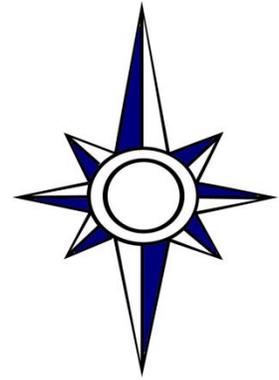


Comparative Connections

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US-Japan Relations: Hitting the Reset Button

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The ruling Democratic Party of Japan (DPJ) suffered an embarrassing defeat in the July Upper House election less than a year after assuming power. Prime Minister Kan Naoto subsequently took a beating in the polls but managed to withstand a challenge from former DPJ Secretary General Ozawa Ichiro in a party presidential election marked by heated debate over economic policy. Political turmoil did not preclude active diplomacy on the part of Kan's government, nor coordination between Washington and Tokyo on a range of bilateral, regional, and global issues including the relocation of Marine Corps Air Station (MCAS) Futenma on Okinawa; a collision between a Chinese fishing boat and Japanese Coast Guard vessels near the Senkaku Islands; and sanctions on Iran to condemn its nuclear activities. The quarter came to a close with President Obama and Prime Minister Kan taking stock of a rapidly developing bilateral agenda during a brief yet productive meeting on the margins of the United Nations General Assembly (UNGA) in New York, setting the stage for the president's trip to Japan in November.

Kan stumbles but survives

Prime Minister Kan Naoto opened the Upper House election campaign by emphasizing the importance of fiscal consolidation, but clumsily discussed a potential increase in the consumption tax and was blamed for a poor showing by his party in the July 11 poll. The Democratic Party of Japan (DPJ) secured only 44 seats (half of the 242 seats were contested) and fell 16 seats short of a majority in the chamber, potentially jeopardizing Kan's legislative agenda. The People's New Party (PNP), a coalition partner of the DPJ, won zero seats and other small parties such as Your Party, led by former Liberal Democratic Party (LDP) member Watanabe Yoshimi, refused to join a ruling coalition.

The disappointing election result and Kan's failure to form a majority coalition prompted former DPJ Secretary General Ozawa Ichiro, who resigned in June because of a political funding scandal, to resurface and hammer Kan on economic policy. Ozawa lamented Kan's emphasis on fiscal restraint over social welfare spending, which Ozawa and Kan's predecessor Hatoyama Yukio had championed. In a bizarre turn of events emblematic of the discord within the DPJ, Ozawa in late August announced his intention to run against Kan in the DPJ presidential race scheduled for Sept. 14 and won the endorsement of Hatoyama, who asked Ozawa to resign his secretary general post to cleanse the DPJ of political scandal. Ozawa, Hatoyama, and Kan, the "founding fathers" of the DPJ, found themselves on opposite sides of an internecine battle that made for great political drama but exacerbated public concerns about political stability. The race also pitted Kan's more pragmatic approach to the economy and the US-Japan alliance against Ozawa's pledge to return to the populist DPJ Manifesto of 2009, which emphasized

distributionist economic policies and greater separation from the US (though policy differences were less germane to the public than the odor of scandal surrounding Ozawa).

Kan was reelected DPJ president and retained his post as premier with a resounding victory over Ozawa (721 points to 491 in a complex system combining votes among DPJ Diet members, local party officials, and party supporters) and did not offer Ozawa loyalists any Cabinet posts in a reshuffle that followed. Some key figures were retained including Chief Cabinet Secretary Sengoku Yoshito and Finance Minister Noda Yoshihiko. Foreign Minister Okada Katsuya was appointed DPJ secretary general and was replaced by Maehara Seiji, who had been serving as transport minister. New faces included Minister of Economy, Trade and Industry Ohata Akihiro and State Minister for Economic and Fiscal Policy Kaieda Banri.

Ozawa miscalculated the degree to which public opinion, which favored Kan overwhelmingly, would impact the vote and was forced to retreat for the second time in three months, but many pundits suggested he might attempt another comeback in the spring should Kan struggle to pass a budget for fiscal year 2011 in the next Diet session. (Ozawa's indictment in early October rendered that prediction moot.)

Japanese economic and security policy developments

Surveys over the summer suggested a majority of the public supported Kan on the need to shore up Japan's finances but sought more initiative to revive the economy first. On Aug. 30, the government unveiled a \$10.9 billion stimulus package and the Bank of Japan (BOJ) announced a fresh package of loans through a special facility established in December 2009 to offer short-term loans to commercial banks at 0.1 percent interest. The BOJ then conducted a \$12 billion foreign exchange market intervention on Sept. 15, the first in six years, to stem the rise of the *yen*, which had become a drag on Japan's export-led recovery from the financial crisis. *Yen* appreciation, deflation, and fiscal consolidation emerged as the three prevalent themes likely to drive the economic policy debate and test Kan's leadership. The intervention prompted some criticism from members of Congress, but the overwhelming focus of the Obama administration and the Hill remained Chinese *renminbi* policies.

The Kan government pursued several diplomatic initiatives throughout the quarter despite the upheaval in domestic politics. Japan hosted a trilateral strategic dialogue with Australia and the US in July (meetings initiated in 2001) and dispatched Maritime Self-Defense Force (MSDF) personnel to observe a US-ROK joint military exercise and demonstrate solidarity with Washington and Seoul in the wake of the *Cheonan* incident. In response to massive flooding in Pakistan, the government dispatched Self-Defense Force helicopters to support relief efforts and provided emergency relief aid. Moving beyond the region, the MSDF antipiracy mission in the Gulf of Aden was extended for one year. On Sept. 3, Japan adopted new sanctions against Iran to implement UN Security Council Resolution 1929, a decision the Obama administration applauded in a joint statement released by Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner and one that administration officials credited with moving South Korea and Malaysia to follow suit. Prime Minister Kan then traveled to New York to attend the UN General Assembly, where he announced an \$8.5 billion pledge to support health and

education in developing countries and also identified nuclear nonproliferation and disarmament, the global environment, and peacekeeping operations as priorities for his government.

On Aug. 27 an advisory panel presented a report to Prime Minister Kan urging a comprehensive revision of security policy. The “Council on Security and Defense Capabilities in a New Era” presented recommendations for the National Defense Program Guidelines (NDPG), a five-year plan for defense policy due in December. Among its many recommendations, the Council urged a departure from core principles focused on homeland defense toward a more pro-active posture to support regional and global security. The group also suggested the government strengthen the US-Japan alliance by revising the official interpretation of the Constitution to exercise the right of collective self-defense and relaxing limits on arms exports. In most respects, the report was in line with the original proposals by a similar panel under the LDP, with the major omission being the LDP panel’s recommendation to explore Japan’s counterstrike capability. During an appearance before the Upper House Budget Committee on Aug. 5, Prime Minister Kan stated he was not inclined to consider the new defense panel’s recommended changes in policy, but the consistency between the LDP and DPJ panels’ recommendations has encourage further debate and possible movement if the political situation stabilizes next year.

Slogging along on Futenma, host nation support, and postal savings

The relocation of MCAS Futenma on Okinawa retained its position atop the bilateral agenda over the summer. Pursuant to the May 28 joint statement of the US-Japan Security Consultative Committee (SCC), a bilateral group of experts was formed to study the location, configuration, and construction method for a Futenma replacement facility near the area of Henoko, a location listed in a May 2006 agreement on the realignment of US forces in Japan. The group submitted a report on Aug. 31 comparing the original plan for a V-shaped runway on a landfill off Henoko to a counter-proposal for an I-shaped runway put forth by the Japanese government. The report stopped short of recommendations but set the parameters for subsequent discussions between the two governments. Prime Minister Kan has expressed a commitment to implement the agreement on Futenma relocation, but hinted in August that the government would first await the results of the Okinawa gubernatorial election in late November. Concerned that the election would become a referendum on Futenma that might energize anti-base activists on the left, conservative gubernatorial candidate Nakaima Hirokazu announced that he too would ask the government to move the Futenma replacement facility out of Okinawa if elected. Some analysts saw this as a blow to the government, but in the shadow-boxing of Okinawa politics, government officials in Tokyo quietly welcomed the move as a way to preserve flexibility for ongoing negotiations.

Adding to the list of potential irritants in bilateral relations, negotiations over the budget for host-nation support (HNS) commenced in July with the current special measures agreement authorizing outlays set to expire in March 2011. The Japanese government’s intention to review the budget request for the fiscal year beginning in April 2011 in an open policy contest raised concerns in Washington about the potential for cuts. At the end of September, a senior State Department official engaged a group of reporters on condition of anonymity and warned against reductions ahead of a subsequent round of negotiations.

On the economic front, the two governments resumed discussions in September regarding US beef exports to Japan, after a three-year hiatus. Japan has restricted imports since cases of bovine spongiform encephalopathy, or mad cow disease, were discovered in the US in 2003. US concerns about postal reform legislation in Japan also were addressed when Financial Services Minister Jimi Shozaburo visited Washington in mid August, assuring Under Secretary of the Treasury for International Affairs Lael Brainard that the bill seeking to scale back privatization of the postal service, or Japan Post, ensures fair competition in banking, insurance, and express mail delivery. Kan vowed to submit the legislation during the next Diet session in the fall, but passage is not guaranteed (and perhaps unlikely) given the results of the Upper House election.

The Senkaku collision: a big wake-up call for the alliance

All the negotiation over Futenma, HNS, and other security issues took on a new light in the wake of Japan's confrontation with China over the disputed Senkaku Islands. The Sept. 7 collision between a Chinese fishing boat and two Japanese Coast Guard vessels near the Senkakus prompted statements from senior Obama administration officials reaffirming the centrality of the US-Japan relationship. On Sept. 20, Vice President Joseph Biden noted during an address to the US-Japan Council in Washington that US efforts to improve ties with China had to "go through" Tokyo, kicking off a week of furious diplomacy that appeared to jump start the relationship. The reaffirmation of US alliance commitments under Article 5 of the Treaty of Mutual Cooperation and Security – reportedly uttered privately by Secretary Clinton in a Sept. 23 meeting with Foreign Minister Maehara on the margins of the UNGA in New York, and publicly by Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Michael Mullen in a press conference that same day – set a positive tone for diplomatic coordination. President Obama and Prime Minister Kan, who also met in New York on Sept. 23, agreed to intensify US-Japan consultations on maritime issues in the western Pacific. Overall, the Japanese press reported positively on US-Japan coordination on the Senkaku dispute, though Kan's sudden decision to return the Chinese captain on Sept. 24 was greeted with headlines across Japan proclaiming "Diplomatic Defeat." The next week Kan's support level dropped 10 points and polls showed that over 80 percent of Japanese "did not trust" China while an unprecedented 70 percent said China was a "threat" to Japan. Stories also emerged in *Sankei Shimbun* and some other publications implying that Obama and Clinton had pressed Kan to surrender the captain during bilateral meetings in New York. These stories had no credible sourcing and were predictable given the suddenness with which Kan reversed course and returned the Chinese captain. Overall, the incident deepened mutual trust between the White House and the Prime Minister's Office, with one senior US official declaring with satisfaction that, "this is how allies work together."

While the high-level meetings in New York focused primarily on China, since they took place right in the middle of Japan's confrontation with Beijing, President Obama and Prime Minister Kan also addressed developments in Northeast Asia; North Korea and Iran; Afghanistan and Pakistan; economic issues including the Asia-Pacific Economic Cooperation (APEC) forum; and cooperation in the areas of clean energy and nuclear security. Secretary Clinton and Foreign Minister Maehara followed a similar agenda. Clinton also urged the government of Japan to ratify the Hague Convention on the Civil Aspects of International Child Abduction. On Sept. 29 the US House of Representatives passed Resolution 1326 calling on Japan to adopt the

Convention and address the growing problem of abduction to and retention of minor children in Japan who are US citizens.

Futenma, host-nation support, and other issues notwithstanding, the positive energy on display in New York and the breadth of bilateral engagement overall this quarter suggest potential for more robust consultations between the United States and Japan, a welcome development as President Obama makes preparations for a trip to Japan in November for the APEC Leaders Meeting.

Fourth quarter

Japanese officials will visit Washington in early October to attend a G7 Finance Ministers Meeting and the annual meetings of the World Bank and International Monetary Fund, affording opportunities for informal consultations on institutional architecture and other financial issues. The mid-term congressional elections in the US and the Okinawa gubernatorial election, both scheduled for November, could complicate the diplomatic agendas of President Obama and Prime Minister Kan. President Obama's visit to Japan will conclude a series of declarations and events this year commemorating the 50th anniversary of the bilateral security treaty. Finally, multilateral diplomacy on climate change returns to the fore with the 16th Conference of Parties to the United Nations Framework Convention on Climate Change scheduled from Nov. 29 to Dec. 10 in Cancun, Mexico.

Chronology of US-Japan Relations July – September 2010

July 4, 2010: A poll published by *Asahi Shimbun* finds Prime Minister (PM) Kan's disapproval rating exceeds his approval rating by a margin of 40 percent to 39 percent.

July 5, 2010: A *Yomiuri Shimbun* survey shows a 45 percent approval rating for PM Kan, with 39 percent disapproving of his performance. Thirty-eight percent of respondents said they wanted the Democratic Party of Japan (DPJ) to retain a majority in the Diet and 48 percent did not. Sixty-five percent supported an increase in the consumption tax but 89 percent suggested Kan had not adequately explained its necessity. Thirty-four percent supported the DPJ, 18 percent favored the Liberal Democratic Party (LDP), and 33 percent were undecided.

July 11, 2010: The DPJ secures 44 seats in the Upper House election for a total of 106, falling 16 seats short of a majority in the chamber. The LDP picks up 51 seats for a total of 84. The newly formed Your Party wins 10 seats. The People's New Party (PNP), a coalition partner of the DPJ, wins no seats.

July 12, 2010: Prime Minister Kan, commenting on the results of the Upper House election, states he will stay on as prime minister and will not dissolve the Diet.

July 12, 2010: An exit poll conducted by *Yomiuri Shimbun* and *Nippon Television* finds 29 percent of unaffiliated voters supported the DPJ in the proportional representation portion of the

ballot for the Upper House election, compared to 52 percent in the 2009 Lower House election and 51 percent in the previous Upper House election in 2007.

July 13, 2010: State Secretary for Foreign Affairs Takemasa Koichi Deputy Secretary of State James Steinberg in Washington to discuss issues including the relocation of Marine Core Air Station (MCAS) Futenma, North Korea, and Iran.

July 14, 2010: A joint survey by *Asahi Shimbun* and the University of Tokyo suggests 53 percent of Upper House members either support or are leaning toward supporting a consumption tax hike by 2015.

July 14, 2010: The International Monetary Fund recommends Japan increase the consumption tax to 15 percent to improve the country's finances, beginning with a modest increase in fiscal year 2011.

July 15, 2010: Chief Cabinet Secretary Sengoku Yoshito announces that the National Policy Unit, established by the DPJ in 2009 to play a central role in the policymaking process, would instead take on a consulting role to the prime minister.

July 16, 2010: The government of Japan decides to extend Self-Defense Force (SDF) participation in an anti-piracy mission off the coast of Somalia for one year.

July 20-21, 2010: Secretary Steinberg visits Japan to meet Japanese officials and lead the US delegation in a trilateral strategic dialogue with Japanese and Australian counterparts.

July 22, 2010: The US and Japanese governments begin working-level negotiations over the special measures agreement authorizing host nation support for US forces.

July 23, 2010: Secretary of State Hillary Clinton and Foreign Minister Okada Katsuya discuss Futenma relocation, North Korea, Iran, and the upcoming Asia-Pacific Economic Cooperation (APEC) forum in a meeting on the sidelines of the ASEAN Regional Forum (ARF) in Hanoi.

July 23, 2010: Japan's Ministry of Defense announces it will send Maritime Self-Defense Force (MSDF) staff to observe US-ROK joint military exercises scheduled for July 25-28.

July 26, 2010: A *Mainichi Shimbun* survey declares a 40 percent approval rating for the Kan cabinet, with 80 percent of respondents stating Kan should not have to step down for the defeat suffered by the DPJ in the Upper House election.

July 26, 2010: The Ministry of Defense decides to postpone appropriations requests for the next generation FX fighter, excluding it from the fiscal 2011 budget.

July 26, 2010: Chief Cabinet Secretary Sengoku states during a press conference that a coalition with the LDP might be possible to avoid a deadlock in the Diet.

July 27, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell, Assistant Secretary of Defense for Asian and Pacific Affairs Wallace Gregson, and Assistant Secretary of the Navy, Energy, Installations and Environment, Jackalyne Pfannenstiel testify before the House Armed Services Committee on security developments in Japan.

Aug. 2, 2010: PM Kan hints that Japan will not press forward on a final resolution to the Futenma relocation issue until after the Okinawa gubernatorial election in late November.

Aug. 3-4, 2010: State Department Special Adviser for Nonproliferation and Arms Control Robert Einhorn and Treasury Department Deputy Assistant Secretary for Terrorist Financing and Financial Crimes Daniel Glaser meet Japanese government officials in Tokyo to discuss sanctions on North Korea and Iran.

Aug. 4, 2010: The US military publishes the first issue of a Japanese-language comic book series on the US-Japan alliance.

Aug. 5, 2010: During an appearance before the Upper House Budget Committee, PM Kan states he has no plans to revise the official interpretation of the constitution prohibiting Japan from exercising the right of collective self-defense. He also vows to uphold Japan's three non-nuclear principles (not to produce, possess, or introduce nuclear weapons on Japanese territory) and limits on the exports of arms.

Aug. 6, 2010: In a speech at the Hiroshima Peace Memorial Ceremony, PM Kan states Japan as the only country to have suffered nuclear bombings has a "moral responsibility" to assume a leadership role in nuclear disarmament and nonproliferation.

Aug. 6, 2010: US Ambassador to Japan John Roos represents the US at the Hiroshima Peace Memorial Ceremony.

Aug. 6, 2010: The Japanese government decides to extend SDF participation in the UN peacekeeping mission in the Golan Heights until March 2011.

Aug. 9, 2010: Japan's Ministry of Finance reveals public debt is equivalent to 190 percent of gross domestic product.

Aug. 17, 2010: Financial Services Minister Jimi Shozaburo meets Under Secretary of the Treasury for International Affairs Lael Brainard in Washington to address US concerns about postal reform legislation in Japan.

Aug. 19, 2010: The Government of Japan decides to dispatch SDF helicopter units in support of flood relief efforts in Pakistan.

Aug. 23, 2010: Ambassador Roos meets Defense Minister Kitazawa Toshimi in Tokyo to discuss the relocation of MCAS Futenma and host nation support for US forces.

Aug. 25, 2010: Former DPJ Secretary General Ozawa Ichiro refers to Americans as “simple-minded” during a speech on politics.

Aug. 26, 2010: Ozawa Ichiro declares his intention to challenge Prime Minister Kan for the DPJ presidency in September.

Aug. 27, 2010: The Council on National Security and Defense Capabilities in a New Era, an advisory panel, submits a report to PM Kan featuring recommendations for the National Defense Program Guidelines due in December.

Aug. 30, 2010: Japanese government announces a \$10.9 billion stimulus package. Bank of Japan announces the extension of a short-term lending program for banks initiated in December 2009.

Aug. 30, 2010: Respondents to a *Yomiuri Shimbun* poll favored Kan over Ozawa, 67 to 14 percent. Kan’s approval rating stood at 54 percent, but 82 percent said the Kan Cabinet had not responded to falling stock prices and a rising yen. Fifty-eight percent said a consumption tax increase was necessary to shore up Japan’s finances, while 35 percent demurred.

Sept. 3, 2010: Government of Japan approves fresh sanctions on Iran over its nuclear enrichment program. The Obama administration applauds the decision in a joint statement by Secretary of State Clinton and Treasury Secretary Timothy Geithner.

Sept. 6, 2010: *Yomiuri Shimbun* poll finds 66 percent of the public supporting Kan in the DPJ presidential race with just 18 percent backing Ozawa. The approval rating for the Kan Cabinet stood at 59 percent.

Sept. 10, 2010: Japan’s Ministry of Defense issues its annual Defense White Paper.

Sept. 14, 2010: Kan Naoto is reelected president of the DPJ and remains prime minister after defeating Ozawa Ichiro by a margin of 721 points to 491.

Sept. 14-15, 2010: The US and Japanese governments hold technical working-level meetings in Burlingame, California, regarding bilateral trade in beef and beef products.

Sept. 15, 2010: The Bank of Japan conducts a \$12 billion foreign exchange intervention in an attempt to weaken the yen.

Sept. 15, 2010: US Representative Sander Levin (D-MI) expresses concern about Japan’s intervention on behalf of the *yen* during a hearing on China’s exchange rate policy.

Sept. 16, 2010: Japan ranks fourth behind China, Great Britain, and Canada on the list of countries considered “very important” to the US in a survey published by the Chicago Council on Global Affairs.

Sept. 17, 2010: PM Kan reshuffles his Cabinet, appointing Okada Katsuya as DPJ secretary general and naming Maehara Seiji foreign minister.

Sept. 20, 2010: The approval rating for the Kan cabinet stands at 64 percent according to a *Mainichi Shimbun* poll.

Sept. 20, 2010: Vice President Joseph Biden addresses the US-Japan Council in Washington, DC, and notes that US efforts to improve ties with China must “go through Tokyo.”

Sept. 22, 2010: PM Kan announces the “Kan Commitment,” an \$8.5 billion pledge over five years in the fields of health and education to support the Millennium Development Goals.

Sept. 23, 2010: President Obama and PM Kan meet in New York on the sidelines of the United Nations General Assembly.

Sept. 23, 2010: Secretary of State Hillary Clinton and Japanese Foreign Minister Maehara Seiji meet on the margins of the United Nations General Assembly in New York.

Sept. 23, 2010: Defense Secretary Robert Gates and Chairman of the Joint Chiefs of Staff Adm. Michael Mullen reaffirm the US-Japan security treaty during a press conference in response to questions regarding Japan’s dispute with China over the Senkaku Islands.

Sept. 24, 2010: PM Kan addresses the United Nations General Assembly and identifies development assistance, the global environment, nuclear disarmament and non-proliferation, and peacekeeping as priorities for Japan’s contributions to the international community.

Sept. 26-27, 2010: US Ambassador to Japan John Roos visits Nagasaki.

Sept. 29, 2010: The Bank of Japan’s quarterly *tankan* survey shows business confidence improved for the sixth straight quarter.

Sept. 29, 2010: The House of Representatives passes Resolution 1326 calling on the Government of Japan to address the growing problem of abduction to and retention of minor children in Japan who are US citizens and to adopt the Hague Convention on the Civil Aspects of International Child Abduction.

Sept. 29, 2010: An anonymous senior State Department official speaks to a group of reporters and expresses concern about a possible reduction in host nation support for US forces.

September 30, 2010: A *Fujisankei* poll reveals 80 percent of the Japanese public feels the image of China has deteriorated in the wake of the Sept. 7 Senkaku incident and 71 percent considers China a threat to Japanese security.