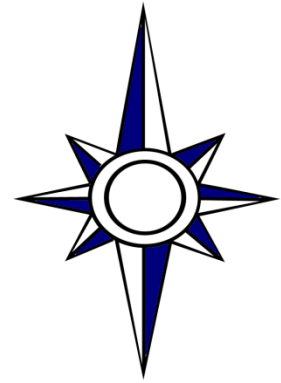


Comparative Connections

A Quarterly E-Journal on East Asian Bilateral Relations



US-Japan Relations: Many Issues, a Few Bright Spots

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Prime Minister Hatoyama Yukio moved to implement his domestic policy agenda with an eye toward the Upper House elections this summer but watched his approval rating fall as he and members of his ruling Democratic Party of Japan (DPJ) were beset by political fundraising scandals. The impasse over the relocation of Marine Air Station Futenma continued to dominate the bilateral agenda and alternative proposals put forth by the Hatoyama government failed to advance the discussion. Concerns about barriers to US exports and the restructuring of Japan Post emerged in commentary by the Obama administration and congressional leaders but a joint statement highlighting cooperation on the Asia-Pacific Economic Cooperation forum (APEC) reinforced the economic pillar of the relationship. The Toyota hearings in Congress were covered extensively by media in both countries but did not have an immediate impact on US-Japan relations. However, the recall issue and other developments point to potentially negative perceptions that could cloud official efforts to build a comprehensive framework for the alliance over the course of the year, the 50th anniversary of the 1960 US-Japan Security Treaty.

Politics and money

The quarter began with a key personnel change in the Hatoyama Cabinet. Finance Minister Fujii Hirohisa resigned in early January apparently for health reasons, though the media speculated that he had become exasperated with the Cabinet after struggling to produce a draft budget for fiscal year 2010. Prime Minister Hatoyama quickly nominated Deputy Prime Minister and Minister for National Policy Kan Naoto as Fujii's successor. Kan retained his post as deputy prime minister and tried to set an assertive tone as finance minister. On several occasions he indirectly called on the Bank of Japan to take additional measures against deflation. In mid-March the Central Bank voted to facilitate monetary easing by injecting an additional \$110 billion into a \$112 billion lending facility for commercial banks established last December to offer short-term loans. Kan also advocated a comprehensive look at tax reform including the consumption tax (despite Hatoyama's pledge not to increase it for four years) and championed fiscal stimulus to boost growth. The Diet passed a supplemental budget for fiscal year 2009 in January and a record \$1 trillion budget for fiscal year 2010 cleared the legislature in March. Attendant bills also passed authorizing cash payments to households and eliminating high school tuition – two key components of Hatoyama's domestic agenda and promises from the DPJ's campaign "Manifesto" – but questions lingered about the impact of fiscal policy on the deficit. Standard & Poor's announced in late January that it was revising the outlook for Japan's long-term credit rating due to concerns about deflation and the increasing debt-to-GDP ratio, but this did not dissuade the Hatoyama government from moving ahead with its plans for fiscal stimulus and implementation of the Manifesto.

The government also took steps to realize Hatoyama's goal of reducing greenhouse gas emissions 25 percent below 1990 levels by 2020. In late February, the Environment Ministry issued an outline of a basic bill on climate change including an environment tax and emissions trading system. A heated debate within the government over whether to propose binding caps on emissions or caps based on carbon intensity (meaning overall emissions could rise with increased output) – and whether to promote nuclear energy, opposed by the Social Democratic Party (SDP), a member of the ruling coalition – prevented submission of a detailed bill but a broad policy framework was approved by the Cabinet on March 12 and submitted to the Diet for debate.

A plan to restructure the postal service, or Japan Post, also sparked a lively debate within the Hatoyama government. On March 24, Minister of Internal Affairs and Communications Haraguchi Kazuhiro and Minister for Financial Services and Postal Reform Kamei Shizuka announced a plan for the government to retain control of more than one-third of Japan Post Bank and Japan Post Insurance and double the limits for deposits and insurance coverage. Other government agencies complained that the measure was not sufficiently debated and the business community (and later the US government) expressed concern that Japan Post would gain an unfair competitive advantage. Hatoyama sided with Kamei and the plan was approved on March 30, signifying a reversal of attempts at structural reform championed five years ago by former Prime Minister Koizumi Junichiro and economist Takenaka Heizo. Kamei had long promised to halt the privatization of Japan Post, but Hatoyama's deference to Kamei raised eyebrows at the unexpected clout wielded by Kamei's small People's New Party (PNP) in the face of strong opposition from within the DPJ itself. This episode demonstrated Hatoyama's prioritization of coalition solidarity going into the Upper House election this summer, but raised new doubts about the prime minister's leadership.

The DPJ's prospects going into the Upper House campaign have sagged somewhat due to public frustration with continuing corruption of *seiji to kane*, or "politics and money." Hatoyama has yet to recover from revelations last June that one of his aides had listed deceased individuals as donors in funding reports dating back to 2005. The funds in question were provided by his mother (heir to the Bridgestone tire fortune) over a five-year period, a relatively minor infraction compared to other fundraising scandals, but the public remains dissatisfied with his explanations and the ordeal tainted Hatoyama's campaign rhetoric on transparency and accountability in government. More severe was the arrest in January of three former aides to DPJ Secretary General Ozawa Ichiro, one of whom was a member of the Lower House, for allegedly covering up illegal donations from a construction company used to purchase real estate. Government prosecutors did not indict Ozawa but several public opinion polls reflected support for his resignation as secretary general. Expectations were that Ozawa would remain the major political force within the DPJ even if he resigned before the Upper House election, though it remained an open question how far the public prosecutors and tax authorities might go in pursuing the case. A third scandal involved the arrest in March of an aide to DPJ lawmaker Kobayashi Chiyomi for allegedly accepting illegal donations from a teachers union.

A March 15 *Asahi Shimbun* poll posted a 32 percent approval rating for the Hatoyama Cabinet and a disapproval rating of 47 percent. Luckily for Hatoyama, the opposition Liberal

Democratic Party (LDP) has yet to recover from the election loss last year. Former Health and Welfare Minister Masuzoe Yoichi and former Finance Minister Yosano Kaoru both threatened to quit the party in March citing weak leadership and former Internal Affairs Minister Hatoyama Kunio, the prime minister's brother, actually resigned and hinted at forming a new party. Neither party fared particularly well in the *Asahi* poll with 30 percent of respondents supporting the DPJ and 21 percent the LDP.

Futenma unresolved

The impasse over an agreement to relocate Marine Air Station Futenma on Okinawa consumed both governments throughout the quarter. Secretary of State Hillary Clinton and Foreign Minister Okada Katsuya met in Honolulu on Jan. 12 to discuss Futenma, but also initiated a comprehensive government-to-government dialogue on the alliance. They emphasized the depth and breadth of alliance cooperation in a joint press conference after the meeting, but the media honed in on references to security cooperation and a statement by Clinton on the need for Japan to "follow through on its commitments, including Futenma." Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson and Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell participated in Security Sub-Committee (SSC) talks in Tokyo the week of Feb. 1 and other exchanges took place subsequently, but the overwhelming concern of the media was whether the Hatoyama government would put forth a viable alternative to the existing agreement on Futenma. Obama administration officials, in congressional testimony and other venues, repeatedly stated a preference for the 2006 agreement while waiting for a proposal from Tokyo.

The DPJ-led coalition entered into a cacophonous debate over Futenma that only confused the coordination with the US. The Social Democratic Party (SDP) pushed aggressively for the base to be relocated outside Okinawa Prefecture and even outside Japan, while the election of a mayor in Nago city (the proposed location for the replacement facility in the existing agreement) added his voice to those opposed to the current relocation plan. Public polling showed strong dissatisfaction with Hatoyama's handling of alliance issues and showed support for moving the new facility out of Okinawa. Hatoyama also sent inconsistent messages, occasionally sympathizing with the SDP and Okinawa public opinion while acknowledging the difficulty of relocating Futenma outside the prefecture. He also backtracked on the timeline for a decision, at first stating he would have a plan ready by the end of March, but later arguing that wasn't required to resolve the issue by his self-imposed deadline of May. Internal Cabinet debates were repeatedly played out in public, but a dialogue channel was established between Chief Cabinet Secretary Hirano Hirofumi and US Ambassador to Japan John Roos. Hirano took personal charge of a task force to work on a new plan and deliberately excluded any officials previously involved in the negotiations, which further confused coordination with Washington.

Foreign Minister Okada was dispatched to Washington at the end of March and reportedly floated two proposals: one involving the transfer of some helicopter units to an inland runway on Camp Schwab near Nago (as opposed to the offshore runway included in the existing agreement) and the construction of a facility for other functions on reclaimed land near White Beach on the Katsuren Peninsula; another would build a replacement facility on Tokunoshima Island in Kagoshima Prefecture. Okada met with Defense Secretary Robert Gates on March 29 and later

that day with Secretary Clinton on the margins of the G8 foreign ministers meeting in Ottawa, but did not appear to make progress. Okada reiterated Hatoyama's promise to resolve the issue by the end of May.

Despite the challenges surrounding Futenma, the two governments worked to demonstrate a commitment to charting a future course for the alliance. President Obama and Prime Minister Hatoyama each issued a statement on Jan. 19 commemorating the 50th anniversary of the signing of the US-Japan Security Treaty and noting the comprehensive nature of the relationship, as did the bilateral Security Consultative Committee. Hatoyama also discussed the importance of the relationship in a January address to the Diet and in remarks at the National Defense Academy of Japan in March. The *Quadrennial Defense Review*, released by the Defense Department on Feb. 1, spoke to the centrality of alliance relationships for US strategy in Asia. And, the Hatoyama government established a defense advisory board to offer recommendations for the National Defense Program Guidelines due in December. While the board membership has a heavy "Asianist" flavor, it also includes a number of senior experts with a background in US-Japan relations, an encouraging sign for long-term defense planning.

Issues on the economic agenda

President Obama announced an initiative to double US exports in five years during his State of the Union Address and later introduced a National Export Initiative to support that goal. This coincided with statements addressing perceived barriers to US exports and the office of the US Trade Representative issued its National Trade Estimate at the end of March with several issues related to Japan including the limited inclusion of US automobiles in Japan's eco-friendly purchase program (Japan's version of "cash for clunkers") and concerns about potential disadvantages for US insurance firms if the restructuring plan for Japan Post becomes law. The issue of US exports also got the attention of Congress. House Ways and Means Committee Chairman Sander Levin (D-MI) together with other Democratic lawmakers submitted a letter to President Obama on March 26 urging action on barriers to US exports and specifically referenced concerns about unfair competition in the Japanese insurance market.

The two governments have seized on the APEC calendar as an opportunity for bilateral coordination on regional economic integration. As hosts of the APEC forum in 2010 and 2011, respectively, officials are working on a two-year agenda to establish momentum on several key initiatives. Foreign Minister Okada and Secretary Clinton issued a joint statement on APEC at the end of March identifying signature issues under the theme of human security including agricultural productivity, agriculture-related trade and investment, women's entrepreneurship, adaptation to climate change, and emergency preparedness. Another development related to Prime Minister Hatoyama's vision of an East Asian Community (EAC) was Japan's announcement in mid-March that a detailed plan focusing on economic growth would be developed by the end of May and could include a potential role for the US. If realized, this initiative could clear up confusion about the motivations behind the EAC and the potential to exclude the US and compete with APEC as a driver for regional integration.

Perceptions matter

The decision by Toyota to recall millions of vehicles due to safety concerns and the testimony of company president Toyoda Akio before Congress in February, while not at all related to the US-Japan relationship, nonetheless drove the headlines in both countries and could influence public opinion. The US media generally treated the hearings as a consumer safety issue and a “Toyota problem” rather than a referendum on Japan. In contrast, some reporting in the Japanese press linked the hearings to the state of the bilateral relationship, in some instances referencing frustration with the lack of progress on Futenma or desired revenge for the collapse of Chrysler and General Motors. Toyoda and senior officials from Toyota North America were criticized by members of Congress for a poor response to the crisis and a lack of transparency in procedures, but some lawmakers also expressed appreciation for Toyota’s contributions to the US economy. The lack of a solution to the problem of unintended acceleration in Toyota vehicles and the March 30 announcement by the Department of Transportation that engineers at the National Aeronautic and Space Administration (NASA) were enlisted to study the problem suggest this issue will remain in the forefront for some time. Transportation Secretary Ray LaHood told the press he intends to travel to Japan in the summer to continue discussions with Toyota officials.

Two other developments reflected the sense of uncertainty in the US-Japan relationship this quarter. A March 8 editorial in the *Washington Post* summarizing an interview conducted with DPJ Upper House member Fujita Yukihisa criticized him for adhering to conspiracy theories about the 9-11 attacks and characterized his views as emblematic of anti-American sentiment in the DPJ. The *Post* printed a rebuttal by Fujita a few days later and a letter of support from an American who applauded Fujita’s work on behalf of former POWs, but the exchange reflected the view that the US-Japan relationship is in a state of drift. Another commentary published at the end of March by the Heritage Foundation expressed concern about Japan’s future trajectory, noting that economic stagnation and constraints on security policy place it on the verge of irrelevance in Asia. These perceptions do not represent the full spectrum of opinion but suggest that Japan’s leadership credentials are being questioned by some observers in Washington.

Next quarter

On the domestic front, the Hatoyama government will initiate another round of the popular hearings aimed at curbing wasteful spending (*shiwake*) in April and is expected to release a mid-term fiscal policy framework in June. In the diplomatic arena Japan assumes the presidency of the United Nations Security Council in April and will likely play a central role in drafting new sanctions against Iran. Prime Minister Hatoyama will visit Washington in mid-April for a nuclear security summit hosted by President Obama and observers wait in anticipation to see if DPJ Secretary General Ozawa will visit Washington during the Golden Week holidays in early May. APEC preparatory meetings also afford opportunities for bilateral dialogue with a Senior Officials Meeting, Meeting of Ministers Responsible for Trade, and the Energy Ministerial scheduled for late May and June. Finally, the two heads of state will attend the G8 summit in Huntsville, Ontario, from June 25-27.

Chronology of U.S.-Japan Relations

January - March 2010

Jan. 4, 2010: Prime Minister (PM) Hatoyama Yukio holds a New Year's press conference and stresses the importance of reaching a decision on the relocation of Marine Air Station Futenma.

Jan. 6, 2010: Finance Minister Fujii Hirohisa resigns, citing poor health, and is replaced by Kan Naoto.

Jan. 6, 2010: Defense Minister Kitazawa Toshimi meets US Ambassador to Japan John Roos to discuss relocation of Futenma and the 50th anniversary of the US-Japan Security Treaty.

Jan. 7, 2010: Six members of Congress sign a letter to PM Hatoyama expressing support for the Guam International Agreement.

Jan. 9-10, 2010: Chief Cabinet Secretary Hirano Hirofumi visits Okinawa to consider relocation options for Futenma.

Jan. 11, 2010: *Yomiuri Shimbun* poll reveals a 56 percent approval rating for the Hatoyama Cabinet.

Jan. 12, 2010: Secretary of State Hillary Clinton and Foreign Minister (FM) Okada Katsuya meet in Honolulu to discuss issues including US-Japan relations, North Korea, Iran, Afghanistan, Burma, and nonproliferation.

Jan. 13, 2010: Prosecutors search the office of a funding group for Democratic Party of Japan (DPJ) Secretary General Ozawa Ichiro in a probe into possible political funding irregularities.

Jan. 14, 2010: In an interview with *Reuters*, FM Okada dismisses the idea that the Hatoyama government is promoting relations with China at the expense of the alliance with the US.

Jan. 15, 2010: The Special Measures Law authorizing Japan's Maritime Self-Defense Force (MSDF) refueling operations in the Indian Ocean expires.

Jan. 15, 2010: Three current and former aides to Ozawa Ichiro are arrested and charged with falsifying political funding reports in connection with a land purchase in Tokyo.

Jan. 18, 2010: The Hatoyama Cabinet posts a 41 percent approval rating in a *Kyodo News* poll. A *Yomiuri* poll released the same day lists a 45 percent approval rating with 70 percent saying Ozawa should resign as DPJ secretary general because of an alleged funding scandal.

Jan. 19, 2010: PM Hatoyama and President Obama each issue statements to commemorate the 50th anniversary of the signing of the US-Japan Security Treaty. The bilateral Security Consultative Committee ("2+2") also reaffirms the importance of the US-Japan alliance.

Jan. 19, 2010: Japan Airlines files for bankruptcy.

Jan. 19, 2010: The Government of Japan announces that automobiles imported under the Preferential Handling Procedure (PHP) could be eligible for inclusion in a program offering subsidies for the purchase of eco-friendly vehicles.

Jan. 20, 2010: Defense Minister Kitazawa dispatches a Self-Defense Force International Disaster Relief Medical Support Unit to Haiti to assist with earthquake relief efforts.

Jan. 21, 2010: During a session of the Lower House Budget Committee, PM Hatoyama states the US-Japan-China relationship is not an “equilateral triangle” and notes the alliance with the US is the foundation of Japanese foreign policy.

Jan. 22, 2010: A poll by *Yomiuri Shimbun* and Waseda University shows 35 percent of the public wants the DPJ to win an outright majority in the Upper House election; 54 percent do not.

Jan. 24, 2010: Susumu Inamine, an opponent of the relocation plan for Futenma, wins Okinawa’s Nago City mayoral election.

Jan. 26, 2010: Standard & Poor’s cuts Japan’s sovereign credit rating outlook to negative based on concerns about government debt.

Jan. 27, 2010: Japan’s Finance Ministry announces that exports increased for the first time in 15 months due to robust demand in Asia.

Jan. 29, 2010: PM Hatoyama addresses the Diet and states the US-Japan alliance is the cornerstone of Japan’s diplomacy.

Feb. 1, 2010: The Department of Defense publishes the *Quadrennial Defense Review*.

Feb. 1, 2010: Deputy US Trade Representative Demetrios Marantis visits Tokyo and urges Japan not to discriminate against US firms in banking, insurance, and express mail services as it considers reorganizing the postal service (Japan Post).

Feb. 1-2, 2010: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell and Assistant Secretary of Defense for Asian and Pacific Security Affairs Wallace Gregson visit Tokyo for a meeting of the bilateral Security Subcommittee.

Feb. 2, 2010: Assistant Secretary Campbell urges Japan to sign the Hague Convention on Child Abduction after meeting with affected families at the US Embassy in Tokyo.

Feb. 2, 2010: Assistant Secretary Campbell and Ambassador Roos pay a courtesy call to DPJ Secretary General Ozawa.

Feb. 3, 2010: US Trade Representative Ron Kirk issues a statement lamenting Japan’s release of a limited list of US automobiles eligible under Japan’s eco-friendly car purchase program.

Feb. 4, 2010: Tokyo prosecutors announce a decision not to indict Ichiro Ozawa in connection with a funding scandal.

Feb. 9, 2010: PM Hatoyama selects Edano Yukio as minister for Government Revitalization, succeeding Sengoku Yoshito, who was tapped to run the National Strategy Office in the Cabinet.

Feb. 12, 2010: President Obama tells *Bloomberg Businessweek* that Toyota has an obligation to act decisively in response to concerns about safety after a global recall.

Feb. 13-20, 2010: Senator Jim Webb, Chairman of the East Asian Affairs Subcommittee of the Senate Foreign Relations Committee, visits Tokyo, Okinawa, and Guam.

Feb. 16, 2010: PM Hatoyama appoints an advisory board to offer recommendations for the National Defense Program Guidelines to be finalized by the end of 2010.

Feb. 18, 2010: Japanese officials meet with Brad Roberts, deputy assistant secretary of defense for nuclear and missile defense policy, to discuss extended deterrence.

Feb. 20, 2010: Chief Cabinet Secretary Hirano visits Okinawa a second time to consider options for the relocation of Marine Air Station Futenma.

Feb. 22, 2010: Finance Minister Kan advocates an inflation target and reiterates a government commitment to strengthen domestic demand while calling on the Bank of Japan to take steps to counter deflation.

Feb. 22, 2010: Japan hosts the first Senior Officials Meeting for the Asia-Pacific Economic Cooperation (APEC) forum.

Feb. 24, 2010: Toyota Motors President Toyoda Akio testifies before Congress regarding concerns about consumer safety resulting from a large-scale recall.

Feb. 26, 2010: PM Hatoyama tells reporters he is considering Japan's accession to the Hague Convention on Child Abduction.

Feb. 26, 2010: FM Okada meets US Special Representative for North Korea Policy Stephen Bosworth in Tokyo to discuss efforts at resuming the Six-Party Talks.

Feb. 26, 2010: Japan's Ministry of Environment releases an outline of a draft bill on climate change policy.

Feb. 28, 2010: The Hatoyama Cabinet's approval rating stands at 43 percent according to a *Nikkei Shimbun* poll.

March 1, 2010: Finance Minister Kan tells a Diet committee he hopes the consumer price index will turn positive by the end of 2010.

March 1, 2010: Four trade union members are arrested on suspicion of violating the Political Funds Control Law with regard to donations allegedly received by the election campaign office of DPJ Lower House member Kobayashi Chiyomi.

March 1, 2010: Former Health and Welfare Minister Masuzoe Yoichi threatens to leave the Liberal Democratic Party (LDP), citing weak leadership since the DPJ election victory last year.

March 2, 2010: Chief Cabinet Secretary Hirano meets Ambassador Roos to discuss relocation plans for Futenma.

March 2, 2010: The US Chamber of Commerce, the US-Japan Business Council, the American Chamber of Commerce in Japan and 10 other organizations issue a joint statement expressing concerns about the Hatoyama administration's preliminary draft bill to scale back the privatization of the postal service (Japan Post).

March 4-5, 2010: Deputy Secretary of State James Steinberg visits Tokyo for meetings with FM Okada and other officials.

March 8, 2010: The *Washington Post* publishes an editorial critical of Fujita Yukihisa, a DPJ member of Japan's House of Councilors (Upper House).

March 9, 2010: A *Yomiuri Shimbun* poll posts a 41 percent approval for the Hatoyama Cabinet and a disapproval rating of 50 percent. Seventy-eight percent of respondents said Ozawa should resign as DPJ secretary general because of an alleged fundraising scandal and 79 percent felt that Hatoyama has not adequately explained his fundraising irregularities. The DPJ approval rating was 31 percent compared to 20 percent for the LDP.

March 9, 2010: A panel of experts submits a report to the Ministry of Foreign Affairs regarding confidential agreements reached between Japan and the US in the 1960s on the introduction of nuclear weapons into Japan.

March 15, 2010: Former Internal Affairs Minister Hatoyama Kunio, brother of PM Hatoyama, resigns from the LDP.

March 17, 2010: The Bank of Japan eases monetary policy by voting to inject an additional \$110 billion into a \$112 billion lending facility for commercial banks.

March 17, 2010: In an appearance before the Lower House Foreign Affairs Committee, FM Okada says Japan might allow the introduction of nuclear weapons by the US in an emergency but that the Hatoyama government would uphold Japan's three non-nuclear principles.

March 17, 2010: Principal Deputy Assistant Secretary of State for East Asian and Pacific Affairs James Donovan and Deputy Assistant Secretary of Defense for Asian and Pacific Security Affairs Michael Schiffer testify before the House Subcommittee on Asia, the Pacific and the Global Environment during a hearing on US-Japan relations.

March 19, 2010: PM Hatoyama instructs his Cabinet to develop specifics on the East Asian Community concept by the end of May.

March 22, 2010: PM Hatoyama emphasizes the importance of the US-Japan alliance in an address to the National Defense Academy of Japan.

March 24, 2010: The Diet passes Hatoyama government's record \$1 trillion budget for fiscal year 2010.

March 26, 2010: FM Okada meets Ambassador Roos to discuss alternatives for the relocation of Air Station Futenma.

March 26, 2010: House Ways and Means Committee members including Chairman Sander Levin (D-MI) send a letter urging the Obama administration to address barriers to US exports including restrictions on beef imports and unfair competition in Japan's insurance market.

March 29, 2010: FM Okada meets Defense Secretary Robert Gates in Washington and later with Secretary Clinton on the margins of the G8 foreign ministers meeting in Canada regarding the Futenma relocation issue.

March 29, 2010: A *Nikkei Shimbun* poll reports a 36 percent approval rating for the Hatoyama Cabinet.

March 30, 2010: Chief Cabinet Secretary Hirano states during a press conference that the government is working on relocation plans for Futenma within Okinawa Prefecture.

March 30, 2010: Secretary Clinton and FM Okada release a joint statement on US-Japan cooperation in APEC.