

JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

Japan's Foreign Policy under the DPJ Government

BY TATSUHIKO YOSHIZAKI, SOJITZ RESEARCH INSTITUTE

Half a year has passed since the government of Prime Minister Yukio Hatoyama was inaugurated. With the Democratic Party of Japan taking over the reins of government from the long-ruling Liberal Democratic Party, a major reshaping of Japan's foreign policy appears to be underway. The direction of this policy shift, however, remains unclear.

In its manifesto for the August 2009 House of Representatives election, the DPJ drew up five principles and five policies for its "vision of government" and made five pledges, but none of these principles, policies, or pledges contain a direct reference to foreign policy. It was only in the chapter on "detailed policies" that the manifesto took up Japan's foreign relations. Out of 55 detailed policies, merely five were related to foreign policy:

1. Build a close and equal Japan-US relationship.
2. Strengthen Japan's foreign relations in Asia with the aim of building an East Asian community.
3. North Korea must not be permitted to possess nuclear weapons.

4. Realize world peace and prosperity.
5. Take the lead in working for the elimination of nuclear weapons, and remove the threat of terrorism.

The last three foreign policy areas in this list do not show any significant distinction from policies Japan pursued when the LDP was in power. Therefore, one can only assume that an "equal Japan-US relationship" and "stronger ties with Asia" form the main focus of Japanese diplomacy under the Hatoyama administration.

Changes in the reasoning on Japan-US ties

One must ask, what is the meaning of an "equal Japan-US relationship"?

The United States has alliance relations with 70-some countries. But one may wonder whether the Philippines, for example, has an "equal relationship" with the United States. Most people would probably say no. If that is the case, why should Japan be so particular about an equal partnership with America? Anyway, one should also ask whether it is even possible to have equality in country-to-country relations. Even if countries are equal

in terms of international protocol, is it not simple logic that some countries are patently more powerful than others?

Frankly speaking, the idea of aiming for an equal relationship with the United States is naive in itself and it is not appropriate to put this idea on the agenda of diplomacy. Holding such a view perhaps shows this writer has been too much influenced by the traditional notion of an alliance.

There are three pillars in Japan-US relations: security, economy, and global issues. Under the traditional worldview, these three domains are layered on top of each other in the form of a pyramid. Issues of security, i.e., "human life," are naturally weightier than "money" and "honor." In Japan, there is an inclination to think that "since we owe America a lot in terms of security, we should let the Americans have their way in other matters." Therefore, the relationship

Currents No. 77 April 2010

Navigating a Rough Patch in US-Japan Relations5

Nicholas Szechenyi, Center for Strategic and International Studies

Japan's Foreign Policy under the DPJ Government

between Japan and the United States is not equal. Let us call this traditional way of reasoning the "LDP view."

The current DPJ government appears to take a different view. DPJ policymakers apparently think the three pillars of Japan-US relations stand on their own, parallel to each other. In media interviews and elsewhere, Foreign Minister Katsuya Okada has suggested that if Japan cannot collaborate fully with the United States in security, it can pay back the Americans on the economic front as well as in global issues. The reasoning is that the three pillars of Japan-US relations have equal weight, and equal partnership can be achieved in the totality of bilateral ties. Let us call this the "DPJ view."

The DPJ's way of reasoning can be termed as a postmodern worldview. In fact, the military strength of a nation is ultimately bound by its economic strength, and a nation's economy is often swayed by global issues. As opposed to a three-layered, pyramid-shaped structure, the notion of three overlapping rings has a sense of reality.

The Hatoyama administration, however, has so far made little attempt to clearly and convincingly explain this "change of reasoning." US officials responsible for Japanese policy apparently are also troubled by a lack of clarity from Japan.

Since the Americans who have close dealings with Japan have mostly been involved in security matters, they tend to take a severe view of the new government in Tokyo. They sympathize with the LDP view and take issue with the Hatoyama administration's directionless conduct on the issue of relocating the US Marine Corps' Futenma Air Station in Okinawa. This kind of US sentiment could endanger the entire US military realignment program in Japan, including the plan to move some of the Marine Corps units to Guam. The trust built up in the Japan-US alliance could be lost as a result.

By contrast, liberal Japan experts in America are apparently more sympathetic toward the DPJ view. "Don't get too tangled up with the Futenma issue," they say. "The fact

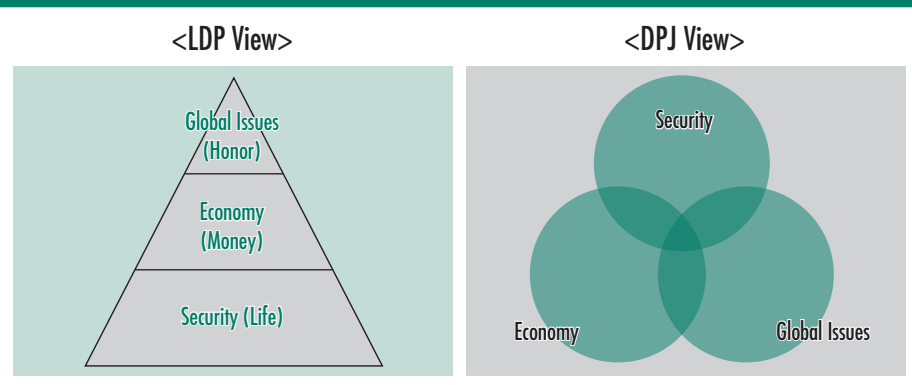
that there was a change of government after half a century of LDP rule is a good thing for Japanese democracy. Therefore, give the Hatoyama administration some breathing room."

In countries with two major political forces, there are always "pro-US" parties and "anti-US" parties. This writer believes that it is simply normal if Japan produces a government that takes a harsher view on America after the pro-US LDP has been removed from power. Hasn't the United States faced such a political reality many times in the past?

On the other hand, leaders in Moscow, Beijing, and Pyongyang are probably more comfortable with traditional value systems such as the LDP view. Even if both Prime Minister Hatoyama and President Barack Obama declare that Japan and the United States

Differences between the Two Administrations

The true meaning of an "equal partnership"



are “equal partners,” the leaders of Russia, China, and North Korea will probably not take this declaration at face value. Only relatively advanced democratic countries can find universal value in the DPJ view.

Japan to aim for middle-power diplomacy?

Let us assume that the DPJ view on Japan-US relations is part of the changes promised by the new government. The DPJ, however, has not explained this change to the Japanese public, much less to the world at large. Such important issues, of course, should have been debated thoroughly so that people at home and abroad would have a clear notion on the direction of Japanese foreign policy. This is what the DPJ should have done in the first place.

Vaguely defined “changes in direction,” however, are nothing new in Japanese diplomatic annals. There are well-known cases of muddling through dramatic changes in national policy, such as the shift from an “anti-foreign” to an “open country” policy at the time of Meiji Restoration and the change from the pursuit of comprehensive peace to separate peace after Japan was defeated in World War II. It is perhaps not farfetched to imagine that Japan has once again come to such a crossroads.

With the LDP out of power, Japanese diplomacy is making a big turn in direction even though the Hatoyama administration may not have a clear idea about it. It seems that changes in foreign policy are being carried out across the board, not just to policy toward the United States.

Japan used to have a national consensus on the government’s foreign policy as illustrated in Plan A, an “ambitious Japan” diplomatic posture that shows the determination of a country caustically referred to as a “superpower of sorts.”

The reality surrounding Japan, however, has gone through a sea change in recent years. With an aging population at home and the growing power of emerging economies abroad, it has become necessary for Japan to project a less ambitious, “bluish” diplomatic stance, as shown in Plan B.

In short, Plan A outlines the kind of foreign policy roadmap pursued by the government under Prime Minister Junichiro Koizumi. The theory holds that, as the world’s second largest economy, Japan should play a role in international affairs commensurate to

Plan A (A=Ambitious Japan)

Self image	No. 2 economic superpower
Direction	Toward a “normal country”
US/Japan	Most important relationship bar none
Asia	Competing with China
UN	Permanent Member of the UNSC
Iraq/AfPak	SDF participation
North Korea	Pressure rather than dialogue
Economic diplomacy	Trade liberalization through WTO Doha round/FTA

Plan B (B=Blue Japan)

Self image	Aging and declining power
Direction	“Middle power” diplomacy
US/Japan	Reluctant ally
Asia	East Asian community
UN	Honest member
Iraq/AfPak	Private sector contribution
North Korea	Dialogue rather than pressure
Economic diplomacy	Increase self-sufficiency rate for foods, strategic materials

Japan's Foreign Policy under the DPJ Government

its economic strength. Japan should aim to become a “normal country” and seek permanent membership in the United Nations Security Council. For the sake of closer US relations, Japan should allow its Self-Defense Forces to engage in overseas missions. In Asia, Japan should compete with China for regional leadership. On North Korea, Japan should apply pressure instead of calling for dialogue. As for economic diplomacy, Japan should promote free trade multilaterally by cooperating with the Doha round of the World Trade Organization and bilaterally through free-trade agreements.

The feasibility of Plan A, however, has been fading rapidly. Instead of an ambitious scheme of diplomacy, the DPJ government has apparently opted to pursue prudent, more restrained foreign policy goals under Plan B.

In Plan B, Japan would portray itself as a middle power saddled with declining national strength. In its relationship with the United States, Japan would hold on to the bilateral alliance but would avoid aggressively seeking a bigger role, thereby turning itself into a so-called reluctant ally. On the global stage, Japan would no longer need to make its presence felt. At most, Japan would make contributions to environmental and related matters but would not seek

to become a permanent UN Security Council member. Naturally, Japan would not stick its head into the Middle East or other regional trouble spots.

In Asia, Japan would avoid irritating China. Japan would call for the establishment of an East Asian community but would not take positions that require financial participation. As for economic diplomacy, the focus would be on maintaining a defensive posture, with Japan limiting its diplomatic pursuits to raising the self-sufficiency rate of its food supply and securing supplies of rare earth metals and other strategic raw materials.

Constructive discussion is needed

Even when everything goes in one's favor, it is a virtue for the prudent thinker to devise a plan B. If Japanese diplomacy is forced to retreat to Plan B from Plan A, it would be absurd to become self-content and think, “This will give us an easy time.” In fact, Japan's Plan A diplomacy is still viewed positively in many countries and among various international organizations. Besides, it is not clear whether there is a national consensus that Japan should retreat to Plan B. It is always painful for both individuals and governments to lower future expectations. Unless a country gets a

“black eye” on the world stage, it is difficult for a government to lower its standards for foreign policy goals.

This writer believes that Japan should start looking for diplomacy options beyond Plan A and Plan B. For instance, Japan could resist being as ambitious in its international goals as set forth in Plan A and yet refrain from lowering its international objectives to the levels in Plan B. What are the possibilities of a plan C (“cool Japan”) that would highlight Japan's “soft power” to complement its national strength? It is high time to begin a national debate to examine all options and possibilities for future Japanese diplomacy. Such an exercise is not only meaningful by itself; it will also raise interest at home and abroad on the question of how Japan will change in future.

It is no longer an option for Japan to go back to its old ways and suddenly become a changed country without warning. A national debate on foreign policy should perhaps have taken place before the change of government. However, with the enthusiasm from the change of government still fresh, this is the right time for Japan to deepen the foreign policy debate.

Tatsuhiko Yoshizaki is chief economist and executive vice president of Sojitz Research Institute, Ltd.

Navigating a Rough Patch in US-Japan Relations

NICHOLAS SZECHENYI, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

JAPAN
ECONOMIC
CURRENTS

Recent statements about the importance of the US-Japan alliance suggest a concerted effort by the Hatoyama and Obama administrations to reaffirm the dynamism of the relationship this year, which marks the 50th anniversary of the bilateral security treaty. President Obama's expected visit to Japan this November for the Asia-Pacific Economic Cooperation (APEC) summit presents a unique opportunity to build a new framework for future cooperation but could very well end up an opportunity lost. Despite renewed attention to the economic portfolio and potential for collaboration on global issues, the reality is that the impasse over the relocation of US Marine Air Station Futenma on Okinawa has hijacked the bilateral agenda and limited progress toward a comprehensive vision for the alliance. Though not a crisis, this dispute has sapped the relationship of its vitality and could come to symbolize drift during a milestone year set up to showcase the depth and breadth of the alliance. Some pieces of a bilateral framework are taking shape but at present the prospects for a revitalized agenda come November are unclear. In short, this is a difficult period in which to issue a bright forecast for US-Japan relations, but it is not too soon to begin thinking about what would and would not fit in the agenda right now.

Despite renewed attention to the economic portfolio and potential for collaboration on global issues, the reality is that the impasse over the relocation of US Marine Air Station Futenma on Okinawa has hijacked the bilateral agenda and limited progress toward a comprehensive vision for the alliance.

The Economic Portfolio

A bilateral Free Trade Agreement (FTA) between the United States and Japan will not emerge as a centerpiece of the economic agenda in the short run given that the politics of trade do not favor liberalization measures. FTAs with Colombia, Panama, and South Korea have yet to clear the U.S. Congress and the lack of trade promotion authority for President Obama suggests these and any other prospective agreements would face increased scrutiny. This is also a mid-term election year and members of Congress are more likely to emphasize the protection of US jobs and markets rather than the benefits of trade. The environment in Japan is also challenging and the government would have to expend political capital in favor of agricultural trade liberalization, a monumental task as evidenced by the revision of the Democratic Party of Japan's manifesto

last year after a statement supporting a bilateral FTA sparked a protest from agricultural groups. Without a comprehensive FTA to anchor the trade dialogue it is natural for the two governments first to focus on specific sectors where bilateral cooperation is most promising such as clean energy technology, which was designated a priority during the Hatoyama-Obama summit in Tokyo last November. Until domestic political circumstances in both capitals become more favorable, one would anticipate a "building block" approach to bilateral trade.

Irritants in the bilateral economic relationship could also assume a higher profile in the next several months. In January President Obama pledged in his State of the Union Address to double U.S. exports in five years and subsequently announced a National Export Initiative to realize that objective. This coincided with statements

Navigating a Rough Patch in US-Japan Relations

addressing perceived barriers to US exports including issues with Japan such as the cap on US beef imports, the limited inclusion of US automobiles in Japan's eco-friendly car purchase program, and concerns about unfair competition in the Japanese insurance market stemming from the proposed restructuring of Japan Post. Most noteworthy is the fact that Congress has taken up the issue of market access; in late March, the chairman of the House Ways and Means Committee and other lawmakers included concerns about the Japanese insurance market in a joint letter to President Obama outlining key trade issues. These developments do not necessarily portend a period of economic friction but do signify a renewed sensitivity in Washington with respect to bilateral trade.

These obstacles aside, there are some opportunities to kick-start economic dialogue. The Asia-Pacific Economic Cooperation forum (APEC) offers the greatest potential for US-Japan leadership on economic matters. As hosts of APEC in 2010 and 2011, respectively, Japan and the United States are working on a two-year agenda for regional economic integration, and a joint statement released at the end of March reaffirmed a commitment to APEC as a driver for balanced (altering savings/

consumption patterns), inclusive (spreading the benefits of trade) and environmentally sustainable growth. The agenda also includes signature initiatives on agriculture-related trade and investment, women's entrepreneurship and climate change. The absence of any momentum in the Doha Round of multilateral trade negotiations makes APEC all the more important as a regional vehicle for liberalization in trade and investment, and APEC is currently the only trans-Pacific mechanism for economic integration. A key question among skeptics is whether APEC can deliver concrete results or will merely serve as a venue to articulate regional aspirations. The existence of the APEC Business Advisory Council (ABAC) notwithstanding, open dialogue channels between business and government—seemingly lacking both in Tokyo and Washington—should help maximize APEC's potential for success over the next two years.

The United States has entered into negotiations toward a Trans-Pacific Partnership (TPP) agreement with seven other Pacific Rim countries. Japan is not involved but has expressed interest in this arrangement, which could create opportunities for enhanced US-Japan dialogue if Japan “docks” onto ongoing US discussions with TPP members.

Global Issues

In the wake of President Obama's Prague speech on nuclear weapons last spring and Prime Minister Hatoyama's address to the United Nations last September, there is reason to believe that the two governments can coordinate closely on an agenda for nuclear disarmament and non-proliferation. The recent renewal of the US-Russia Strategic Arms Reduction Treaty (START) and the convening of a global summit on nuclear security in Washington demonstrated the President's resolve but the prominence of this issue was most evident in the Nuclear Posture Review (NPR) released this April. Preventing nuclear proliferation and terrorism was the first of five priorities listed in this report on US nuclear policy, which also emphasized the need to reduce the role of nuclear weapons while reassuring allies that extended deterrence is reliable and credible. The latter is the focus of a US-Japan strategic dialogue and such discussions should continue as Washington and Tokyo attempt to balance the ideal of nuclear disarmament against the immediate threats posed by states such as North Korea.

Japan and the United States could also assume a leadership role in addressing climate change, though the domestic

politics in both countries have changed since Obama and Hatoyama assumed office last year. In January, the Obama Administration pledged to reduce greenhouse gas emissions 17 percent below 2005 levels by 2020, but a cap-and-trade system as envisioned in legislation passed by the House of Representatives last summer is not being embraced in the Senate, where sector-based targets and other alternatives are currently being debated. The emissions trading system proposed in Japan also appears controversial as the government weighs whether to pursue binding caps on emissions or caps based on carbon intensity (meaning overall emissions could rise with increased output). A central theme in both countries is the extent to which climate change policy might impede economic growth, something Obama and Hatoyama will have to address in pursuing their respective agendas. Bilateral cooperation on green energy technology can support the notion that the two policy objectives need not be mutually exclusive.

Futenma

The impasse over an agreement to relocate US Marine Air Station Futenma dominates the bilateral agenda and has adverse consequences for the alliance. First and foremost is an erosion of

The 50th anniversary of the security treaty invites reflection on the accomplishments of the past, the challenges of the present and the ideals of the future and the two governments will work to address all three in preparation for President Obama's visit to Japan this fall.

trust. Prime Minister Hatoyama asked President Obama to trust him to resolve the issue during their summit in Tokyo last November but instead has allowed a heated debate within his government to intensify for months, yielding inconsistent messages and various plans deemed unacceptable by the US government. This not only impedes progress on the realignment plan for US forces in Japan but potentially frustrates the overall agenda-setting process in that the credibility of the Hatoyama government now rests on this issue. The delay on Futenma also sends a negative signal throughout Asia about the credibility of the alliance, and rhetoric alone cannot alter negative perceptions of the current dynamic between the two governments.

Some argue that the US-Japan alliance is larger than one issue and that the two governments should set Futenma aside and focus on other aspects of bilateral cooperation beyond security.

This ignores the reality that the US-Japan relationship is a security alliance at its core and Futenma relocation is part of a comprehensive initiative to strengthen the fundamental pillar of the relationship. Elevating other components of the bilateral agenda, while important, cannot compensate for a lack of progress on security cooperation. References to a new alliance framework will therefore ring hollow if the Futenma issue remains unresolved.

The Road Ahead

With a budding economic agenda and the potential for joint leadership on other issues such as nuclear nonproliferation and climate change, Tokyo and Washington are positioned to build a solid foundation for alliance cooperation in the months ahead. The 50th anniversary of the security treaty invites reflection on the accomplishments of the past, the

Navigating a Rough Patch in US-Japan Relations

challenges of the present, and the ideals of the future and the two governments will work to address all three in preparation for President Obama's visit to Japan this fall. One major obstacle is Futenma, where after six months the Hatoyama government is still studying, the Obama administration is still waiting, and observers are left wondering if either side has devoted sufficient energy to planning the next steps for this relationship. The alliance has been tested repeatedly throughout its history and emerged stronger at every turn. Unfortunately, it is not clear when this test will end.

Nicholas Szechenyi is deputy director of the Japan Chair and fellow at the Center for Strategic and International Studies (CSIS) in Washington, DC.

Publisher & Editor: Hiroshi Nakayama,
Keizai Koho Center

<http://www.kkc.or.jp/english/index.html>

KEIDANREN KAIKAN Floor 19

3-2 Otemachi 1-chome

Chiyoda-ku, Tokyo 100-0004 Japan

Phone: +81-3-6741-0031 Fax: +81-3-6741-0032 webmaster@kkc.or.jp

Keizai Koho Center (KKC) is an independent, non-profit organization designed to promote the understanding of Japan's economy and society at home and abroad. Its financial resources are derived entirely from the private sector.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

The views expressed in this newsletter are of the contributors and do not necessarily represent those of the Keizai Koho Center.