

## U.S.-Japan Relations: An Oasis of Stability

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It has been another peaceful quarter for U.S.-Japan relations. That the bilateral relationship could be so calm despite the tumult in international diplomacy generally is testimony to the current strength and stability of the alliance. Prime Minister Koizumi Junichiro's surprise visit to Pyongyang and the U.S.'s full court press to get the international community to take action against Iraq have provided ample opportunities for friction in relations between Washington and Tokyo. Although critics see tensions on the rise, the two governments seem to be keeping their differences at a manageable level.

Success could prove temporary. At the best of times, the U.S. and Japan have very different approaches to international problem solving; the Bush administration's muscular foreign policy – as made evident in the newly published *National Security Strategy of the United States of America* (NSS) – may prove to be more than the Japanese public is willing to bear. Washington's fixation on "regime change" in Iraq threatens to put the alliance under serious strain. Fortunately, in this context, managing relations with Japan demands no more of Washington than that which the U.S. should provide the international community more generally: convincing evidence that underpins U.S. concerns and respect for the views of others.

### **Shoulder to Shoulder on Sept. 11**

Prime Minister Koizumi was in the United States for the Sept. 11 anniversary and made several high-profile appearances during his stay. He set the tone for his visit in his speech to the Council on Foreign Relations (CFR) in New York City, the day before the commemoration services. He waxed enthusiastic, noting, "Our two countries, which fought a war only half a century ago, have built an exemplary alliance... [it] is the cornerstone for the peace and prosperity of not only the Asia Pacific region but the entire world." He concluded that "Japan-U.S. ties are now closer and deeper than ever in our history."

At a Sept. 13 press conference in New York City, Koizumi expressed his profound remorse for the senseless events of Sept. 11 in stark language. It was a powerful performance for a Japanese politician, but one we have come to expect from this prime minister. As he explained in remarks that the U.S. administration no doubt appreciated, he "realized once again the enormity of damage caused by terror attacks and I felt the deep sorrow of the bereaved families of the terror victims. I renewed my determination

that we should never allow such terror attacks to reoccur. I also felt that our fight against terror has not ended: Terrorists could strike us anywhere in the world today, so through cooperation with countries around the world, we should carry on our fight against terrorism.”

He continued along that line in words that provided much-needed support for Washington in its fight to win international opinion over against Iraq. “Iraq, in the first instance, needs to observe the numerous UN resolutions that have been passed in the past. So it is important that the Iraqis live up to those resolutions.” Koizumi made the same point to the United Nations, when he said, “The international community must stand together to prevent the spread of weapons of mass destruction. Iraq’s denial of inspection for such weapons is a great concern to the international community. ...We must maintain a resolute attitude through repeated diplomatic efforts. Iraq must comply with UN Security Council resolutions. It should allow immediate and unconditional UN inspection, and it should dispose of any weapons of mass destruction. Japan will pursue efforts in this endeavor together with the United States.”

### **Solidarity, but ...**

The Bush administration is gratified by the strong support from its ally, but it is not unconditional. Koizumi also made clear that he expects all action to go through the UN. Speaking to the General Assembly, the prime minister explained that, “The current fight against terrorism has made progress precisely because the international community responded with solidarity and cooperation. Japan firmly believes that such unity and collaboration should be preserved.”

That approach is to be expected when speaking to the UN. But Koizumi stressed the same point in his remarks to the press before leaving. “In case the United States does act in its response to Iraq, the most important point is international cooperation, international coordination. This is a point that I stressed in my *tete-a-tete* meeting with President Bush.”

### **Looking for Wedges, Finding None**

Another key issue in that meeting was Mr. Koizumi’s upcoming trip to North Korea, the first ever by a Japanese prime minister. News of the one-day visit was sprung on the world on Aug. 27 (for more details, see Victor Cha’s chapter on Japan-Korea relations, in this volume, “Mr. Koizumi Goes to Pyongyang.”). Analysts looked for signs of friction in the bilateral relationship, convinced that the U.S. had been caught offside by the announcement and was unhappy with the overtures to Pyongyang. In fact, the U.S. had been consulted as quickly as possible. The North Korea initiative had been kept secret from all but a handful of the prime minister’s closest aides; as soon as there was news to report, the Bush administration had it. In fact, the U.S. was informed ahead of the prime minister’s coalition partners.

Koizumi briefed President Bush personally on his anticipated trip. As he explained in the press conference, the trip was intended “to make a breakthrough in the process of establishing better relations between Japan and North Korea. I explained this to President Bush, and he expressed his very encouraging support.” The prime minister said he intended to raise questions about North Korea’s program to develop weapons of mass destruction as well as its nuclear weapons development program, two concerns the U.S. shares.

At a briefing after the Bush-Koizumi meeting, a senior administration official stressed the U.S. president’s support for the Koizumi visit. According to him, Bush said “it’s important that you talk to them ... that North Korea has to address the whole broad range of issues it has with the outside world, including conventional weapons, including weapons of mass destruction and their delivery vehicles, including its treatment of its own citizens.”

In his speech to the CFR, Koizumi pointed expressly to the need for U.S.-Japan cooperation to promote regional stability. Since “reducing tensions on the Korean Peninsula is crucial for the stability of East Asia,” the Japanese overtures fit neatly into the alliance framework. Speaking to the press before he returned to Japan, he framed the issue trilaterally: “The Japan-North Korea question needs to be addressed under close cooperation amongst our three countries: Japan, the United States, and the Republic of Korea. This is a point that I have stressed from time to time. And on my visit to North Korea next week, and also in our future response to North Korea, our three countries, Japan, the United States, and the Republic of Korea, will need to maintain such close cooperation.”

### **Cracks Appear**

While all may have been sweetness and light prior to the visit, things became more complicated when Koizumi returned. The surprise admission by North Korean leader Kim Jong-il that the DPRK had in fact abducted more than a dozen Japanese (including one the Japanese didn’t even know about) was a stunning move. It effectively eliminated the major obstacle to normalizing relations with Japan and put the burden clearly on the U.S. to move forward on its own with Pyongyang. Ditto with Koizumi’s claim that Kim agreed to extend the missile testing moratorium and accept international nuclear inspections – although the exact meaning of those two statements is unclear. The reports that Koizumi had a message from Kim calling on Washington to open a dialogue added to the pressure.

For administration hardliners, the concessions were tactical moves by the North Korean leader to wrong foot the U.S. and gain the upper hand. Perhaps, but it seemed to work. Reportedly, it took the U.S. three days to accept a phone call from Koizumi to explain his trip – and deliver the message from Kim. At a minimum, the delay suggests confusion in the administration on how to respond; at worst, it is a rebuke to the Japanese for isolating the U.S. in dealing with the North. Notably, the U.S. agreed to send Assistant Secretary of State for East Asian and Pacific Affairs James Kelly to Pyongyang for talks in early

October he will stop in Tokyo and Seoul on both legs of the trip to ensure that there is no confusion or lack of trilateral coordination.

### **Making Room for Japan in U.S. National Security Policy**

The trans-Pacific partnership is a key element of the “National Security Strategy” released in September. The document makes it clear that the U.S.-Japan relationship will continue to play a central role in U.S. thinking about Asia. It applauded the “unprecedented” security cooperation offered by Japan in the aftermath of Sept. 11 and notes that the U.S. will “look to Japan to continue forging a leading role in regional and global affairs based on our common interests, our common values, and our close defense and diplomatic cooperation.”

At the same time, the NSS continues the gentle prodding of Japan on the economic front. The report argues that, “A return to strong economic growth in Europe and Japan is vital to U.S. national security interests. We want our allies to have strong economies for their own sake, for the sake of the global economy, and for the sake of global security.” It highlights the need for “Japan’s efforts to end deflation and address the problems of non-performing loans (NPLs) in the Japanese banking system.” The NSS also makes clear that the old days are gone. Rather than high-profile bashing, the U.S. will instead use regular consultations and the Group of Seven (G-7) to discuss economic policies.

### **Make or Break for Koizumi?**

At the end of the quarter there were signs that the prime minister was preparing to take action on the economic front. During his CFR speech, Koizumi defended his economic record. “Since its inception, my administration has been doing all it can to pursue ‘structural reforms without sanctuary.’ ... We have decided to abolish or privatize special public institutions. We are transferring postal services to a public corporation next April, and will prepare for its future privatization ... My administration will rapidly push forward structural reforms to seek a streamlined and efficient government and a revitalized private sector, in order to achieve sustained economic growth led by private sector demand.”

Observers credit the prime minister with commitment to economic reform. Koizumi noted that, “The Japanese economy has considerable potential for growth.... Unless we carry out the necessary structural reforms, the revival of the economy will not happen.” He understands that “the revival of Japan’s economy, which accounts for 13 percent of the global economy, is itself the biggest contribution that Japan can make to the international community.”

In his meeting with President Bush, the prime minister explained that he thinks he is making progress, and that he had plans that he would soon be revealing to push reform more vigorously. Specifically, according to a senior administration official, he “expressed a determination to move on nonperforming loans.”

The first sign of those plans was revealed in the long-awaited Cabinet shuffle that came at the end of the quarter. Most significantly, he gave Takenaka Heizo, the economics “superminister,” the portfolio of the Financial Supervisory Agency (FSA), replacing Yanagisawa Hakuo. Yanagisawa was increasingly seen as an obstacle to a resolution to the NPL problem because of his opposition to the use of additional state funds to bail out the banks. Takenaka enjoys the prime minister’s confidence and seems to understand the need for action. He is not a politician and thus is thought to be free of the vested interests that might block real reform.

The problem is that it is not clear if the prime minister, or his team, has a grip on what is required. Speaking at an economics conference in Italy in early September, Takenaka confessed that “at this moment we do not have any clear plan regarding nonperforming loans.” “Honestly speaking, the pace of the writing-off of nonperforming loans has slowed and we need more radical action.” Takenaka also conceded that he doubts the economy will recover anytime soon. He expects growth of between zero and 0.5 percent a year for the period, and the brightest outlook is 2 percent growth in about three years.

In the last half of September, there were a flurry of proposals from all quarters, none of which inspired much confidence. On Sept. 18, the Bank of Japan (BOJ) announced plans to buy equities from commercial banks. This historic plan (the BOJ founding law does not permit such purchases and must be amended to do so) would help banks recover losses on assets that shrink their capital base and theoretically constrict their lending.

This was followed days later by a proposal by the FSA that the Resolution and Collection Corporation (RCC), a state-owned body set up to purchase the banks’ bad loans, be authorized to buy more bad loans at book value, effectively subsidizing the banks through the back door. It is not clear how serious this proposal is.

Nor was there much confidence following the Japanese performance at the meeting of G-7 finance ministers that was held in Washington during the last days of September. Finance Minister Shiokawa Masajuro and Ministry of Finance bureaucrats openly contradicted each other five times while explaining the contents of meetings between Shiokawa and his U.S. counterpart, Treasury Secretary Paul O’Neill. For his part, O’Neill expressed confusion at the point of Japanese policy – even when he could figure out what the policy was.

The U.S., primarily in the person of Council of Economic Advisors Chairman Glenn Hubbard, has continued to call on Japan to take active measures to combat deflation. The much promised antideflation package is now due out in October and, unfortunately, promises yet another grim discussion in next quarter’s analysis.

For many observers, this Cabinet shuffle is Koizumi’s last chance to prove his commitment to reform. His popularity is high after the visit to North Korea and he has outflanked the old guard by shuffling the Cabinet without going through factional leaders as was the tradition. A failure to move now would prove that Koizumi hasn’t the stamina or the tools to tackle the tough problems. Indeed, some observers question whether the

prime minister has his economic priorities straight. The recent focus on fiscal reform and trimming government spending – highlighted in his CFR speech – appears to be a repeat of the disaster that followed Hashimoto Ryutaro's government in 1997, which choked off an economic recovery by imposing new taxes.

Takenaka has not yet endorsed a specific plan to get the banks back on their feet. He has outlined three principles to guide policy: 1) ensure loans are properly classified with sufficient bad-loan provisions; 2) ensure banks are properly capitalized; and 3) pay attention to bank governance. They make sense, but as always, the issue is how and when they will be implemented.

### **Seeds of Dischord?**

Given the potential problems that the U.S.-Japan alliance faces, the good mood that currently prevails is remarkable. Given the concern in the international economy and the need for a Japanese recovery, the low-key U.S. approach to Japan's economic ills should be considered astounding – at least by past standards. But as I have noted before, this is less the product of faith in Japan's ability to get things right than resignation about the U.S. inability to do anything about the problem. It is unclear how continued unwillingness to make hard choices will affect U.S. thinking.

As long as Japan continues to stand with the U.S. on key issues, Washington will be patient. The appointment of Ishiba Shigeru as director general of the Defense Agency is a good sign. The Liberal Democratic Party legislator takes defense issues seriously and has said that he has been told to make the emergency response legislation tabled and then withdrawn during the last Diet session, a top priority. That is the sort of initiative that the U.S. is looking for in its ally.

Unfortunately, there are plenty of matters that could divide the two countries. The Bush administration's unseemly rush to war against Iraq is one possible cause of contention. It is unclear how Japan will react if the U.S. parts ways with the UN in its attempts to bring about regime change in Baghdad. Similarly, the preemptive doctrine outlined in the NSS could worry any Tokyo government.

At the UN, Koizumi declared that "Japan will continue its efforts to realize a peaceful and safe world free of nuclear weapons as early as possible. Toward that end, we will propose a draft resolution titled, 'A path to the total elimination of nuclear weapons' at this session of the General Assembly, and will redouble our efforts to achieve the early entry into force of the Comprehensive Nuclear Test Ban Treaty." Neither policy sits well with the U.S. administration; implementation of the NSS could well call for new nuclear tests. In other words, no matter how rosy the state of U.S.-Japan relations, there is nothing to be taken for granted.

## **Chronology of U.S.-Japan Relations July-September 2002<sup>1</sup>**

**July 4, 2002:** Universal Studios Japan (USJ) says it served expired food items from June 2001 to Feb. 2002.

**July 6-7, 2002:** *Mainichi Shimbun* reports Japanese Prime Minister Koizumi Junichiro's approval rate has recovered to 44 percent.

**July 8, 2002:** Tokyo extends deadline for retaliation against U.S. emergency tariffs on steel items to Aug. 31.

**July 8, 2002:** Deputy Secretary of State Richard Armitage and Japanese Ministry of Foreign Affairs (MOFA) Director General of the Asian and Oceania Affairs Bureau Tanaka Hitoshi meet in Washington and discuss Japan's North Korea policy.

**July 12, 2002:** Japanese Defense Agency (JDA) head Nakatani Gen announces Self-Defense Forces (SDF) integration plan.

**July 15, 2002:** Tokyo District Court rejects U.S. government lawsuit over Atsugi Air Base contract signed in the 1980s. The lawsuit was originally filed in 1994.

**July 18, 2002:** The National Governors Association demands the review of the Japan-U.S. Status of Forces Agreement (SOFA).

**July 20-21, 2002:** *Asahi* poll shows that 20 percent of voters favor Koizumi, 11 percent Tokyo Gov. Ishihara Shintaro, as next prime minister.

**July 23, 2002:** Liberal Democratic Party members establish a study group for revisions of U.S.-Japan SOFA.

**July 24, 2002:** U.S. and Japanese officials say Japan plans to station two Japanese SDF officials at the U.S. Central Command in Tampa, FL.

**July 26-27, 2002:** Japan and European Union agree to oppose cuts in farm tariffs and subsidies proposed by the U.S.

**July 29, 2002:** Tokyo and Okinawa prefecture agree to relocate U.S. Marine heliport in Ginowan to Nago, Okinawa.

**Aug. 3, 2002:** U.S. Secretary of State Colin Powell and Japanese FM Kawaguchi Yoriko meet at Brunei during ASEAN Regional Forum meeting.

**Aug. 6, 2002:** 57<sup>th</sup> anniversary of Hiroshima atomic bombing. Hiroshima Mayor Akiba Tadatoshi denounces U.S. unilateralism and warns "[t]he probability that nuclear

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

weapons will be used and the danger of nuclear war are increasing.” PM Koizumi repeats no-nuclear policy.

**Aug. 8, 2002:** MOFA Director General Tanaka visits Washington to consult on North Korea policy with the Bush administration.

**Aug. 9, 2002:** 57<sup>th</sup> anniversary of Nagasaki atomic bombing. Nagasaki Mayor Ito Itcho condemns U.S. nuclear policy. PM Koizumi repeats Japan’s no-nuclear policy.

**Aug. 9, 2002:** The Ginowan Municipal Assembly protests U.S. military training flights.

**Aug. 12, 2002:** The Okinawa Prefectural Assembly passes resolution to protest machinegun drills conducted by U.S. military, claiming they threaten Okinawa citizens.

**Aug. 12, 2002:** U.S. Department of Commerce and USTR announce that 30-40 percent of steel imports from Japan will be added to their list of exclusions from emergency tariffs.

**Aug. 13, 2002:** Kitty Hawk crew member is arrested on suspicion of robbery in Kanagawa.

**Aug. 13, 2002:** Washington announces it will add 37 steel imports from Japan to safeguard exemptions list.

**Aug. 16-19, 2002:** U.S. nuclear aircraft carrier Abraham Lincoln docks at Sasebo.

**Aug. 16, 2002:** Nasdaq Japan announces that it will terminate operations.

**Aug. 20, 2002:** Emergency simulation drill of a radiation leak from a US nuclear-powered submarine is held in Yokosuka, involving 400 local residents, SDF members, and Cabinet officials.

**Aug. 22, 2002:** *Asahi* reports that Tokyo will not sign a bilateral treaty with the U.S. to avoid handing over U.S. soldiers to the International Criminal Court, as has been requested by Washington.

**Aug. 23, 2002:** *Kyodo News* reports Kitty Hawk crew was arrested in early August for smuggling 4 million yen worth of marijuana.

**Aug. 27, 2002:** PM Koizumi and Deputy Secretary Armitage meet in Tokyo; Koizumi informs the U.S. of his plan to visit North Korea Sept. 17.

**Aug. 28, 2002:** *Asahi* and *Yomiuri* polls show that PM Koizumi’s support rate is 43 percent and 45.7 percent respectively, a 4-5 percent decline.



**Aug. 29, 2002:** U.S. forces participate in Okinawa Prefectural disaster preparedness drill for the first time.

**Sept. 4, 2002:** *Asahi* poll shows 77 percent of Japanese oppose a U.S. military attack on Iraq, while 32 percent of Americans oppose.

**Sept. 6-7, 2002:** Trilateral Coordination and Oversight Group (TCOG) meets in Seoul.

**Sept. 9-14, 2002:** PM Koizumi in the U.S.; meets President Bush and gives speeches at Harvard University, the United Nations, and the Council on Foreign Relations.

**Sept. 10, 2002:** Chief Cabinet Secretary Fukuda denies *Asahi* report on the prospect of a Japanese military role in Afghanistan.

**Sept. 10, 2002:** Japanese National Space Development Agency launches third H-2A rocket.

**Sept. 11, 2002:** Japan raises suspected North Korean spy-ship.

**Sept. 13, 2002:** U.S. Council for Economic Advisors (CEA) Chairman Glenn Hubbard urges the Bank of Japan to take action to fight deflation.

**Sept. 17, 2002:** PM Koizumi meets Kim Jong-il in Pyongyang.

**Sept. 17, 2002:** FM Kawaguchi meets National Security Advisor Condoleezza Rice and other senior officials in Washington.

**Sept. 18, 2002:** Bank of Japan Governor Hayami announces plan to buy bank equity holdings directly.

**Sept. 23, 2002:** *TV Tokyo* poll shows that PM Koizumi's approving rate reached 71 percent.

**Sept. 23, 2002:** USCEA Chairman Hubbard urges Tokyo to support the Bank of Japan's monetary policy to fight deflation.

**Sept. 28-29, 2002:** At G-7 finance ministers meeting, U.S. Treasury Secretary Paul O'Neill expresses confusion about Japan's recent policy. "I did not come away with understanding of how these particular interventions are going to contribute to a change."

**Sept. 29, 2002:** *Nikkei Weekly* reports that senior Liberal Democratic Party member Nakagawa Hidenao had discussed with leaders of ASEAN nations the possible relocation of the U.S. Marine bases in Okinawa to ASEAN nations.

**Sept. 30, 2002:** PM Koizumi reshuffles Cabinet; gives Financial Services portfolio to METI Minister Takenaka Heizo and replaces Defense Agency head Nakatani with Ishiba Shigeru.