

U.S.-Japan Relations: Making History the Hard Way

by Brad Glosserman
Director of Research, Pacific Forum CSIS

He did it. Japanese Prime Minister Koizumi Junichiro confounded the skeptics – this writer among them – and delivered on an unprecedented package of measures to support the U.S.-led campaign against terrorism. The results are a victory for supporters of the U.S.-Japan alliance and a validation of their strategy to nudge Japan toward a greater role in regional security. And not only did the Japanese government act in a timely manner, but shrewd diplomacy by the prime minister disarmed critics within the region. This outcome is yet more remarkable given the confusion in Japan's Ministry of Foreign Affairs, courtesy of the on-going war between Foreign Minister Tanaka Makiko and the bureaucrats under her.

If recent events are reminiscent of the halcyon days of the alliance, the memories may be more bittersweet than some prefer. As in the good old days, the strengthening of security ties poses a sharp contrast to those on the economic front. Trade frictions, in that old favorite, the steel sector, are one irritant. The real problem is the continuing deterioration of the Japanese economy. Tokyo's failure to take forceful action in dealing with the troubled financial sector has set off alarms in Washington. Officials in both capitals recognize that any solution depends on political courage in Tokyo. Japan's heartening response to Sept. 11 notwithstanding, few expect similar action on the economic front.

Mr. Koizumi Delivers

The prime minister's instincts served him well immediately after Sept. 11. He made all the right moves – voicing steadfast support for the U.S., a visit to New York City, the summit with U.S. President George Bush – but there were concerns over whether he could deliver the promised measures, and if so, whether they would come in time to aid the coalition. Remarkably, he galvanized Japan's sometimes balky political system and got his seven-point package through the Diet. On Oct. 18, the Lower House passed the special measures to fight terrorism legislation; 12 days later the Upper House passed the same bill. The legislation enables the Self-Defense Forces (SDF) to provide noncombat support to the U.S. coalition and to protect U.S. facilities in Japan. It also allows Japanese forces to fire against territorial violators. In a concession to the opposition, the bill has a two-year time limit, and requires that the Diet approve any deployment within 20 days of the dispatch of the SDF. To minimize chances of conflict with the Constitution, the transportation of ammunition and arms in foreign territory is not

allowed. Subsequently, on Nov. 9, the Japanese destroyers Kurama and Kirisame and the Hamana, a supply ship, left Sasebo for the Indian Ocean to support the coalition.

U.S. reaction to the Japanese moves was unanimous. The White House said “the newest contribution demonstrates the enduring strength of the Japan-U.S. relationship.” The State Department applauded the strong support and leadership of Prime Minister Koizumi, while U.S. Ambassador to Japan Howard Baker said “America is ... very pleased with the actions you’re taking and commitments that you’re making.”

One small issue did mar this otherwise happy moment: Japan’s failure to dispatch an Aegis destroyer. Since only the U.S. and Japanese navies have the high-tech vessel, it was reported that the U.S. was pushing Tokyo to dispatch an Aegis-equipped ship to support the coalition. U.S. officials denied that there was any pressure, even as questions swirled around the meaning of the U.S. exhortation for Japan to “show the flag,” reportedly made by Deputy Secretary of State Richard Armitage during a meeting with Japanese Ambassador to the U.S. Yanai Shunji shortly after the Sept. 11 terrorist attacks.

Japanese contributions to the campaign against terrorism extend considerably beyond the logistical support provided in the historic SDF legislation. Japan is striving to take a leading role in efforts to rebuild Afghanistan when the war is over. In early October, Japanese officials were canvassing other governments to win support for an international conference on Afghanistan after the Taliban. By mid-October, the U.S. and Japan were unofficially preparing for that eventuality. A month later, the two governments co-hosted a sub-Cabinet-level international conference on the reconstruction of Afghanistan, and a ministerial-level conference will be held in Tokyo in January.

The U.S. has encouraged this multidimensional effort. President Bush has acknowledged the limits that different countries face, promising that he “won’t ask nations to contribute in ways that their people won’t understand or accept,” and said that he was “more than open-minded” in coming up with ways for Japan to contribute. He specifically pointed to efforts to control the flow of money to terrorist groups and noted that Japan wants to be part of the long-term solution in Afghanistan. The U.S. has also asked Japan for financial assistance to Uzbekistan. During a December visit to Washington, Defense Agency head Nakatani Gen said Japan was prepared to help de-mining efforts in Afghanistan but provided no specifics.

No Rest for the Weary

The relatively friction-free security relationship is even more astounding given other events that occurred during the quarter. On Oct. 12, the U.S. Navy began the salvage of the Ehime Maru, the Japanese fisheries training vessel that sank off the coast of Hawaii after colliding with a U.S. nuclear submarine on Feb. 9. That calamitous accident resulted in the loss of nine lives, eight of them high school students, and if mishandled could have become a serious issue for the two nations. That danger was averted, but there was the possibility that emotions would resurface during the salvage effort. The U.S. Navy handled the salvage operation with sensitivity and eventually recovered eight of the nine

missing bodies. In so doing, it contained a potentially explosive situation – one rendered even more poisonous given the international environment and the controversy surrounding Japan's efforts to participate in the anti-terrorism campaign. The accident was a stark reminder of the potentially "entangling" element of the alliance with the U.S., a rising concern of Japanese as their government has moved to raise its profile in the anti-terrorism campaign.

Another source of potential discord was President Bush's Dec. 13 announcement that the U.S. would withdraw from the Anti-Ballistic Missile Treaty (ABM), a move that Tokyo officially greeted with "understanding" but with some dismay as well. It is difficult to appreciate the depth of Japan's commitment to international arms control and disarmament. The *Asahi Shimbun* captured that sentiment in its editorial on that move, commenting that "The United States is a nuclear superpower and has a moral responsibility to uphold the ABM Treaty along with Russia, because the pact is crucial for nuclear disarmament and arms control. Unilaterally destroying an international framework that has worked for almost 30 years to suit its own needs is a selfish action the United States can take only because it is the last great power." Again, given the international situation, particularly the U.S. war against terrorism in Afghanistan, the relatively quiet reaction to the U.S. move underscores the solidity of the Japan-U.S. relationship.

Yet another potentially troublesome development was the Oct. 19 decision by a California Superior Court judge that a court could examine claims made by former prisoners of war against Japan, ruling against the U.S. Department of Justice and the Department of State that the 1951 peace treaty foreclosed all claims against Japan. This case is not over as appeals are certain. The claims that former servicemen were exploited by Japanese corporations during the war could be explosive. Apart from maintaining that all claims were settled in the 1951 treaty, the United States government has not weighed in as it did in similar controversies that concerned Germany and Switzerland. That position is not likely to change, although there is growing support in Congress to get Japan to recognize the POW claims. It is unclear how the Japan-U.S. alliance will handle such strains.

The quarter also saw the re-emergence of base relocation issues. On Dec. 12, the mayor of Urasoe, Okinawa announced that his town would accept the relocation of the U.S. port facilities at Naha, ending a dispute that has festered since 1974. The deal was expected since February after the new mayor was elected on a campaign pledge to accept the facility. Although the details of the move have not been worked out, the mayor said the city did not want the port to expand its functions beyond those it already performs.

Then on Dec. 27, the Futenma Relocation Committee agreed on a plan to construct a runway on a reef off the coast of East Nago city that would allow the controversial U.S. Marine Futenma air station to be moved from Ginowan. Neither the scale nor the method of construction of the facility was decided. In addition, the call for a 15-year time limit on the use of the air station was put off. Foreign Minister Tanaka conceded that the time limit would prove problematic.

Finally, it is worth noting that Japan credited U.S. intelligence for alerting it to the departure of alleged North Korean spy boats from a port in North Korea. That information allowed the Japanese to track the vessels that were eventually challenged, fired upon, and sank – perhaps scuttled – with all hands on board in late December. The U.S. role was revealed within days of the incident. The prompt sharing of intelligence poses a marked contrast to previous incidents, such as the 1998 launch of a Taepodong missile by North Korea, when Japan complained that the U.S. was not providing timely information.

Seventh Inning Stretch

Perhaps more important to the bilateral relationship, Seattle Mariners outfielder Ichiro Suzuki won both the American League Rookie of the Year award and the league's Most Valuable Player award. In addition to winning the sportswriters' plaudits, Ichiro's performance won him fans on both sides of the Pacific. For publics indifferent to the minutiae of the security relationship, Ichiro's stellar year provides an invaluable well of good feeling about the bilateral relationship – even Yankee fans caught "Ichiro fever," at least until the American League Championship Series.

Storm Clouds Gathering

But, as in the old days, the strength of security relations was matched by unease over the economic relationship. This time, however, the cause of concern is Japan's weakness rather than its strength. Continued deterioration of Japan's economy has triggered concern in Washington. Ominously, there is little sign that Tokyo will muster the political will to halt the economy's slide. Most observers expect conditions to get worse before they get better. The questions now are how bad will they get and what the Japanese public will do as the country faces the worst economic crisis of the postwar era.

Economic conditions are grim. The economy shrank in 2001 – estimates of the decline range from -0.7 percent to -1.4 percent. All economists agree that this is the worst recession since World War II. All sectors of the economy are weak. Bankruptcies continue to hit record levels. Industrial output fell to the lowest level in 13 years. The U.S. economy is weak, depriving Japan of a vital export market. Restructuring has pushed unemployment levels to a record high 5.5 percent, which has punished consumer confidence. The jobless rate will continue to climb; the most pessimistic forecasts have it reaching double digits. Although the government has decided to push stimulus measures, public works spending is set to fall 5 percent. The net result is yet more government debt – and this after Moody's Investors Service already downgraded Japanese government bonds to Aa2, the worst rating among industrialized countries.

The worst problem is the overhang of nonperforming loans that burdens the financial system. Official estimates put the amount of bad debt at ¥70 trillion, but some economists argue the real figure is more than twice that amount. Despite writing off some ¥40 trillion in bad debt over the past five years, efforts to provide for nonperforming loans have been

outpaced by the growth of bad debt itself. The result has been a wave of bank failures. Nearly 50 small deposit taking institutions failed in 2001; 15 small credit associations and cooperatives collapsed in one month in the fourth quarter alone.

The result is two-fold. First, there has been a credit crunch by banks as they try to shore up their shaky portfolios. Lending has contracted for 48 consecutive months and the amount of credit extended is now below the level of 1991. Second, and more worrisome, is the prospect of a financial crisis in Japan, which could, by virtue of its size, ripple through the global economy. Some would call that far-fetched, but by year's end top officials in the Japanese government, including Koizumi himself, were reassuring the world that they would act to prevent a banking crisis – conceding that just such a crisis was possible.

One measure of the concern was an anonymous statement – later attributed to White House economic policy advisor Larry Lindsay – that the U.S. was prepared to accept devaluation of the yen. Although the Treasury disavowed the comments and engaged in an unusual public spat with the White House over who set international economic policy, the yen has plunged since the middle of December. While there is no hint of a deal between the two governments, Lindsay's comment and the subsequent depreciation of the currency without protest from Washington suggest that the U.S. is sufficiently concerned to countenance an extreme – and ultimately futile – gesture to help Japan.

The U.S. is concerned about Japan's economic situation. But the problem is ultimately one of politics – i.e., there is little doubt about what has to be done; the question is whether Japanese politicians and bureaucrats can muster the will to act. Thus far, the outlook is not encouraging. Entrenched interests are fighting for their lives against Prime Minister Koizumi and they have done an excellent job of frustrating reform.

U.S. reaction is constrained by two impulses. The first is the administration's desire to distance itself from the public pressure – *gaiatsu* – for which it condemned the Clinton administration. The Bush team wants to handle its disputes with Japan quietly, a predilection that is strengthened by the second constraint: the need to not look ungrateful after Japan's unprecedented assistance on security matters. The easiest way to undermine support for the alliance in Japan would be to respond to historic moves by the government with criticism on another front.

Which actually happened. On the very day that the anti-terrorism legislation passed the Upper House, U.S. Trade Representative Robert Zoellick blasted Japan for obstructing efforts to open a new round of global negotiations. Japanese officials reacted with indignation, and President Bush a week later sent a letter to Prime Minister Koizumi urging cooperation in attempts to launch new trade talks. The letter was widely viewed as a rebuke to the USTR – and the Doha meeting did succeed in reaching agreement, so all sides could claim to have put the incident behind them.

Bilateral tensions also resurfaced during steel talks held at the end of December under the auspices of the Organization for Economic Cooperation and Development in Paris. Some

30 steel producers gathered in Paris to find ways to limit chronic overcapacity in the industry. A deal to cut international production by some 97.5 million tons hinges on the U.S. willingness to forego unilateral sanctions against countries it accuses of dumping steel in the U.S. market – Japan among them. President Bush has said that he will not give up the sanctions option, which other governments have said will scuttle the deal. This issue will come to a head in the first quarter of 2002 when the deadlines arrive for the deal and the imposition of the U.S. duties.

Déjà vu, All Over Again

So, U.S.-Japan relations: a glass half-full or half-empty? No simple characterization works. Japan has taken unprecedented steps to support its ally, and the dispatch of SDF forces – and the diplomacy that accompanied it – could provide a springboard for a revamped security policy with the U.S. and within the region. But follow up is necessary. Diplomatic consultations are an option, but Japan must first make important decisions about what it wants. That takes time and political capital, and there are few signs that the country is ready for that debate.

Especially when there is the need to get Japan's economic house in order, a need that grows more pressing every day. What is more troubling is the fact that even drastic action will make economic conditions worse before they improve. The scale of the adjustment is potentially huge, but failure to act will only prolong the pain.

In short, two pillars of the bilateral relationship are again diverging. The security pillar has been strengthened, while the economic one is under strain. Ultimately, the two are linked since economic weakness undermines Japan's strategic choices. That should become clearer in 2002.

Chronology of U.S.-Japan Relations* **October-December 2001**

Oct. 3, 2001: U.S. Secretary of State Colin Powell requests Japanese financial aid following the ouster of the Taliban.

Oct. 4, 2001: U.S. federal judge dismisses a lawsuit filed against Japan by 15 Asian women who were forced to work as "comfort women."

Oct. 5, 2001: Japanese Cabinet approves a bill to support U.S. counterterrorist operation. The legislation allows the Self-Defense Forces (SDF) to provide logistic and other noncombatant support to the expected U.S.-led multinational force, engage in search-and-rescue activities for missing military personnel, and carry out humanitarian relief operations for refugees.

* Chronology compiled by Research Assistant Nakagawa Yumiko.

Oct. 5, 2001: Japanese Cabinet approves dispatch of SDF aircraft to Pakistan to airlift relief supplies for Afghan refugees.

Oct. 5, 2001: U.S. Ambassador Japan Howard Baker says “America is very satisfied with Japan’s response.”

Oct. 10, 2001: Starbucks Coffee Japan Ltd. debuts on Nasdaq Japan stock market at ¥80,000.

Oct. 12, 2001: U.S. Navy begins salvage of the Ehime Maru.

Oct. 12, 2001: PM Koizumi anticipates Constitutional revision in the near future to acknowledge the SDF is a military force, but restrictions on the use of force will remain.

Oct. 15, 2001: *Asashi Shibun* poll shows support rate of Koizumi administration is 71 percent, and no effect as a result of Koizumi’s support for U.S. retaliation.

Oct. 15, 2001: Japanese Ambassador to U.S. Yanai Shunji says U.S. and Japan are holding unofficial talks on the political future of post-Taliban Afghanistan.

Oct. 16, 2001: Special Measures to Fight Terrorism Bill, the SDF law amendment that enables the SDF to patrol U.S. facilities in Japan, and the *Kaijyo Hoancho* amendment, which allows the use of fire against territorial violations, pass Lower House Anti-Terrorism Special Committee.

Oct. 16, 2001: President Bush, in interview with *People’s Daily*, *Yonhap News*, and *Yomiuri Shimbun*, requests SDF rear support, Japan’s cooperation in checking finances for terrorist groups, and says he expects Japan to take part in nation building after the war in Afghanistan ends.

Oct. 18, 2001: Special Measures to Fight Terrorism Bill passes Lower House.

Oct. 19, 2001: California Superior Court judge rules that the court has a right to hear POWs claims against Japan, overturning a U.S. Department of Justice decision.

Oct. 21-22, 2001: Bush and Koizumi meet at APEC Leaders’ Meeting in Shanghai; Bush urges Japan to host peace conference.

Oct. 30, 2001: Anti-terrorism bill passes Upper House.

Oct. 30, 2001: U.S. Trade Representative Robert Zoellick criticizes Japanese agriculture policy in runup to Doha trade talks, saying “the Japanese have just said no to everything in the process, and that just won’t work.”

Nov. 1, 2001: Tokyo announces framework for U.S. aid by SDF.

Nov. 1, 2001: Standard & Poor's warns Tokyo that raising interest rates would hurt financial strength of Japan.

Nov. 6, 2001: Ehime Maru investigation ends after recovery of eight bodies. Ehime Maru memorial monument will be built in Honolulu upon the victims' families' request.

Nov. 8, 2001: President Bush is reported to have sent a letter to Koizumi urging Japan to join new round of global trade liberalization talks.

Nov. 9, 2001: Defense Agency head Nakatani Gen announces Japan will dispatch "two destroyers with helicopters on board and a supply ship, to a sea area leading to the Indian Ocean."

Nov. 9, 2001: U.S.-Japan working-level meeting agrees that Japan will dispatch supplies (food and fuel) to Diego Garcia by sea; in the area around Japan C-130s will be used.

Nov. 12, 2001: Urasoe Mayor Gima Mituso announces that the city will host the U.S. Navy port as an alternate site for the Naha port facilities.

Nov. 16, 2001: SDF dispatch framework approved by the Cabinet.

Nov. 20, 2001: U.S. and Japan co-host sub-Cabinet-level-international conference on reconstruction of Afghanistan in Washington D.C.: delegations from G-8, European Union, Saudi Arabia, Turkey, Qatar, the World Bank, and the Asia Development Bank attend.

Nov. 20, 2001: Suzuki Ichiro, Seattle Mariners outfielder, receives American League Most Valuable Player award.

Nov. 20, 2001: Ambassador Baker expresses disappointment at Tokyo's failure to dispatch Aegis-equipped destroyers to aid U.S.

Nov. 27, 2001: Japanese Finance Minister Shiokawa Masajuro says yen should be further weakened.

Nov. 27, 2001: Lower House approves SDF dispatch to Indian Ocean.

Nov. 28, 2001: Merrill Lynch Japan announces partial withdrawal from Japanese market.

Nov. 29, 2001: Japanese industrial output falls to the lowest level in 13 years.

Nov. 29, 2001: Fujitsu announces it will close a semiconductor plant in Oregon next spring.

Nov. 30, 2001: Tokyo announces unemployment rate reaches 5.4 percent.

Dec. 1, 2001: Crown Princess Masako gave birth to Princess Aiko.

Dec. 4, 2001: Moody's Investors Service downgrades Japanese government bond rating from Aa3 to Aa2, the worst grading among industrialized countries.

Dec. 7, 2001: Sixtieth anniversary of Pearl Harbor attack. Survivors from both Japan and U.S. attend the ceremony.

Dec. 10, 2001: Defense Secretary Donald Rumsfeld meets with Defense Agency head Nakatani in Washington, D.C.: Rumsfeld says the U.S. appreciates Japan's contribution to the anti-terrorism campaign.

Dec. 10, 2001: Deputy Secretary of Transportation Ford suggests possible U.S. aid to defend the Senkaku Islands in case of an emergency.

Dec. 11, 2001: U.S. Air Force Senior Staff Sgt. Timothy Woodland pleads not guilty to a charge of rape at Naha District Court.

Dec. 13, 2001: U.S. delegation led by Deputy Treasury Secretary Ken Dam visits Tokyo to hold talks on foreign direct investment.

Dec. 14, 2001: Japan National Security Council decides to buy mid-air refueling tankers (B-767) from Boeing Co.

Dec. 14, 2001: Tokyo expresses understanding of U.S. withdrawal from 1972 Anti-Ballistic Missile Treaty.

Dec. 18, 2001: Secretary of State Colin Powell urges Japan's economic reform.

Dec. 21, 2001: U.S. Special Force training facilities to be built in Hansen U.S. Marine base.

Dec. 27, 2001: Tokyo announces relocation of heliport from the Futenma Air Station to East Nago City. The Nago heliport will also accommodate helicopter operations now conducted from Camp Schwab.