treaty, Britain and Japan concluded their third alliance agreement in July 1911. The alliance held growing importance to Britain as its rivalry with Germany intensified, especially after the alarming German naval buildup that began in 1909. While criticism arose over commercial competition and Japanese intervention in China, there was recognition that the troubles in Europe mandated reliance on Japan.<sup>134</sup> Speaking to the prime ministers of the Dominions (Australia, Canada, New Zealand, and South Africa), where commercial rivalry with Japan and concern about immigration had given rise to vocal complaints against the alliance, Grey asserted the need to keep Japan's support in the Far East, warning of dire consequences if Japan's naval power were instead to become opposed to Britain.<sup>135</sup> Britain had greatly reduced its naval capacity in the Far East since forming the alliance, and it desired to keep Japan an ally as a means to preserve stability in the region. As for Japan, its growing naval strength made some see the alliance as unnecessary, but the core support among government officials remained strong.<sup>136</sup> The military continued to see the alliance as playing a political role rather than acting as a central element in Japanese military strategies.<sup>137</sup>

At British invitation, Japan entered World War I in August 1914. Grey's telegram instructing officials to seek Japanese assistance noted, "It is essential that

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134. Lowe, *Great Britain and Japan*, p. 25.

135. *Ibid.*, p. 274.

136. Lowe, *Great Britain and Japan*, p. 30.

137. JDA, *Nichiei dōmei gunjiteki kosatsu*.

the Japanese should hunt out and destroy the German armed merchant cruisers who are attacking our commerce now.”<sup>138</sup> Japanese troops seized German outposts in the Pacific and the German-occupied territory Tsingtao in China. In addition, the Japanese Navy acted as a convoy to protect troop convoys, merchant ships, and munitions supplies. British naval historian Ian Gow writes that “the Japanese naval contribution to the war was considerable.”<sup>139</sup>

The war provided Japan with further economic gains. Japanese trade experienced a war boom while European export interests suffered from various handicaps related to wartime conditions. With the controversial “Twenty-One Demands” issued to the Chinese government in 1915, Japan tried to expand its influence in China with only partial success. British officials warned Japan that it had gone too far in demanding control over political advisers and munitions supplies to China, and at the same time urged China to accept Japanese demands for railway and mining concessions, the opening of additional ports to Japanese trade, and the transfer of German concessions to Japanese control.<sup>140</sup> Ultimately China assented to the latter demands, and Japan dropped the more sensitive claims for control over political advisers and munitions supply. Grey faced hostile questions in Parliament about the issue since it was first leaked in the press, with particular focus on the threat to Lancashire textiles from expanded Japanese influence in China.<sup>141</sup> Although not giving Japan a free hand in China, the government felt it could not afford to snub its ally on economic issues during a time of war.

The allies agreed to terminate the alliance on December 13, 1921, at the Washington Conference with the signing of the Four-Power Treaty (formally the alliance ended on August 17, 1923). From Japan’s perspective, with the United States becoming its rival in East Asia, there was little strategic value to the alliance with Britain, which stipulated in the third agreement that conflict between Japan and the United States was excluded from the scope of the alliance. Having achieved the status of the largest naval power in the Far East and the third largest naval power in the world, Japan could secure its East Asian interests without aid. Nevertheless, Japan did not request the end of the alliance and would have supported its renewal. Speaking in 1919, Japanese Prime Minister Kei Hara declared, “There is no question about the need for its [the Anglo-Japanese alliance’s] continuation.”<sup>142</sup> The alliance continued to be seen as a central pillar in Japanese foreign policy.

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138. Lowe, *Great Britain and Japan*, p. 180.

139. Gow, “The Royal Navy and Japan,” p. 45.

140. Lowe, *Great Britain and Japan*, p. 249.

141. *Ibid.*, p. 244.

142. Chihiro Hosoya, “Britain and the U.S. in Japan’s View, 1919–37,” in Ian Nish, ed., *Anglo-*



Britain initiated the decision to annul the alliance. The end of the German threat made the alliance less necessary. U.S. criticism of Japan's influence in China put Britain in an awkward position, and strengthening relations with the United States was the top priority for Britain. Japanese commercial rivalry had by this point overtaken many former European markets in Asia, and Japan had replaced Russia and Germany as the threat to British interests in China. All of these factors contributed to the negative reports in the British press that opposed the renewal of the alliance.

The end of the alliance brought a reduction in the economic benefits for Japan. The Washington Conference returned to China many of the railway and territorial rights that Japan had asserted in 1915, which contributed to the sense of betrayal in Japan that Britain no longer supported Japanese interests.<sup>143</sup> A few years after the end of the alliance, trade between Britain and Japan experienced a sharp decline, and thereafter continued the downward trend as countries fell into global economic turmoil. While the reduction in trade had many causes, the end of formal security cooperation may have contributed to the unwillingness of governments to cooperate on measures to jointly address both their economic and security problems. Winston Churchill would later observe that "the annulment [of the Anglo-Japanese alliance] caused a profound impression in Japan and was viewed as the spurning of an Asiatic Power by the Western World. Many links were sundered which might afterwards have proved of decisive value to peace."<sup>144</sup>

### Conclusion

The evidence from the Anglo-Japanese alliance shows the importance of economic side payments as a tool for alliance maintenance. As expected by the realist hypothesis, security motivations led Britain to favor Japan with a range of economic policies that contributed to Japanese income gains. The case also shows, however, that domestic factors can override security concerns when the economic threat to an important constituency is serious and the legislature becomes involved in the decisionmaking process. The revision of the commercial treaty challenges the realist expectation that security needs determine side payments. In 1910, when the German naval scare placed an imperative on upholding the Anglo-Japanese alliance, Britain refused to allow one-sided eco-

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*Japanese Alienation, 1919–1952: Papers of the Anglo-Japanese Conference on the History of the Second World War* (Cambridge: Cambridge University Press, 1982), pp. 3–26, at pp. 7–8.

143. Kurobane, *Nichiei dōmei no kenkyū*, p. 549.

144. Quoted in Dua, *Anglo-Japanese Relations during the First World War*, p. 209.

nomic gains for Japan and instead engaged in hard bargaining over the tariff treaty revision.

One must look at domestic political constraints to account for the variation in the type of economic-security linkage. British officials could offer side payments to favor their ally's income in policy areas where the Foreign Office had autonomy even when business interests objected. The decisions on loans, railway development, and diplomatic approval of Japanese special rights in China and Korea were made by the Foreign Office. In the case of the tariff revision negotiations of 1910, however, the highly politicized process involved Parliament, which brought the concerns of business to the forefront and spurred the British government to use the alliance for bargaining leverage to gain reciprocal concessions. Japanese appeals that it needed to gain revenue from tariff increases were rebuffed, and British officials citing opposition from Parliament threatened that problems in the trade negotiations would harm the alliance. This threat persuaded the Diet to accept a revised tariff agreement that made concessions favoring British business.

Partisanship also shaped the policies taken for maintaining the alliance. The Conservative Party found it easier to support the alliance because it advanced strategic goals shared by investors in the China market who were a major constituency group. The alliance encountered more difficulties when the Liberal Party came to power because the party was more skeptical of the utility of alliances in general, and because the working-class groups represented by the Liberal Party were hostile to the threat posed to British industry by low-cost Japanese textile production. The Foreign Office could arrange loan deals and spurn British investment interests because these economic sectors were closer to the opposition. But when it came to the tariff negotiation, Parliament was actively involved, and the economic stakes affected groups important to the ruling Liberal Party.

Changing strategic needs explain some of the variation in side payments. At war, strategic need is sufficient to override domestic opposition to economic costs associated with alliance maintenance. During World War I, British officials ignored domestic criticism that Japan's demands on China would strengthen its commercial position relative to British interests. In the absence of a threat, low strategic need would eliminate the motivation for offering side payments. After World War I, British support for Japanese economic interests declined. This view, however, fails to account for the variation in the use of economic policies before the onset of war. In the short period from 1909 to 1911, Britain offered concessions to Japan for railway development projects and also bargained for trade concessions from Japan to help British business.

The difference lay in the political process more than alliance importance. Renewal of the alliance in 1904 and 1911 with strengthened terms of collective defense showed that the alliance continued to have strategic importance even while domestic constraints limited the kind of side payment Britain could offer Japan. Indeed, even as Britain feared a coming war with Germany in which the Anglo-Japanese alliance would help to secure British interests in the Far East, domestic pressure pushed the government to hold the alliance hostage to tariff bargaining.

In summary, this case shows how economic policies play an important role in alliance formation and maintenance. When choosing among allies, smaller states may be influenced by the prospect of economic benefits from the alliance. After alliance formation, allies pursue economic cooperation to support alliance cohesion. This cooperation includes both side payments that offer asymmetrical gains and bargaining for reciprocal exchanges. Alliance maintenance during noncrisis periods presents a trade-off between security and economic interests, and domestic politics determines which goals receive priority. Those issues addressed by the executive acting autonomously are more likely to reflect security objectives, whereas those issues requiring broader political consensus are more likely to reflect economic objectives. Leaders must carefully select side payments that satisfy an ally while avoiding a veto from domestic actors.

The case sheds light on debates in the literature on alliances and economic interdependence. British willingness to contribute to the income gains of Japan as a rising power seems surprising from a realist perspective that emphasizes competition over relative gains. Yet, as argued by Friedberg and Narizny, the decline of British power in conjunction with domestic political constraints mandated reliance on alliances. Supporting the argument of Gowa, the alliance relationship generated a benevolent view of Japanese income gains. The case also raises questions about the liberal argument that "trade brings peace." Contrary to the expectation that economic interdependence strengthens alliances by creating vested interests in the bilateral relationship,<sup>145</sup> growing commercial rivalry helped to undermine British support for the alliance. It was lobbying by domestic business interests that pushed for relative gains concerns vis-à-vis an ally.

There are limitations as to how much one can generalize from a single alliance case study. First, how typical are the domestic constraints encountered by Britain? On the one hand, the argument may apply only weakly to authoritar-

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145. Papayoanou, "Interdependence, Institutions, and the Balance of Power."

ian governments where constraints from a legislature and partisan interests would be less relevant. On the other hand, democracies with presidential systems or frequent coalition governments may find that they face more constraints from legislative veto players than did Britain. Relative to these latter cases, the analysis of Britain may underestimate the power of domestic constraints to shape alliance politics. Second, how typical are the security trade-offs faced in the Anglo-Japanese alliance? Distance reduced the intensity of relative gains fears for Britain because it was not building up the resources of a neighboring state. Nonetheless, Britain had every reason to fear the emergence of a new naval power, and involvement in China brought British interests directly into contact with Japan in the context of empire. Neither the value of Japan as an ally nor its potential threat as an enemy can be dismissed simply because of the distance between their capitals.

Future research should investigate whether security needs or domestic political constraints account for the pattern of economic-security linkages between allies during other periods and alliance pairs. The U.S. decision after World War II to use economic policies to strengthen the Western alliance system would be an interesting case. With Europe, the United States offered the Marshall Plan and encouraged the creation of a European customs union that would in effect become a discriminatory regional trading bloc competing with the United States in global markets. Toward Japan, the United States backed Japanese membership in the General Agreement on Tariffs and Trade when many European countries, including Britain, refused from fears about economic competition. Through such generous economic policies, the United States offered asymmetrical gains to its allies in the 1950s. By the 1970s, however, the United States was demanding reciprocal concessions from its allies. Although many observers point to the changing nature of U.S. hegemony and security threats, domestic political conditions also changed with the rise of an assertive Congress and periods of divided government. These constraints may have affected the ability of the U.S. executive to offer one-sided economic gains to allies.<sup>146</sup> William Howell and Jon Pevehouse find that divided government restricted the use of force by the United States, and one could investigate whether these same political conditions also influenced U.S. policies to support its allies.<sup>147</sup>

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146. Thomas Moll extends the framework of this article and finds that domestic pressure accounts for the form of side payments and bargaining leverage in the U.S.-Japan relationship. Moll, "The Role of Domestic Politics in Shaping International Linkages between Economics and Security: The U.S.-Japanese Alliance, 1951-1991," master's thesis, London School of Economics, 2007.

147. William C. Howell and Jon C. Pevehouse, "Presidents, Congress, and the Use of Force," *International Organization*, Vol. 59, No. 1 (Winter 2005), pp. 209-232.

Considering the role that economic policies play as the glue holding together alliances, more attention should be given to when and how states can offer unilateral economic concessions to their allies. This article shows that both strategic interests and domestic political pressure constrain economic bargaining between allies. Whether the alliance is used to justify side payments or to increase bargaining leverage depends on politics and not just systemic interests. The democratic peace literature has focused on conflict studies; this article shows the need to explore how democratic politics influences other foreign policy dimensions such as alliance maintenance. One risk of democratic representation is the challenge of balancing security and economic interests.