

The U.S. Japan Partnership: An Agenda for Change

Symposium Rapporteur Report

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8:00 a.m. to 12:45 p.m.

Hosted by the Council on Foreign Relations and the *Asahi Shimbun*

For nearly sixty years, the United States and Japan have been indispensable allies, working closely to ensure regional stability and economic prosperity in the Asia Pacific. In recent years, however, global transformations are testing their long-standing partnership. Chief among them are a host of regional security concerns, including a nuclear North Korea and uncertainties associated with China's rise in power. Meanwhile, Japan's domestic political landscape is increasingly unstable, and without decisive Japanese stewardship, the alliance will likely suffer. To assess this critical partnership, the Council on Foreign Relations and the *Asahi Shimbun*, Japan's leading newspaper, co-hosted a symposium at the Council's New York headquarters on December 1, 2008.

In his opening remarks, Council President **Richard Haass** underscored Japan's unique significance to the international system, pointing to the "scale and power of its economy, the capability of its military, and the reach of its foreign policy." While these strengths underpin the U.S.-Japanese strategic relationship, **Sheila Smith**, director of the Council's Japan studies program, noted that in recent years these two partners have drifted further apart. To reenergize the alliance, she suggested that the United States introduce a new narrative: "I think it's time that we put aside the rhetoric of normalizing Japan, normalizing the alliance, and we begin instead to think of this partnership as a forward-looking and problem-solving partnership."

Indeed, Tokyo and Washington share common strategic interests on a variety of security concerns, like climate change, counter-proliferation, and terrorism. **Michael Levi**, director of the Council's program on energy security, highlighted climate change as an area in which Japan and the United States could find much common ground. The global financial crisis may also provide an opportunity for greater cooperation. As the United States braces for what is likely to be a prolonged economic downturn, Japan's own experience recovering from its asset bubble in the 1990's provides important lessons. **Heizo Takenaka**, professor at Keio University, underscored the need for greater corporate transparency and sustained government activism to restore confidence. Council adjunct senior fellow **Roger Kubarych** echoed calls for greater intervention, recommending a stimulus package comprised of "two-third government outlays and one-third tax reductions."

China's increasing influence in the Asia Pacific poses a unique challenge to the U.S.-Japan partnership. **Akihiko Tanaka**, professor at the University of Tokyo, dismissed fears that Beijing might emerge as the United States' main interlocutor in the region. He argued that "China [is] an important global partner of both the United States and Japan," and suggested creating a trilateral mechanism that would allow the three parties to discuss areas of common interest. **Elizabeth Economy**, director of the Council's Asia studies program, recommended that non-traditional issues, like piracy or food safety, take center stage in these talks. After a recent trip to Beijing for the Council's Northeast Asia Regional Security Architecture Project, Dr. Smith reiterated, "there's a lot of room and scope there for us to talk about drafting an agenda where there is a constructive dialogue among the three countries."

Ensuring stability in Northeast Asia is another critical focal point of the U.S.-Japan partnership. Managing the threat of North Korea, in particular, has caused tension in the relationship. To shore up confidence with its allies, **Gary Samore**, director of Studies at the Council, suggested that the incoming U.S. administration "reassert its commitment to achieving complete disarmament of North Korea," even if the objective is likely unattainable in the near future. **Hitoshi Tanaka**, senior fellow at the Japan Center for International Exchange, proposed that Japan and

United States conduct comprehensive negotiations with North Korea because of the interrelated nature of the issues. North Korea, however, prefers an incremental process, noted Dr. Samore, which allows them to “take as small an action as possible in exchange for the highest possible payment.”

Session One: “Global Transformations and the U.S.-Japan Partnership”

Engaging China

- Akihiko Tanaka does not believe that China’s growing influence in East Asia will threaten the U.S.-Japan alliance. Rather, he recommended engaging Beijing by creating a trilateral mechanism that would allow the three parties to discuss areas of common interest, like environmental, energy, and security concerns.
- Tanaka also suggested that “societal engagement” should complement this political dialogue. He commended recent initiatives that encourage student exchanges between China and Japan, and proposed additional efforts to increase contact between the two publics.

Climate Change and the Partnership

- Combating climate change is one area in which Japan and the United States will find much common ground, suggested Michael Levi. Both countries are focused on what Levi calls a “bottom-up approach,” concentrating first on transforming national energy consumption trends and capabilities and then engaging other countries to follow suit.
- On the climate change agenda, both Japan and the United States are also committed to creating two or three separate classes of developing countries, requiring different levels of commitment from each to reduce greenhouse gas emissions.
- Engaging China on this issue poses a unique challenge. Levi suggests focusing on “the nitty-gritty, not high-level diplomacy, but intensive cooperation on capacity building, on technology, on these sorts of things that don’t really excite diplomats, but that are absolutely essential in moving forward.”

US-Japan Alliance

- Sheila Smith underscored the significance of the U.S.-Japan alliance, which was particularly strong during Japanese Prime Minister Junichiro Koizumi’s tenure. Since then, however, the partnership has been “adrift.” To reenergize the relationship, Dr. Smith suggested that Tokyo and Washington explore “avenues for addressing their common concerns and strategic interest,” like nonproliferation, terrorism, climate change and other security issues.
- However, Dr. Smith noted that the two allies might have different priorities on these issues. For Washington, the Middle East will be the next administration’s focus. For Tokyo, security on the Korean peninsula will take precedence.
- How does China factor into the equation? Will Beijing emerge as the United States’ main interlocutor in the Asia-Pacific in the coming years, weakening the U.S.-Japan partnership? Perhaps not, suggested Dr. Smith, who provided some historical perspective. When Richard Nixon first engaged China, there were similar fears in Tokyo that its partnership with Washington would suffer. But the alliance remains strong. Dr. Smith recommended that Japan and the United States “proactively engage China in problem-solving exercises,” and work to constructively bring China into the partnership.
- Dr. Levi highlighted other areas of common interest for the United States and Japan, such as proliferation, particularly in North Korea and Iran, and energy supply. For example, “the fraction of Japanese oil consumption that comes from the Middle East is enormous.” Dr. Levi suggested that energy consumption is

an area that would allow the two parties to define some “common rules of the road for how to deal with things like supply.”

Japanese Domestic Politics

- With the Japanese domestic political landscape in a state of flux, several panelists feared that a weak government could challenge the U.S.-Japan partnership. Dr. Smith noted, “There are many of us in Washington who are quite concerned that Japan is going to be absent because it is not able to bring the political leadership that we need to bear on some of these conversations.”
- However, Dr. Tanaka suggested that even though the Japanese government is weak, “on some global issues Japan’s positions are fairly stable...and consistent from government to government.”
- Dr. Yoichi Funabashi, editor in chief of the *Asahi Shimbun*, added that Japan has “had to live with a lame duck U.S. administration for several months,” and so dealing with weak leadership on both sides is a reality of the relationship.
- One solution to this problem, offered by a representative of the Japanese government in the audience, was to create a “wise men’s group” of experts outside of government that could define an agenda on the important global issues that could survive the change in government.

Japan and Iran

- With Japan a large consumer of Middle East oil, how might it contribute to efforts to curb Iran’s nuclear program? Dr. Levi clarified that the bulk of Japan’s energy resource are imported from other Middle Eastern countries, not Iran. In fact, Tehran has proved to be an unreliable commercial partner, and so Japan is unlikely to deepen this relationship.
- Dr. Levi suspects Japan will look to other partners for energy, particularly Russia or Central Asian countries. However, Levi suggested that the new U.S. administration would explore “broad cooperation (with Japan) in dealing with Iran and there will need to be an effort from Japan to really focus on other avenues for shoring up its energy security.”

Session II: “The Global Economy: Instabilities and Reforms”

The Causes and Solutions of Financial Crisis

- Benn Steil, senior fellow and director of international economics, outlined some of the principal causes of the current financial crisis, which originated in the United States. “The crisis is a very sobering story about the cost of building up excessive leverage across the economy over many years...particularly building up over the first half of the decade.”
- Specifically, Dr. Steil pointed to “a very long period of negative real interest rates in the United States from 2002 to 2005,” suggesting that the Federal Reserve should shoulder much of the blame for promoting a period of excess leverage.
- This process was amplified by many other factors. First, on the macro level, Dr. Steil noted a process in which “dollars would go abroad, particularly to China and other creditors in Asia and the Middle East, and come back (to the U.S.) usually invested in Treasury bonds.” Second, on the micro level, the United States gave tax incentives for debt and leverage, particularly mortgage interest deductibles that promoted greater home ownership. Third, financial institutions became excessively over leveraged by buying bad assets with borrowed money. Fourth, financial instruments, like mortgage backed securities, became increasingly

complex and were only valued based on credit ratings. Dr. Steil added, “Once his process began unraveling financial institution found it excessively costly or indeed impossible to raise capital.”

- Takenaka Heizo, added that, much like Japan’s economic downturn over a decade ago, the financial meltdown has become a “confidence crisis.” He suggested greater government activism, including capital injections into financial institutions, to restore confidence. Additionally, he recommended greater corporate transparency, particularly among balance sheets.
- Commenting on the potential solutions to the financial crisis, Roger Kubarych recommended that the government allow the deleveraging process to continue, but warned that the government has to act quickly once the immediate crisis is over – by 2009 or 2010, he predicted – to “design fiscal policies that are pretty quickly reversible when things improve.” Dr. Kubarych also suggested that the government reform “complex financial instruments like credit default swaps,” which would involve some formal oversight process. Finally, he recommended greater enforcement of the “mountains of regulation” that exist for financial institutions.

Stimulus Plans and the Lessons of Japan’s “Lost Decade”

- One lesson from Japan’s period of economic downturn during the ‘90’s, suggested Dr. Takenaka, is that fiscal stimulus is not as effective as a monetary stimulus, which has a greater multiplier effect in the economy. Japan’s recovery plan focused on government public work projects rather than tax cuts.
- The current climate, however, might call for a mix of monetary and fiscal stimuli. Dr. Kubarych suggested a formula that would include “two-third government outlays and one-third tax reductions.” He favored government spending in public works projects because there was “tremendous need for infrastructure spending that are unmet.”
- Dr. Takenaka noted, however, that “tax cuts will create smaller government and the government expenditures will create bigger government.”
- How will governments fund these stimulus packages? Dr. Steil pointed out that investment in U.S. Treasury bonds has increased substantially because of the current crisis and therefore the United States is well positioned to raise the debt needed to fund these packages. However, he added that once the deleveraging process has played out, the U.S. treasury and the Federal Reserve will have enormous new challenges in raising debt.

Trade Protectionism in the Next U.S. Administration

- There were concerns that the new American president might advance a protectionist agenda. For Japan’s economy, Dr. Tanaka argued, this would be especially harmful. In recent years, Japan’s export-GDP ratio has climbed and the country is more dependent on exports, especially to the United States.
- Dr. Kubarych also hoped President-elect Barack Obama would shelve a protectionist agenda, for example by reopening NAFTA. “The best we can hope for is no action over the next four years. That would be the best-case scenario.”

Reforming the International Monetary System

- What changes will we see to the international monetary regime in coming years? Benn Steil did not foresee many fundamental changes to the current system because global leaders have not yet had serious discussions about the central issues. In fact, this crisis may reinforce the “message to the world that you need global imbalances. You need a big war chest of dollars – at least in the short term.”

- Dr. Tanaka proposed greater regional monetary cooperation to supplement the current bilateral and global framework of the monetary system. He pointed an idea to create an Asian Monetary Fund, but Dr. Steil argued that, in the end, the primary reserves of such a fund would still be U.S. dollars.

Session III: “Ensuring Stability in Northeast Asia”

U.S.-Japanese Cooperation and the East Asia Security Architecture

- To renew the U.S.-Japan security partnership, Dr. Smith suggested that the United States redefine the alliance’s narrative: “I think it’s time that we put aside the rhetoric of normalizing Japan, normalizing the alliance, and we begin instead to think of this partnership as a forward-looking and problem-solving partnership.”
- The United States, Dr. Smith added, also needs to do a little “repair work” with regard to the six-party talks on North Korea. The new American president will need to reestablish the confidence of our closest partners, Japan and South Korea. But Dr. Smith is skeptical of making the six-party framework a formal security mechanism, preferring trilateral conversations.
- Hitoshi Tanaka suggested that regional security mechanism must take into account the diversity of challenges in East Asia, suggesting that “an architecture needs to be multilayered...on top of the strong bilateral alliance relationship between Japan and the United States.” Additional, Dr. Tanaka recommended comprehensive negotiations with North Korea, which includes both traditional and non-traditional security issues.

U.S.-Japan Relationship: Perspective from Beijing

- Elizabeth Economy is optimistic that China would support trilateral discussions with Japan and the United States, even though Beijing has traditionally preferred bilateral talks. She suggested that non-traditional issues, like piracy or food safety, take center stage in these discussions. Ultimately, however, Dr. Economy questions whether China wants to deepen its relationship with Japan; rather, Beijing seeks greater stability in the region through these discussions.
- Dr. Economy is also skeptical that a U.S.-Chinese military dialogue will yield greater collaboration: “it’s very easy to talk about the need for cooperation and transparency in the (military) relationship, but it’s really quite difficult (to achieve).”

Managing the Challenge of North Korea

- The current U.S. administration has made several concessions in negotiations with North Korea, argued Gary Samore, leaving some doubts in East Asia about the U.S. commitment to achieving a nuclear free peninsula. The new administration, he recommended, should “reassert its commitment to achieving complete disarmament of North Korea.”
- Dr. Samore also supported a comprehensive approach with North Korea that would include “nuclear disarmament, abductees, and the establishment of a peaceful regime on the Korean Peninsula.” However, it is doubtful that North Korea would acquiesce. Instead, North Korea prefers an incremental process in which “they take as small an action as possible in exchange for the highest possible payment.”
- He added, “North Koreans are going to resist anything that is so comprehensive and so detailed that it commits them to giving up all their bargaining chips. The most important one is their nuclear weapons which I think right now they’re not prepared to abandon.”
- Dr. Tanaka reiterated that neither the United States nor Japan should be willing to normalize relations with a nuclear North Korea. “But at the same time,” he added, “we must remember that the six-party talks is a

process to force North Korea to come to that final strategic decision in exchange for all the guarantees they would like to have in terms of political, security and economic.”

Revising the Japanese Constitution

- On the issue of revising Article 9 of Japan’s constitution, which renounces the use of force to resolve disputes, Dr. Tanaka suggested that it was natural for countries to amend ones constitution based on the “needs of the day.” In particular, he noted that Japanese peacekeeping missions have been constrained because of the country’s constitution. He suggested that this issue be debated by Japanese society in a very open conversation.
- Dr. Smith, however, cautioned against holding this debate “at a moment of crisis; in other words, when Japan is threatened and there’s an immediate need for a use of force decision.”

After Kim Jong-Il

- Dr. Samore was hesitant to make any predictions on scenarios after the Kim era ends, but his hunch is “that even without Kim Jong-Il...the system is strong enough, has enough roots in the military, internal police, the party, and the ruling elite so that it’s likely to continue, perhaps in some kind of collective leadership.”
- What is more, this leadership is “likely to have a very similar attitude toward the nuclear program, which is that they see it as an essential component of their survival and security.”