

U.S.-Japan Relations: Setting New Standards

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The love fest continues. U.S. President George W. Bush's visit to Tokyo (Feb. 17-19), the first stop on his three-nation Asia tour, underscored the strength of the U.S.-Japan relationship and the strong personal relationship shared by the president and Japanese Prime Minister Koizumi Junichiro. Throughout the first quarter of 2002, U.S. officials continued to applaud Japan's contributions to the war against terrorism and encouraged Tokyo to do more.

The honeymoon might not last, however. While officials on both sides of the Pacific agree that the security pillar of the relationship is the strongest it may have ever been, there are mounting concerns about Japan's economy. U.S. policymakers worry that economic weakness could undermine Japan's long-term role within the alliance and the region and have been prodding Japan to take action. But the U.S. must tread carefully. Sharp warnings or a hard line could spark a backlash. Equally worrisome is the prospect of a loss of popular support in Japan for U.S. policies, a shift that could be triggered by the perception of U.S. unilateralism in its foreign policy. Japanese support for the U.S.-led war against terrorism is broad, but it is not deep. The anger unleashed by the inadvertent omission of Japan from the list of contributors to the Afghanistan conflict is a warning: alliance management is more important now than it has ever been.

It Doesn't Get Much Better Than This

If there were ever any doubts about the importance President Bush attaches to the U.S.-Japan relationship, his February visit put them to rest. During his Tokyo stay, the president reiterated the U.S. commitment to the region, the cornerstone of which is the U.S.-Japan alliance. Predictably, he focused on the security dimension of the alliance and repeated at every opportunity his high regard and support for Prime Minister Koizumi. In his speech to the Diet, President Bush noted, "For half a century now, America and Japan have formed one of the great and enduring alliances of modern times. ... The bonds of friendship and trust between our two peoples were never more evident than in the days and months after Sept. 11. ... Your response to the terrorist threat has demonstrated the strength of our alliance, and the indispensable role of Japan – a role that is global, and begins in Asia."

This strength reflects the broad foundation upon which the alliance rests. The Japanese government's response to the Sept. 11 terror attacks is one important factor. After passing the antiterrorism legislation (*tero taisaku tokubetsu sochihou*) last year, the Japanese government has maintained its high-profile efforts. In January, Japan hosted an international conference on the reconstruction of Afghanistan. On March 26, the Japanese Cabinet voted to extend Self-Defense Forces (SDF) support for the war in Afghanistan for an additional six months past the original May 19 deadline. This two-

pronged approach, both diplomatic and military, has helped nurture and sustain broad public support for Japanese actions despite the traditional wariness of involvement in overseas military “adventurism.” The fact that the deployment has gone off without incident helps, too. The first three ships deployed to the Indian Ocean returned to Japan March 16 without incident. The next important step will be the tabling of a comprehensive emergency measures law (*yuji housei*) that will establish a framework for dealing with future contingencies; the Diet is expected to receive the bill during the next quarter.

Japan’s ability to respond so quickly and so well reflects deeper, more fundamental phenomena. One important factor is the convergence of U.S. and Japanese national interests in recent years; the two nations’ strategic perspective is as close as it has ever been. Equally significant is the personal relationship that has developed between the two leaders. As Bush explained in his speech, “I value my relationship with the prime minister. He is a leader who embodies the energy and determination of his country. The prime minister and I have had many good visits. I trust him, I enjoy his sense of humor, and I consider him a close friend. He reminds me of the new American baseball star, Ichiro: the prime minister can hit anything you throw at him.”

Officials in both governments have marveled at the “incredible personal chemistry” shared by the two men. Some observers note that the U.S.-Japan relationship may be even better today than it was during the famous “Ron-Yasu” era of the 1980s. There is no mistaking the president’s ease and the rapport he shares with the prime minister. His words of support also serve a political purpose: they provide political support and cover for Koizumi’s reform program. The prime minister is embattled and his reforms are threatened by the old guard within his party and the government. Bush and his team have decided that support for the prime minister is the safest and most efficient way to influence the Japanese political process.

This approach to Japan reflects judgments about how best to work with Tokyo. This administration is sympathetic toward Tokyo and genuinely believes in the importance of the U.S.-Japan relationship. While many of the policymakers who work on Japan would like to see it play a larger role within the region, they also understand the limits of U.S. influence in Tokyo. Their natural caution is reinforced by an aversion toward anything that the previous administration had done. The Clinton administration’s very public “Japan bashing” is definitely to be avoided. The result has been policy consistency – always highly regarded in Tokyo – and positive reinforcement of Japan. High-level confrontation has been avoided – except when Tokyo ignores or misrepresents U.S. statements, as occurred when administration sources leaked a letter from Bush to Prime Minister Koizumi expressing the president’s “strong concern” for the Japanese economy. The move was prompted by the “anti-deflation plan” that Koizumi unveiled in late February, which, despite widespread expectations, offered nothing concrete to tackle the problem.

Echoes of the Gulf War

While some long-time Japan hands have been astounded by Japan's response to 9-11, there are still reasons for concern. One troubling indication is the brouhaha that erupted over a Department of Defense (DoD) list of contributors to the war in Afghanistan that was released Feb. 27. Unfortunately, bureaucratic procedures prevailed over fact and Japan was omitted – just as Japan was omitted from a similar list prepared a decade ago by the Kuwaiti government to thank contributors to the Persian Gulf War. The snafu prompted predictable outrage in Tokyo. Foreign Minister Kawaguchi Yoriko demanded a clarification for the exclusion – which was corrected the next day – and a group of Japanese politicians allegedly got into a shouting match with U.S. Embassy personnel after presenting a petition protesting the oversight.

A more significant issue is Japan's continuing economic difficulties. While the alliance is traditionally conceptualized as resting on three legs – security, economic, and political – in fact, all three are intertwined. The U.S. has been increasingly forthright about its preferred role for Japan in the region: it sees Tokyo as a means of containing Beijing's influence in Southeast Asia, but the instrument of that containment is Japan's economic strength, not any military force. That is why the administration is concerned about Japan's economic weakness in the long term: if the economy does not rebound, Tokyo cannot play that role.

Unfortunately, there is no recovery in sight. The first quarter has yielded an avalanche of unpleasant statistics. The government has confirmed that Japan is now enduring its longest recession since 1993. Gross domestic product contracted by 1.2 percent in the last quarter of 2001, extending the economic contraction to three quarters. Bankruptcies continue to climb, increasing at a rate of over 1,400 cases per month, rising 18 percent (year-on-year) in February after increasing 19 percent in January. The unemployment rate is holding steady at 5.3 percent, but the number of unemployed increased for an 11th consecutive month in February to 3.56 million. Uncertain job prospects are forcing consumers to clutch their savings tighter, which only compounds deflationary pressures. Household spending fell 2.9 percent in February and nationwide consumer prices fell 0.7 percent for the 29th consecutive month. Industrial production fell 11.3 percent year-on-year in February, although some economists think the bottom could be near as demand recovers in the U.S. and the weak yen boosts Japanese exports. Takenaka Heizo, the economy minister, noted that “Our view that there are some signs that the economy is bottoming out is correct. [But] economic conditions continue to be very severe with employment at the core of the problem.” More ominously, in a March 30 interview with *The New York Times*, Koizumi expressed his exasperation, saying that he didn't know why the economy was not recovering.

The Dangers of U.S. Arrogance

Although no one is happy with Japan's continuing weakness, it presents particular difficulties for the United States. Japan's inability to resume a growth path will frustrate U.S. plans to have Japan play a leading role within the region over the medium and long-term. Moreover, the weakening yen creates political pressure in sensitive export sectors of the U.S. economy, such as automobiles, and could create trade frictions. President

Bush's March decision to impose up to 30 percent tariffs on steel imports is proof that trade relations can quickly deteriorate. Japan responded to the move with a call for bilateral talks and followed that with a complaint filed at the World Trade Organization.

The controversy over U.S. tariffs – like the DoD list – illustrates the most important dimension of the bilateral relationship: alliance management. By and large, Japanese support for the war on terrorism is seen through the prism of the alliance. That implies that the U.S. failure to act like a good ally could undermine popular support within Japan. Therefore, the perception of U.S. behavior is extremely important. President Bush's reference in his January State of the Union address to an "axis of evil" that includes Iraq, Iran, and North Korea raised concern in Japan (and elsewhere) that the United States is preparing for war. The *Asahi Shimbun* lamented in a Feb. 20 editorial that "Foreign policy differs from a Hollywood western in which heroes stand up against villains. Apparently, the Bush administration does not sufficiently appreciate that fact." The leak of the Pentagon's Nuclear Posture Review, with its call for nuclear strikes in certain contingencies and – more alarming still to the Japanese – the creation and testing of new nuclear weapons, could also have a serious impact on popular support for the alliance within Japan. On Feb. 21, the *Asahi* called the administration on the carpet again, warning that "the United States should not trample upon the sentiments of those who long for a world free of nuclear arms."

Of course, the more mundane dimensions of the security relationship could cause trouble. In January, a Yokohama District Court sentenced three crewmembers of the USS Kitty Hawk to four years in prison for robbing and injuring a taxi driver. In February, the Chatan town assembly in Okinawa called upon the United States to clean up a polluted former firing range. The quarter closed with the March 28 sentencing in the Naha Okinawa District Court of U.S. Air Force Staff Sgt. Timothy Woodland to 32 months in prison on charges of rape, yet another reminder of the problems created by the U.S. military presence in Japan.

While all these incidents appear to have been handled adroitly, they are warnings that the relationship could quickly take a sharp turn. They also narrow the maneuvering room the U.S. has as Washington attempts to nudge the Japanese government to embrace economic reform. The decision to impose tariffs is especially damaging in this context, since it makes U.S. calls for market opening measures look self-serving and hypocritical.

Daredevil or Dinosaur?

The difficulties are compounded by Prime Minister Koizumi's own problems. After a nasty, public fight with the Liberal Democratic Party (LDP) old guard and her own bureaucrats, Foreign Minister Tanaka Makiko was forced to resign her post in January. Unfortunately for the prime minister, he probably picked the absolutely wrong occasion to cast her adrift: by most accounts, she was right to accuse LDP Diet Member Suzuki Muneo of interfering in Foreign Ministry decisions (in this particular case, the exclusion of certain Japanese nongovernmental organizations from the Afghanistan reconstruction conference that Tokyo was hosting). Since then, Koizumi's popularity has plunged some

30 points. Before firing Tanaka, the Koizumi Cabinet enjoyed (admittedly abnormal) approval ratings near 80 percent; as the quarter closed, a *Kyodo News Agency* poll showed ratings had plummeted to 44.8 percent.

Even worse for the prime minister, Tanaka has not gone quietly. After nursing her wounds, she has come out swinging and now accuses Koizumi of abandoning the reform agenda he once championed and of throwing his lot in with the LDP “old boys.” Tanaka is the only Japanese politician who can rival Koizumi in popularity, although she claims she has no intention of running for the top slot. For his part, Koizumi has maintained that he is committed to reform. In his *New York Times* interview, he vowed that “my work is to get the reforms in Japan on track so that no matter who comes to power after me, our path of reform cannot be retracted.”

That is music to U.S. ears. It reinforces the administration’s belief that the prime minister is the best candidate to achieve real change. Thus, when Treasury Secretary Paul O’Neill visited Tokyo in January and criticized Japanese officials for trying to get quick results through exchange rate manipulation, he specifically exempted the prime minister. Indeed, O’Neill offered explicit support for Koizumi, as did President Bush during his February visit.

This approach also presents a problem for the administration: there is always a danger in tying policy to closely to a particular leader. With his popularity falling, Koizumi’s leverage is diminishing. He is likely to remain in office, if only because there is no apparent alternative to him. But political fortunes change quickly in Japan and the U.S. cannot afford to champion yesterday’s hero. The U.S. must walk a fine line: Washington must support Prime Minister Koizumi and encourage his reform efforts, but it must also ensure that it does not alienate other Japanese politicians while supporting him or the Japanese public in calling for change.

Holding the Line

March 31 marks the end of the first quarter and the end of the Japanese fiscal year. To virtually no one’s surprise – media warnings of a “March crisis” notwithstanding – the Tokyo Stock Exchange rallied (thanks to intense scrutiny of short selling by the Financial Supervisory Agency), bank holdings recovered, and there were no financial calamities. The Diet passed the budget. Now, attention turns to the emergency measures law, soon to be put before the Diet, and continuing efforts to prop up the economy. The former is likely to pass the Diet with considerably less fanfare than the latter. There is still no agreement on what needs to be done, and the incipient U.S. recovery could ease pressure for reform.

The U.S. looks to Japan to hold the line. On the security front, that means no backsliding. The extension of the SDF deployment is welcome, as is the emergency measures legislation. Holding the line on the economic front will not be as easy. Japanese officials have promised that Japan will not be the weak link in the global financial system. Japan will not be the epicenter of any financial crisis. That is good

news, but it is enough only if the U.S. lowers its expectation of Japan. Sadly, that is a habit that might be worth cultivating in the months ahead.

Chronology of U.S.-Japan Relations January-March 2002¹

Jan. 7-8, 2002: Ministry of Economy, Trade, and Industry (METI) Minister Takenaka Heizo meets with U.S. Treasury Secretary Paul O'Neill and U.S. Trade Representative (USTR) Robert Zoellick in Washington, D.C.

Jan. 15, 2002: Treasury Secretary O'Neill urges Japan to attain annual real economic growth of 2 to 3 percent.

Jan. 17, 2002: Japanese Environment Minister Kawaguchi Yoriko urges U.S. to reconsider its rejection of the Kyoto protocol at the Asia-Europe Meeting (ASEM) ministerial meeting in Beijing.

Jan. 18, 2002: Yokohama District Court sentences three crew members of the USS Kitty Hawk to four years in prison for robbing and injuring a taxi driver.

Jan. 20, 2002: U.S. Secretary of State Colin Powell visits Japan for Afghanistan reconstruction conference, meets with Prime Minister Koizumi Junichiro and Foreign Minister Tanaka Makiko.

Jan. 21, 2002: Japanese Finance Minister Shiokawa Masajuro meets Secretary O'Neill in Tokyo.

Jan. 23, 2002: Secretary O'Neill warns that Tokyo should not tolerate a weak yen as a solution for nonperforming loans.

Jan. 29, 2002: FM Tanaka Makiko resigns.

Jan. 29, 2002: Bank of Japan Governor Hayami Masaru says weaker yen will not solve Japan's economic problems.

Jan. 29, 2002: Nikkei closes at 9,919.48, first time below 10,000 since Oct. 10.

Jan. 31, 2002: USTR Zoellick urges Japan to combat deflation and promote free trade.

Feb. 1, 2002: Kawaguchi Yoriko is sworn in as foreign minister.

Feb. 3, 2002: Kishimoto Tateo, pledging to accept the relocation of the U.S. forces' heliport, is re-elected mayor of Nago.

1. Chronology compiled by Pacific Forum Vasey Fellow Nakagawa Yumiko.

Feb. 4, 2002: Japan launches H2A rocket.

Feb. 6, 2002: The annual Economic Report of the President characterizes Japan's banking and corporate sectors as "moribund" and says past fiscal and financial measures "have done little thus far" to improve economic prospects.

Feb. 8, 2002: U.S.-Japan working-level meeting on military equipment issues in Washington, D.C.

Feb. 9, 2002: Ehime Maru memorial ceremony held in Honolulu; U.S. participants include Deputy Commander-in-Chief of the U.S. Pacific Fleet Robert Willard.

Feb. 9, 2002: Assembly of the town of Chatan in Okinawa adopts statement calling upon the U.S. to clean up a polluted former U.S. shooting range.

Feb. 11, 2002: Chrysler President Dieter Zetsche warns that weak yen gives advantage to Japanese automakers.

Feb. 13, 2002: *Kyodo News Agency* reports that Japan Defense Agency (JDA) head Nakatani Gen recommends creating an Asian version of NATO as "cooperation to secure collective safety is the trend of the world."

Feb. 14, 2002: Iranian Deputy Foreign Minister Mohsen Aminzadeh visits Japan. Aminzadeh's message decrying Bush's "axis of evil" comment was later passed from PM Koizumi to President Bush and FM Kawaguchi to Secretary Powell.

Feb. 17-19, 2002: President Bush meets with PM Koizumi in Japan and promises continuing U.S. commitment to Japan and the region in his speech to the Diet.

Feb. 19, 2002: WTO orders U.S. to change antidumping measures against Japanese surface-treated steel sheet exports.

Feb. 19, 2002: JDA head Nakatani expresses caution about applying the antiterrorism law in the event of a U.S. military attack on Iraq.

Feb. 21, 2002: Japan Auto Manufacture's Association Chairman Okuda Hiroshi denies Japanese automakers' intention to use weaker yen to increase exports. Okuda also says he plans to talk with top executives of U.S. automakers.

Feb. 27, 2002: Department of Defense releases list of contributors to the war in Afghanistan; Japan is left off the list.

Feb. 28, 2002: FM Kawaguchi demands clarification of why the U.S. excluded Japan from the contributors' list for the war in Afghanistan. Japan is added to the list upon MOFA's complaint.

Feb. 28, 2002: Bank of Japan eases monetary policy by buying ¥1 trillion (\$7.44 billion) every month and eases restrictions on borrowing by companies to fight deflation.

Feb. 28, 2002: *Asahi Shimbun* reveals Bush letter to PM Koizumi dated Jan. 17 that expressed “strong concern” for Japanese economy.

March 1, 2002: *Kyodo News Agency* reports that U.S. agreed to return land used for the Senaha Communication Station in Okinawa.

March 1, 2002: Diet members petition the U.S. Embassy, protesting the exclusion of Japan from the list of contributors to the war on terrorism.

March 5, 2002: President Bush announces three-year tariffs of up to 30 percent on steel imports from Japan.

March 6, 2002: Japan requests bilateral talks with U.S. to resolve the dispute regarding steel imports.

March 19, 2002: Chairman of the Council of Economic Advisers Glenn Hubbard warns exports are not the route to economic recovery and urges resolution of the nonperforming loan problem.

March 20, 2002: Japan files complaint in the WTO over U.S. tariffs on steel imports.

March 20, 2002: Financial Service Minister Yanagisawa Hakuo counters Hubbard’s comment.

March 21, 2002: U.S. Transportation Secretary Norman Mineta warns that the U.S. will consider blocking Japanese airlines if Japan does not accept a transfer of slots from Delta Airline to Federal Express at Narita airport.

March 22, 2002: Over 300 Ground Self-Defense Forces members leave for East Timor on UN peacekeeping operations.

March 26, 2002: Japanese Cabinet approves JDA head Nakatani’s proposal to extend SDF support for the U.S. in the war on Afghanistan for six months beyond the original deadline May 19.

March 26, 2002: Secretary O’Neill says that the Japanese economy needs “to grow at a faster rate, again not only for their own people but for the (benefit) of the world economy,” in Washington, D.C.

March 26, 2002: Japanese Diet passes FY 2002 general account budget totaling ¥81.23 trillion.

March 27, 2002: Chairman of the U.S. Joint Chiefs of Staff Gen. Richard Myers praises SDF dispatch, saying “My assessment is that it’s superb,” in an interview with *Kyodo News Agency*. Myers also expresses hope for longer support from SDF for U.S. war on terrorism.

March 28, 2002: The Naha District Court sentences U.S. Air Force Staff Sgt. Timothy Woodland to 32 months in prison on rape charge.

March 29, 2002: *Kyodo News Agency* poll shows that Koizumi Cabinet approval rate hits record low of 44.8 percent, dropping below 50 percent for the first time.