

The United States and Japan in Global Context: 2017



THE EDWIN O.
REISCHAUER CENTER
FOR EAST ASIAN STUDIES
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The Johns Hopkins School of Advanced International Studies (SAIS)

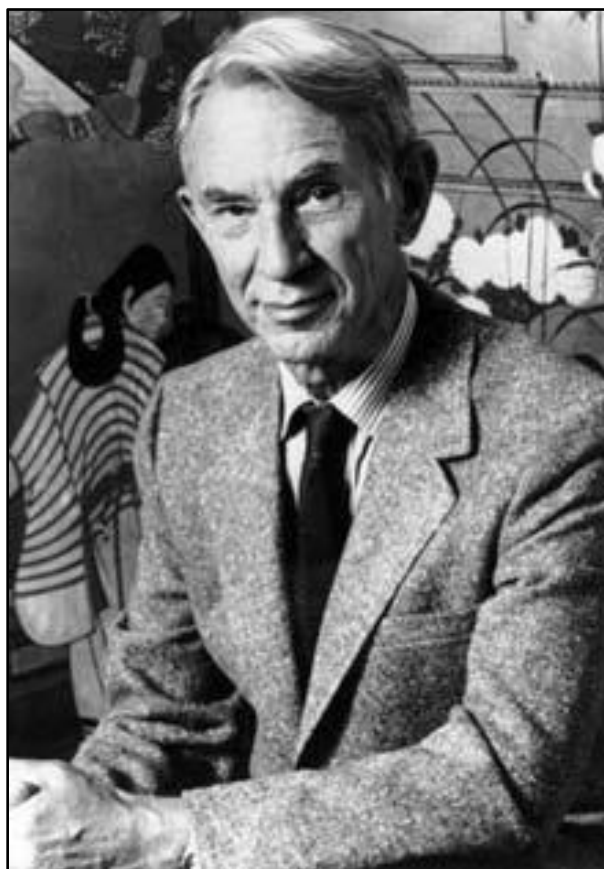
Tel: 202-663-5812

Email: reischauer@jhu.edu

The Edwin O. Reischauer Center for East Asian Studies

Established in 1984, with the explicit support of the Reischauer family, the Edwin O. Reischauer Center for East Asian Studies at the Paul H. Nitze School of Advanced International Studies (SAIS) actively supports the research and study of trans-Pacific and intra-Asian relations to advance mutual understanding between North-east Asia and the United States.

The first Japanese-born and Japanese-speaking US Ambassador to Japan, Edwin O. Reischauer (serv. 1961–66) later served as the Center's Honorary Chair from its founding until 1990. His wife Haru Matsukata Reischauer followed as Honorary Chair from 1991 to 1998. They both exemplified the deep commitment that the Reischauer Center aspires to perpetuate in its scholarly and cultural activities today.



Edwin O. Reischauer

October 15, 1910 – September 1, 1990



Yearbook Class of 2017

From Left to Right: Dr. Asuka Matsumoto (*Visiting Scholar*); Tyler Kellermann;
Carrie Williams; Monica Herman; Xiaochen Cai; Jianan Ye; Jingwei Zhang;
Professor William Brooks; Jeremy Fuller; Liangliang Zhu; Jingyi Guo; Laura Kuang;
Sanittawan Tan; Matthew Gee

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The Year at the Reischauer Center

The 2016–17 academic year was a diverse and distinctive one for the Reischauer Center. For the first time, we capitalized on the globally-renowned strengths of Johns Hopkins University in health care to craft a new curriculum and to convene a conference in that area. We also held conferences on the future of the Korean Peninsula and the Washington idea industry; published a new volume on Singapore’s distinctive public-policy model; and issued several monographs, including our traditional review of U.S.-Japan relations.

This year we began the second increment of a five-stage curriculum development project in partnership with the Japan Foundation Center for Global Partnership (CGP). As noted above, our focal theme for the past academic year was on best-practice policy in the area of health care. Supported by a generous grant through the Japan Foundation CGP, we inaugurated a new course taught by Professor William Brooks in the Fall 2016 semester at Johns Hopkins SAIS, “Japan’s Demographically-Driven Health Care Crisis.” We also organized a major conference, “Healthcare Systems in Transition: Best Practices in the U.S. and Japan,” during May 2017, to compliment Professor Brooks’ course, which had been taught earlier in the academic year.



Healthcare Conference – May 12, 2017

Although U.S-Japan cooperation in health care was our central pedagogical focus, our research went beyond this topic alone. The Reischauer Center’s research concerned itself with four major themes: (1) East Asia, with a special focus on China, Singapore, and Korea; (2) Eurasia’s transformation, with special attention to Afghanistan; (3) Japan’s transformation, with a particular concern for gender issues; and (4) the U.S.-Japan relationship from economic, security, and cultural dimensions. Our research program, coordinated most efficiently by Alexander Evans, was supported and deepened throughout the year with the strong support of our nine Visiting Scholars, four Reischauer Policy Research Fellows, and three excellent interns.

The major fruit of our East Asia regional research was Kent Calder's new book, *Singapore: Smart City, Smart State*, published by the Brookings Institution Press in December 2016. This was based on three years of previous research, culminating in Professor Calder's tenure as the 2016 Rajaratnam Professor of Strategic Studies at Nanyang University Singapore. The Reischauer Center also hosted Professor Stein Ringen of Oxford University, Ambassador Tsedendamba Batbayar from Mongolia, and journalist Atsushi Ijuin, a noted North Korea specialist, on East Asia-related topics.



Ambassador Batbayar – October 20, 2016

Among the most dynamic and fruitful fields for Reischauer Center research this year concerned the emergence and deepening of trans-continental political-economic ties across the Eurasian continent. The Center organized and supported academic panels on Eurasian continentalism at the International Political Science Association (Poznan, Poland – July 2016); the International Studies Association Asia Conference (Hong Kong – June 2017); and the Association for Asian Studies Asia Conference (Seoul, South Korea – July 2017). The Center also published monographs by Visiting Scholar Dr. Jacopo Pepe (German Council on Foreign Relations) and Professor Kent Calder, both dealing in different respects with Sino-European relations. The Center likewise sponsored important lectures by Zalmay Khalilzad (former U.S. Ambassador to Afghanistan, Iraq, and the United Nations), as well as the Afghan Ambassador to the United States, Hamdullah Mohib, on the complex political-economic situation in Afghanistan and Central Asia.



Ambassador Mohib – November 2, 2016

Our third area of special emphasis this year was Japan's own domestic transformation. The "graying" of Japan was one aspect of this initiative in the context of our healthcare course and conference offerings. Another related dimension revolved around the rising role of women in Japanese society. We were favored in this regard with a memorable seminar presentation by Mrs. Nobuko Sasae, chairperson of the Nobuko Forum and a noted conference interpreter, dealing with her own family's transformation over the past three generations.



Mrs. Sasae – November 3, 2016

As in past years – indeed, ever since the founding of the Reischauer Center for East Asian Studies, itself, in 1984 – U.S.-Japan relations have been our core concern, just as it was for our mentor and honorary founding chairman, Ambassador Edwin O. Reischauer. Although we are deeply concerned with broad global developments, our intellectual concerns ultimately come back to the central issue of how to stabilize and deepen the trans-Pacific relationship. This impulse guided our choice of health care as a special area of emphasis, as well as our two conferences on idea industries in comparative perspective, which were held in Washington, DC during February 2016 and in Tokyo during June 2017. Both were generously supported by the Japan Foundation CGP. This concern for U.S.-Japan relations also animated our seminar on the U.S. presidential election (November 2016), as well as our extensive series of Visiting Scholar Seminars (Spring 2017). And it is concern for U.S.-Japan relations, of course, that drives our publication of this yearbook, which has been surveying and highlighting the U.S.-Japan relationship in world affairs continuously for over thirty years.

More than 45 years ago, I began studying Japan and U.S.-Japan relations in the shadow of the Nixon Shocks. As my mentor Edwin. O. Reischauer eloquently put it, Japan and the United States face each other only across an ocean... but it is the broadest ocean of them all. Traversing that ocean intellectually is a challenging task. I hope the reader will agree with me that this yearbook helps, in some small way, to bridge that chasm, whose parameters hold such fateful significance in the world of international affairs.

Kent Calder

Director, Reischauer Center for East Asian Studies
Johns Hopkins School of Advanced International Studies (SAIS)

Reischauer Center Events 2016 – 2017

<i>Date</i>	<i>Speaker</i>	<i>Title</i>
9/7/2016	Zalmay Khalilzad Former Ambassador to Afghanistan, Iraq, and the United Nations	The Envoy: From Kabul to the White House – My Journey through a Turbulent World
9/8/2016	Stein Ringen Professor Emeritus, University of Oxford	The Perfect Dictatorship: China in the 21 st Century
9/15/2016	Kent E. Calder Director, Reischauer Center for East Asian Studies	China and the European Union: Brexit and Beyond
9/29/2016	Tomohito Shinoda Professor, Graduate School of International Relations, International University of Japan	Japan's Regime Shifts and the Changes in Foreign Policy Decision Making
10/5/2016	Naohiro Kitano Director, JICA Research Institute, Japan International Cooperation Agency	Estimating China's Foreign Aid: New Data
10/13/2016	David L. Howell Professor, Japanese History, Harvard University	From 'Nurturing' to 'Protection' in Nineteenth-Century Japan: Was Hokkaido Japan's First Colony?
10/20/2016	Tsedendamba Batbayar Mongolian Ambassador to the Republic of Cuba	East Asia's Emerging Cuban Relationships: The View from Mongolia, China, and Japan
11/2/2016	Handullah Mohib Current Ambassador of Afghanistan to the United States	Afghanistan and the Asian Future
11/3/2016	Nobuko Sasae Conference Interpreter and Chair of the Nobuko Forum	The Role of Women in Japanese Society: Three Generations of Women in My Family
11/9/2016	William L. Brooks Adjunct Profess of Japan Studies, Johns Hopkins SAIS	Yearbook 2016 Launch Luncheon

11/10/2016	Kent E. Calder Director, Reischauer Center for East Asian Studies William L. Brooks Adjunct Profess of Japan Studies, Johns Hopkins SAIS	The 2016 Presidential Election And US-Japan Relations
11/16/2016	Naoki Tabata Senior Advisor, Japan Economic Research Institute, Development Bank of Japan	New Government Debt Management Policy in Exit from QE or QQE through Coordination between Fiscal Authorities and Central Bank
11/17/2016	Atsushi Ijuin Lead Economist, Japan Center for Economic Research	The Future of the Korean Peninsula in Regional Context
12/02/2016	Korea Global Forum 2016	Peace and Unification of the Korean Peninsula: Comprehensive Approaches
12/05/2016	Kent E. Calder Director, Reischauer Center for East Asian Studies	Singapore: Smart City, Smart State
12/12/2016	William L. Brooks Adjunct Professor of Japan Studies, Johns Hopkins SAIS	Japan Studies Graduation Reception – Fall 2016
2/3/2017	Kent E. Calder Director, Reischauer Center for East Asian Studies	Welcome Back Luncheon for Visiting Scholars
2/8/2017	Fumiko Arata Visiting Scholar, Reischauer Center for East Asian Studies	Security Trade Control: The Current Situation and Future Threats
2/9/2017	Midori Nishiura Visiting Professor, Ochanomizu University, and Diversity Designer, Office of Diversity Promotion, RIKEN	Professional Woman in the Japanese Workplace: RIKEN and the Challenges of the Next Century
2/16/2017	Joshua T. White Associate Professor of the Practice of South Asia Studies, Johns Hopkins SAIS	The Emerging Indo-Pacific Relationship: Present and Future

2/23/2017	Conference sponsored by the Japan Foundation Center for Global Partnership (CGP)	Washington's Idea Industry in Comparative Perspective
3/15/2017	Asuka Matsumoto Visiting Scholar, Reischauer Center for East Asian Studies	Public Diplomacy in Japan-US-China Relations: Comparative Analysis of People-to-People Exchanges
3/16/2017	Shelia Smith Senior Fellow for Japan Studies, Council on Foreign Relations	Intimate Rivals: Japanese Domestic Politics and a Rising China
3/29/2017	Yuichi Takagi Visiting Scholar, Reischauer Center for East Asian Studies	Coal Energy Policy in the Future: The Realistic Approach to Climate Change
4/13/2017	David B. Shear Principal Deputy Under Secretary of Defense for Policy	Emerging Prospects for US Security in the Pacific
4/14/2017	Masami Oka Visiting Scholar, Reischauer Center for East Asian Studies	Proposal for Self-Funding Method of the Developing Countries: Learning from Japan's Experience
4/19/2017	Ichiro Hirose Visiting Scholar, Reischauer Center for East Asian Studies	The Era of Political Leadership?: The Centralization of Executive Power in Japan and the US
4/20/2017	Yasuyuki Sawada Chief Economist, Asian Development Bank	Meeting Asia's Infrastructure Needs
4/27/2017	Andrew L. Oros Professor of Political Science, Washington College	Japan's Security Renaissance
5/4/2017	Jacopo M. Pepe Associate Fellow, German Council of Foreign Relations	Continental Drift – The 'German-Central Eastern European Manufacturing Core' and China: Geopolitical Implications for Europe and Germany
5/10/2017	Victoria Kim Contributing Journalist and Writer, The Diplomat	Re-visiting the 1937 Deportation of Ethnic Koreans to Central Asia: 80 Years of Survival and Prospering through the Ordeal
5/12/2017	Conference sponsored by the Japan Foundation Center for Global Partnership (CGP)	Healthcare Systems in Transition: Best Practices in the US and Japan

Introduction

Dr. William L. Brooks

The United States and Japan in Global Context: 2017 is a published yearbook of original research papers written by the students at the Johns Hopkins School of Advanced International Studies (SAIS) as part of a unique course that explores the global aspects of U.S. and Japanese relations.

This course reviews the history of wartime and postwar U.S.-Japan relations in a global setting, and examines the current issues facing this relationship in the context of shifting geo-political balances, economic patterns, and domestic political agendas. The course is also a research seminar, in which each student writes a publishable-quality original paper on a timely topic of U.S.-Japan policy relevance that will be incorporated into the yearbook.

The lecture-discussion part of the course gives special attention to such longer-range themes as the legacy of World War II, the postwar settlement, the roots of the U.S.-Japan security alliance, the period of economic and trade friction, Japan's role in the international community, and recent developments that have strengthened – or challenged – Japan's international ties. Some of the specific issues covered include implications for the U.S.-Japan relationship of the rise of China as an economic, political, and maritime power, Japan's territorial disputes, the role of history in current diplomatic relations, U.S.-Japan cooperation on global and regional issues, the nuclear and missile threat from North Korea, the trend of Asia-Pacific economic integration, efforts to build a new regional architecture, the impact of growing nationalism in East Asia, and Japan's economic imprint in the U.S., Asia and the world.

The second half of the course segues into class discussions of current issues and oral reports by students on their respective research topics. Students also spend a week in Japan doing first-hand research on their projects. The result of the students' efforts is this book, a yearbook on U.S.-Japan relations published by the Reischauer Center, written by the students and edited by the instructor.

This issue of the yearbook takes stock of the bilateral relationship covering 2016 and early 2017, focusing on the current and future direction of the U.S.-Japan Alliance under Prime Minister Shinzo Abe's policy agenda, cooperation on bilateral, regional and global issues between the two countries, proactive diplomacy, and evaluating progress to date of "Abenomics" as a driver of new growth in Japan's economy. Other important themes include the challenges to the bilateral relationship, such as the regional impact of recent maritime moves by China, the trade and economic implications for U.S.-Japan relations of the Donald J. Trump administration, the fate of the Obama administration's

Trans-Pacific Partnership (TPP) agreement, and implications for regional economic architecture without the TPP. Other themes explore the soft-power aspects of Japan's official development assistance program and the impact of demographic changes in Japan on the healthcare and social welfare systems.

End of an Era Is Near

While 2016 was a year of extraordinary changes for Japan, as we shall see below, perhaps the most significant event domestically was then 82-year old Emperor Akihito's video message to the Japanese public on Aug. 8 stating his desire to abdicate the throne, mainly due to his advanced age and increasingly frail condition making it difficult to carry out his duties as symbol of the State. Preparations for his legal abdication and the succession of the Imperial Throne have been in high gear during 2017.

A special law allowing the Emperor to step down was enacted by the Diet in June 2017. Crown Prince Naruhito is expected to accede to the Throne in late 2018, and a new era name to replace the current Heisei period would be selected and changed on Jan. 1, 2019 or a little later.

The Constitution defines the status of the emperor as "the symbol of the State and of the unity of the People." The language also clearly states that the emperor "shall not have powers related to government." In addition, Imperial family members are registered in the Record of Imperial Lineage, which is separate from the family registers of ordinary citizens. That means the institution of the emperor, the head of state, exists outside the framework of the constitution, which spells out the basic human rights of all Japanese people.

The emperor, as a legal result, cannot step down of his own will, unless the Diet revises the law to permit abdication – hence the special law passed in June. Some constitutional experts have even argued that Emperor Akihito's act of communicating his wish to abdicate to the government, albeit unofficially, might have been a violation of the constitution.

Obama Makes Historical Visit to Hiroshima

As a capstone on his crusade to promote "a world without nuclear weapons," for which he won a Nobel Peace Prize, President Obama on May 16, 2016, visited the atomic bombed city of Hiroshima for a memorial event with Prime Minister Abe. This was the first by a sitting U.S. president to the city destroyed on August, 6, 1945, nine days before Japan surrendered. The President spoke to the gathering after a wreath-laying ceremony with Abe. Excerpts follow:

Seventy-one years ago, on a bright cloudless morning, death fell from the sky and the world was changed. A flash of light and a wall of fire destroyed a city and demonstrated that mankind possessed the means to destroy itself.

Why do we come to this place, to Hiroshima? We come to ponder a terrible force unleashed in a not-so-distant past. We come to mourn the dead, including over 100,000 Japanese men, women and children, thousands of Koreans, a dozen Americans held prisoner.

Their souls speak to us. They ask us to look inward, to take stock of who we are and what we might become.

Science allows us to communicate across the seas and fly above the clouds, to cure disease and understand the cosmos, but those same discoveries can be turned into ever more efficient killing machines.

The wars of the modern age teach us this truth. Hiroshima teaches this truth. Technological progress without an equivalent progress in human institutions can doom us. The scientific revolution that led to the splitting of an atom requires a moral revolution as well.

That is why we come to this place. We stand here in the middle of this city and force ourselves to imagine the moment the bomb fell. We force ourselves to feel the dread of children confused by what they see. We listen to a silent cry. We remember all the innocents killed across the arc of that terrible war and the wars that came before and the wars that would follow.

Mere words cannot give voice to such suffering. But we have a shared responsibility to look directly into the eye of history and ask what we must do differently to curb such suffering again.

Someday, the voices of the *hibakusha* will no longer be with us to bear witness. But the memory of the morning of Aug. 6, 1945, must never fade. That memory allows us to fight complacency. It fuels our moral imagination. It allows us to change.

And since that fateful day, we have made choices that give us hope. The United States and Japan have forged not only an alliance but a friendship that has won far more for our people than we could ever claim through war.

Still, every act of aggression between nations, every act of terror and corruption and cruelty and oppression that we see around the world shows our work is never done. We may not be able to eliminate man's capacity to do evil, so nations and the alliances that we form must possess the means to defend ourselves. But among those nations like my own that hold nuclear stockpiles, we must have the courage to escape the logic of fear and pursue a world without them.

We may not realize this goal in my lifetime, but persistent effort can roll back the possibility of catastrophe. We can chart a course that leads to the destruction of these stockpiles. We can stop the spread to new nations and secure deadly materials from fanatics.

The world was forever changed here, but today the children of this city will go through their day in peace. What a precious thing that is. It is worth protecting, and then extending to every child. That is a future we can choose, a future in which Hiroshima and Nagasaki are known not as the dawn of atomic warfare but as the start of our own moral awakening.



President Obama Embraces Atomic Bomb Victim Shigeaki Mori at Hiroshima Ceremony (Source: Reuters, May 27, 2016)

Japan's media saw the historic visit as a "demonstration of reconciliation" between "the only country to have used an atomic bomb and the only country to have suffered an atomic bombing" (Mainichi, May 16, 2016). The Japanese press also depicted the event as part of the Obama legacy to promote his desire, as originally spelled out during his Nobel Peace Prize speech, to promote "a world without nuclear weapons."

There was no apology; nor was one expected. The U.S. government position has always been that the atomic bombings were justified at the time due to wartime conditions. Japanese public opinion was deeply satisfied by the U.S. President's symbolic visit. A Fuji-Sankei poll found 97.5% of the public "approved" the Hiroshima visit, while 68.2% said that President Obama did not need to "apologize" for the atomic bombings.

Abe's Reconciliation Visit to Pearl Harbor

Prime Minister Shinzo Abe's visit to Pearl Harbor represented another reconciliatory step in his goal to put the postwar era behind Japan so that, in Abe's view, future generations need not apologize for the acts committed during Japan's militarist past.

Shortly after announcing the trip on Dec. 5, Abe reportedly told close associates, "If I go to Pearl Harbor, the 'postwar era' will come to a complete end for Japan and the United States." That process of reconciliation led by the Prime Minister had begun in April 2015, when Abe in a touching speech to a joint session of the U.S. Congress during his official visit to Washington.

Abe has attempted to free Japan from the restrictions of the postwar era ever since he began his second stint as prime minister in December 2012. In a statement issued in August 2015 to mark the 70th anniversary of the end of World War II, Abe touched upon the need to squarely face history, but added, “We must not let our children, grandchildren, and even further generations to come, who have nothing to do with that war, be predestined to apologize.”

Closure occurred when Abe on Dec. 27 visited the USS Arizona Memorial along with President Barack Obama to remember victims of the war, including the U.S. soldiers killed in the surprise attack on Pearl Harbor on Dec. 7, 1941, that started the Pacific War with the United States. By standing at the location that started the war, the Prime Minister likely felt that Japan could now move beyond the past war burden placed on it and that the symbolic event would propel the two allies into a new era marked by an even stronger relationship. Such thinking was undoubtedly fueled by Obama’s own visit to Hiroshima in May.

The Japanese people were overwhelmingly behind Abe’s Pearl Harbor visit. In a Dec. 30 poll by the daily Yomiuri, 85% of the Japanese public supported the Prime Minister’s visit to console the souls of the victims of the attack by the Imperial Japanese Navy. Only 10% opposed the visit. At the same time, the approval rate for the Abe Cabinet rose from 59% a month before to 63%. In addition, 83% approved Abe’s speech, in which he “vow[ed] never again to wage war,” and stressed “the power of reconciliation.” Polls by other dailies had similar results.

At one time, however, Abe was reluctant to simply quote phrases from the statement issued in 1995 by then Prime Minister Tomiichi Murayama, who offered a “heartfelt apology” for “(Japan’s) colonial rule and aggression.” Abe argued there would be little meaning to simply using the same language.

But, in the end, the Abe statement included phrases such as “Japan has repeatedly expressed the feelings of deep remorse and heartfelt apology for its actions during the war.” He added, “Such positions articulated by the previous cabinets will remain unshakable into the future.”

His desire for future-oriented relations with allies was also manifested in the agreement reached with South Korea a year ago to provide support measures to former “comfort women” who were forced to provide sex to imperial Japanese military personnel before and during World War II.

After that agreement was reached, Abe told reporters that Japan and South Korea had entered a new era in their relationship.

Abe, during his second time as prime minister, only once broke the self-imposed taboo of his first tenure in office (2006-2007) when in Dec. 2013, he suddenly visited the controversial Yasukuni Shrine where Class-A war criminals are enshrined. Encountering

strong international criticism, including the U.S., which expressed “disappointment,” for paying homage at the shrine, the Prime Minister has stayed away since, though he sends ritual offerings to the shrine on special occasions. Members of his Cabinet, though, had continued to visit the shrine on festival days and austere occasions. But this year, on Aug. 15, the day marking the end of the war, none of the members of Abe’s newly installed cabinet paid their respects at Yasukuni, marking the first time for any member of cabinets of Liberal Democratic Party (LDP)-led governments not to have visited the shrine on the war anniversary since 1980.



Prime Minister Abe Meets with Pearl Harbor Survivors, 12/27/2017 (Source: AP)

The following are excerpts from Prime Minister’s speech at Pearl Harbor:

President Obama, Commander Harris, ladies and gentlemen, and all American citizens: I stand here at Pearl Harbor as the Prime Minister of Japan.

If we listen closely, we can make out the sound of restless waves breaking and then retreating again. The calm inlet of brilliant blue is radiant with the gentle sparkle of the warm sun. Behind me, a striking white form atop the azure, is the USS Arizona Memorial.

Together, with President Obama, I paid a visit to that memorial, the resting place for many souls. It’s a place which brought utter silence to me. Inscribed there are the names of the servicemen who lost their lives. Sailors and Marines hailing from California and New York, Michigan and Texas, and various other places, serving to uphold their noble duty of protecting the homeland they loved, lost their lives amidst searing flames that day, when aerial bombing tore the USS Arizona in two.

Even 75 years later, the USS Arizona, now at rest atop the seabed, is the final resting place for a tremendous number of sailors and Marines. Listening again as I focus my senses, alongside the song of the breeze and the rumble of the rolling waves, I can almost discern the voices of those crewmen. Voices of lively conversation, upbeat and at ease, on that day, on a Sunday morning. Voices of young servicemen talking to each other

about their future and dreams; voices calling out names of loved ones in their very final moments; voices praying for the happiness of children still unborn. And every one of those servicemen had a mother and a father anxious about his safety. Many had wives and girlfriends they loved, and many must have had children they would have loved watch grow up. All of that was brought to an end. When I contemplate that solemn reality I am rendered entirely speechless.

"Rest in peace, precious souls of the fallen": With that overwhelming sentiment, I cast flowers, on behalf of Japanese people, upon the waters where those sailors and Marines sleep.

President Obama, the people of the United States of America, and the people around the world, as the Prime Minister of Japan, I offer my sincere and everlasting condolences to the souls of those who lost their lives here, as well as to the spirits of all the brave men and women whose lives were taken by a war that commenced in this very place, and also to the souls of the countless innocent people who became the victims of the war.

We must never repeat the horrors of war again. This is the solemn vow we, the people of Japan, have taken. Since the war, we have created a free and democratic country that values the rule of law, and has resolutely upheld our vow never again to wage war. We, the people of Japan, will continue to uphold this unwavering principle while harboring quiet pride in the path we have walked as a peace-loving nation over these 70 years since the war ended.

To the souls of the servicemen who lie in eternal rest aboard the USS Arizona, to the American people, and to all peoples around the world, I pledge that unwavering vow here as the Prime Minister of Japan.

It has now been 75 years since that Pearl Harbor. Japan and the United States, which fought a fierce war that will go down in the annals of human history, have become allies, with deep and strong ties rarely found anywhere in history. We are allies that will tackle together to an even greater degree than ever before the many challenges covering the globe. Ours is an alliance of hope that will lead us to the future.

What has bound us together is the hope of reconciliation made possible through the spirit, the tolerance. What I want to appeal to the people of the world here at Pearl Harbor, together with President Obama, is this power of reconciliation. Even today, the horrors of war have not been eradicated from the surface of the world. There is no end to the spiral where hatred creates hatred. The world needs the spirit of tolerance and the power of reconciliation now, and especially now.

Japan and the United States, which have eradicated hatred and cultivated friendship and trust on the basis of common values, are now – and especially now – taking responsibility for appealing to the world about the importance of tolerance and the power of reconciliation. That is precisely why the Japan-U.S. alliance is an alliance of hope.

Abe: Nationalist vs. Realist

Xiaochen Cai has written a well-balanced, thoughtful paper on Prime Minister Abe's journey toward the goal of reaching reconciliation with Asia's neighbors, as well as the U.S., over Japan's militarist acts, while dealing with his own revisionist views of Japanese history. Since Shinzo Abe was first elected as the prime minister of Japan in 2006, he has been given at best mixed reviews regarding his efforts to balance two contrasting goals: reconciliation with Japan's wartime victims and putting into practice his nationalistic views of Japan's historical past (historical revisionism). He has accomplished that through what some scholars have dubbed "historical realism." In other words, Abe's has sought during his second time in office to take a pragmatic or realistic view of history that recognizes the broad spectrum of militarist acts that Japan committed prior and during the war, while quibbling (these days mostly quietly) on the details of some of the atrocities (such as the Nanjing Massacre).

On the one hand, Abe in 2006 wanted to repair the severely damaged ties with China and South Korea that his predecessor Prime Minister Junichiro Koizumi had caused by repeatedly visiting Yasukuni Shrine, where war criminals are enshrined. On the other hand, he has made overt gestures to maintain the support of his conservative base, for example, through educational reform that promotes patriotism and support for revisionist history textbooks. Cai's paper objectively scrutinizes Abe's balancing effort between reconciliation and revisionism in order to show the duality of Abe's policy approach and then analyze the reasons.

In examining Abe's reconciliation efforts, Cai's paper focuses on five specific actions, including the Prime Minister's April 2015 speech before the U.S. Congress, August 15 statement to commemorate the 70th anniversary of the end of the Pacific War, December negotiation of an agreement with South Korea to bring to closure the comfort women issue (sex slavery), Abe's Pearl Harbor visit, and his reconciliation efforts with China. The paper next analyzes Abe's revisionism, focusing on four issues. Cai concludes that although Abe remains a hard-core historical revisionist, he is also a realist and a patriot able to prioritize national interests over private views. In the end, his balancing efforts have paid off with the United States, but remains in limbo with South Korea and China.

Despite the December 2015 agreement between Japan and South Korea to resolve the comfort-women issue, the pact has never been accepted as adequate by the Korean public. Abe's efforts to rebuild summit ties with the new Moon government in Seoul have yet to achieve much progress, although the common threat of North Korea have brought the two countries strategically closer together to face the enemy. Ironically, though, South Korean tourists continue to come in large numbers to Japan, second only to Chinese tourists.

In addition to the comfort women issue, with a proliferation of protest statues installed even on public buses in Seoul, a recent movie set during the colonial period about Korean forced laborers in a Japanese coal mine became a smash hit, and statues dedicated to forced laborers are planned to be erected in Seoul apparently alongside those of the symbolic comfort-women statues.

Moreover, unpaid wages for forced laborers continues to be an issue, with the South Korean side saying that former laborers or their families can sue Japanese companies in the courts, and the Japanese side saying that the 1965 normalization agreement settled all such claims.

With China, reconciliation has been overtaken by the territorial dispute over the Senkakus and by that country's maritime assertiveness in the East and South China seas.

The year 2017 is the 80th anniversary of the outbreak of the second Sino-Japanese War (1937-1945), but it is also the 45th anniversary of the normalization of ties between Japan and People's Republic of China in 1972. Political relations between the two countries in recent years have been tense, set off in 2010 and then again in 2012 by the dispute over the Senkaku Islands, which both countries claim. Chinese coast guard vessels regularly intrude into Japanese waters near the isles, and Japanese Self-Defense Force jets frequently scramble against air intrusions by Chinese military aircraft.

Relations at the summit level between Japan and China have begun to thaw, however, starting in late 2014, and economic ties have remained vibrant throughout the politically icy years. Still, for Prime Minister Abe and his government, China remains a potential strategic threat, and Abe has put in place a diplomatic encirclement policy by building close ties and even "strategic partnerships" with countries surrounding China.

For example, under the rubric of a "values-based" diplomacy aimed to diminish China's economic influence in the region, Abe has courted Myanmar, which is seen as sharing the same values as Japan – freedom, democracy, human rights, rule of law, etc. He has pledged to that country 800 billion yen in financing over five years for much needed infrastructure.

U.S.-Japan Relations: Transition from Obama to Trump

Prime Minister Shinzo Abe entered his fifth year in office in January 2017 under challenging circumstances affecting his country as well as his own political future. Some of these issues are addressed in this yearbook. First and foremost was the "Trump shock," or the election of Donald Trump as U.S. President, which no one in the Abe administration had predicted. Trump in his election campaign was sharply critical of Japan, accusing it of being a currency manipulator, flooding the U.S. with autos and causing a massive trade imbalance. He called Japan a freeloader on defense by allegedly not paying its fair share of alliance responsibilities. Since then, Abe has responded

proactively, building personal ties with the U.S. President, and countering the allegations one by one in a well-orchestrated public information campaign.

Abe Trumps Trump in Surprise New York Meeting on Nov. 17

Realizing that the campaign rhetoric sharply critical of Japan would not bode well for the immediate future of U.S.-Japan relations, Prime Minister Abe decided to launch a preemptive strike by arranging through an intermediary an early meeting in New York with President-elect Donald Trump on Nov. 17. The meeting was successful and has set the tone for a smooth and friendly personal relationship between the two leaders and as a result U.S.-Japan relations under the Trump administration has arguably been as strong and cooperative as it was during the Obama administration, particularly in the security affairs area. Interestingly, the Japanese government has never released any information whatsoever on the discussion that took place between the two leaders, which apparently ended up an effective one-on-one exchange. They talked for 85 minutes, long beyond the agreed 45 minutes, and ended their conversation by an exchange of gifts, Abe presenting Trump with an expensive gold-plated golf club.

Trump personally went down to the first floor of the Trump Tower to see Abe off. On their way to the first floor, Trump reportedly told Abe, “In deference to outgoing President Obama, let’s not divulge the details of today’s discussion at all.” Abe was deeply touched by this gesture. He agreed.

Abe later told reporters, “I am confident that we can build a relationship of trust.” This was Abe’s candid opinion of Trump after witnessing his consideration for Obama, which was the complete opposite of the image of rudeness he projected during the election campaign. After the meeting, Abe told his aides: “He is a friendly person who keeps smiling and joking and that’s wonderful. But what surprised me most is that he is a good listener. He is probably a person with whom I can have a long-term relationship.” Trump apparently was impressed with Abe as a strong leader with whom he felt he could deal directly and frankly with in the future. Indeed, the two have often contacted each other by telephone, particularly to coordinate views on the North Korean threat.

It was not surprising that soon after his inauguration President Trump invited Abe down to Mar-A-Lago in Florida for a working visit in Feb. that included a lot of golf. The two hit it off well, and bilateral relations have continued to be smooth, as if on an extension line of the Obama administration. Trade issues have so far been buried into the economic dialogue that was launched in April, and thanks to the belligerence of North Korea, which now poses a nuclear missile threat to the U.S. as well as to Japan, security ties have never been stronger.



*Prime Minister Abe, President Trump Playing Golf at Mar-A-Lago, Florida
(Source: Reuters)*

Much of Japan's reaction to candidate Trump's allegations has been to set the record straight by a counter-attack of facts and preemptive strikes. For example, to the accusation that Japan is manipulating its foreign currency, the Japanese side has pointed out that the last time the Bank of Japan intervened in the foreign exchange market to sell yen and buy dollars was in Oct. 2011 when the yen had reached a record high of 75.30, and in March and August, all G7 nations jointly intervened. The reason for the interventions was directly linked to Japan's massive earthquake and tsunami in order to prop up the economy during the crisis.

Another example involved the accusation of Japan engaging in unfair trading practices and the threat to impose a "big border tax" on Toyota if it proceeds to build a new auto plant in Mexico to produce Corollas for the U.S. market. Abe, prior to his Feb. 10 meeting with Trump in Florida, met with the head of Toyota, and subsequently, the company announced that it was planning to make \$10 billion in capital investments in the U.S. over the next five years.

On auto trade, Tokyo insists that the auto market is open to foreign companies, citing the success stories of European auto makers, and accuses U.S. makers of marketing failures. On the charge that Japanese auto exports are flooding into the U.S. market, Tokyo points out that most of the Japanese brand vehicles sold in the U.S. are now made in U.S. factories with a high local content.

Abe's Longevity Threatened?

As of May 27, 2017, Shinzo Abe became the third longest serving prime minister, including his first time in office during 2006-2007. The ruling Liberal Democratic Party (LDP) has extended to limit on its presidents, who become the prime minister, so if Abe in the fall of 2018 runs for a third term, which would end in 2021, he could become the longest serving premier in Japanese history. This extension would allow him to finish his policy agenda that includes structural reform of the chronically sluggish Japanese

economy under Abenomics, as well as constitutional revision, focusing on adding a clause to the war-renouncing Article 9.

Whether the public will go along with his constitutional reform agenda is questionable. A Kyodo news service nationwide poll released on May 1, 2017, found the public divided over revising Article 9 of the Constitution, with 49% in favor and 47% opposed. This is despite the threat posed to Japan of an increasingly hostile and dangerous North Korea.

Moreover, the public is apparently in no hurry to see the Constitution amended quickly. The poll showed 51% against any amendments while Abe was in office; while 45% of the public would go along with such a timetable. In addition, most Japanese have a strong feeling about the value of Article 9 for Japan, with 75% acknowledging that it played a major role in Japan's postwar pacifism, enabling the country to avoid the use of armed force since 1945.

Abe's longevity has been based on a sustained popularity linked to his performance as prime minister, especially his diplomacy and adept managing of the U.S.-Japan relationship, as well as to his dedication to comprehensively tackling Japan's economic problems through his signature policy, Abenomics, that ranged from monetary and fiscal measures to structural reforms, and extended to free trade agreements (including TPP) and domestic measures to deal with demographically-driven healthcare and social welfare issues, including the aging society and the gender gap in the labor market. The public's faith in these policies outweighed its skepticism or wariness about some of his controversial policies, like amending the Constitution and beefing up Japan's Self-Defense Forces under new security legislation. In addition, his party, the LDP, continued to have relatively high support in the polls (40% range), while the main opposition party, the Democratic Party (Minshintō or DP) could only garner single-digit support in the polls, after it fell from power in the 2012 general election.

But since early 2017, Prime Minister Abe's seemingly solid base of popular support has quickly eroded, and by mid-year, his support ratings in the polls plummeted from around 60% late last year to the 20-30% range. It has since recovered somewhat after an early August cabinet reshuffle. Most of that initial slide was the result of his alleged involvement in two personal influence scandals, both denied vehemently by Abe. He also suffered a loss of confidence due to his party's ignominious defeat in the Tokyo Assembly elections this summer. In addition, his defense minister was allegedly involved in a ministry cover-up of Japanese PKO troop records from a mission in a dangerous part of South Sudan. The minister resigned to take responsibility for the overall incident.

Abe's original plan until recently was to seek a third term as party president and thus prime minister by revising the party bylaws, and then to use the extra three years to accomplish his strategy to amend Japan's Constitution. Since his term as LDP president will end in July 2018, Abe felt that there would not be enough time to complete all the

processes needed for constitutional revision. For example, there needs to be debate held at the Commission on the Constitution of the Lower and Upper House, consolidate the views of the various parties, and have the Diet to initiate a proposal and then carry out a national referendum. Such a process could not be completed by July 2018. But with three more years as LDP president, Abe's goal could be achieved, he believes.

Solidifying the Alliance

There is no doubt that the upgrading of the U.S.-Japan Alliance under the Abe administration during the Obama presidency not only strengthened bilateral security ties in the face of rising tensions in the region, but it also set the stage for the incoming Trump administration to immediately realize that Japan, despite campaign rhetoric to the contrary, was a valuable and loyal ally with an effective defense capability. With North Korea breathing down Trump's neck, Abe's reassurances to Trump in their conversations, and the actual joint capabilities of the U.S. and Japanese forces, served to underscore the effectiveness of the security arrangements in the eyes of Trump and White House officials. A close working relationship was quickly built between the U.S. NSC adviser and Japan's NSC head. Against this background, **Sanittawan Tan's** and **Monica Herman's** complimentary papers on U.S.-Japan securities ties explain why the U.S.-Japan alliance relationship under Trump has continued to be the cornerstone of American policy in the Asia-Pacific.

In her detailed analysis of the U.S.-Japan Defense Cooperation Guidelines, updated in 2015, Tan rightly argues that the new policy framework accurately reflects the changing security environment around Japan and will be a critical component of an well-coordinated alliance response to emergencies in the region.

The paper on Japan's security policy in the region by Monica Herman smoothly complements Tan's essay on the defense guidelines. It specifically explores three challenges to Asia-Pacific regional security: China's maritime assertiveness in the East China and South China seas, and North Korea's reckless pursuit of a nuclear-armed ballistic missile capability that threatens not only Japan but also the United States. These challenges have become a kind of litmus test, as well, for the upgraded U.S.-Japan security arrangements. The paper first explores U.S. - Japan cooperation since the revision of the bilateral security treaty in 1960, and then assesses how U.S.-Japan relations have changed to meet the times and changing security environment, focusing especially on the China and North Korea problems as they developed over the past several years. The exigencies of the changing security environment is driving Japan closer to being a "normal country", coincident with the long-standing policy goal of Prime Minister Abe.

The existential threat of North Korea's missiles and nuclear weapons, and the possibility of nuclear-armed ICBMs now capable of reaching U.S. territory, not only has

served to solidify the U.S.-Japan security relationship in a way that was not anticipated when Trump came into office, it also has enabled Prime Minister Abe to ratchet up defense spending to meet the challenge. The Defense Ministry has presented a beefed-up draft budget for fiscal 2018, a record 5.2 trillion yen (\$48.1 billion), that includes, for example, extra spending for enhancing Japan's missile-defense capabilities.

What the Trump administration so far has said and done on security issues in the Asia-Pacific region have been a de-facto extension of the policies of the Obama administration – though the “Rebalancing” theme has been discarded – and a reaffirmation of the U.S.-Japan Alliance and the regional security commitment. As a result, the region can expect the U.S. to continue to press China to respect freedom of navigation in the East and South China seas and to refrain from unilaterally carrying out actions regarding territorial or water disputes. On the North Korean threat, the U.S. commitment to Japan's security has been rock solid.

The commitment was reinforced as this essay was being written by another reckless act by North Korean leader Kim Jong-un. On August 29, North Korea fired a ballistic missile over northern Japan. It broke apart into three pieces that fell into the Pacific Ocean. This launch, coming after two ICBM launches in July capable of reaching mainland U.S., has demonstrated that Pyongyang, despite severe sanctions imposed by the UN Security Council, remains defiant and unwilling to engage in dialogue or otherwise ease tensions. So far this year, North Korea has launched 18 missiles, while his father Kim Jong-il only fired 16 missiles during his 17 years in power!

Prime Minister Abe spoke by phone with President Trump for about 40 minutes that morning, with Abe reportedly telling Trump that the missile posed a higher level of threat and was an unprecedented provocation. Abe wanted to further step up the pressure on North Korea because Pyongyang obviously was unwilling to respond to dialogue, and he said that Japan supports the United States' position of putting all options on the table. President Trump responded that America stands one hundred percent with its ally Japan. The two agreed to ask the UN Security Council to swiftly convene an emergency meeting

Abe the Globetrotter

Since coming into office in December 2012, Abe has become one of the most widely traveled prime ministers in postwar Japanese history, the most recent at this writing being his trip to Europe for the G20 summit in July 2017. His whirlwind diplomacy in 2016 included travel to Russia, China, Laos, the U.S., and even Cuba. He started the year with a January visit to the Philippines, where he pledged a public-private package of 1 trillion yen (\$8.7 billion) for infrastructure development. He then went to Australia, Indonesia, and Vietnam.

Abe has woven into his foreign policy a realistic strategy that satisfies both Japan's national interests and those of the international community. Abe's signature foreign policy of "proactive pacifism", based in part on his cabinet's approval in February 2015 of a new development cooperation charter (earlier editions were known as ODA Charters), amplifies the strategic use of official development assistance (ODA) that is spelled out in Abe's new National Security Strategy, a policy approved in 2013. The new charter allows under special conditions assistance to foreign armed forces. The Philippines and Vietnam are two recipients of such aid for capacity building. The aid, which might be patrol boats or aircraft, has to be for non-military use such as disaster relief or coastal patrols. It also must have relevance to Japan's national interests.

Japan's Soft Power Based on Smart Use of ODA

Prime Minister Abe's reliance on the strategic use of ODA to back up his "values" diplomacy has been reflected in his reversal of the trend of reduced ODA budgets. The government's annual ODA budget had been declining since the 1997 peak of 1.17 trillion yen. By 2015, ODA spending was down by half to around 542 billion yen. In August, 2017, the Foreign Ministry presented to the ruling LDP a plan to seek 767.5 billion yen for its budget for fiscal 2018. The figure is 10.8%, or 74.9 billion yen more, than the fiscal 2017 budget. The increased budget request includes 489.7 billion yen in ODA funds, up 55.4 billion yen, or 12.7%, from this fiscal year. According to press reports, the Ministry in drafting the budget request had China's maritime advancement in mind. The additional ODA funds would be used to increase Japan's assistance to Southeast Asian nations for their efforts to enhance their maritime security capabilities.

In her insightful paper on Japan's soft power, **Carrie Williams** correctly assesses ODA as its most effectively used diplomatic tool. Since joining the Colombo Plan in 1954, Japanese ODA has expanded and developed over the years, becoming Japan's most important foreign policy element. Based on the reciprocal relationships built on Japanese ODA, Japan has built a wide array of friendships and good will among the developing nations in the world, insuring a semblance of world peace for them. In conjunction with Abe's promise to increase the capabilities of the Self-Defense Force (SDF) and the continuation and strengthening of the U.S.-Japan Alliance under the Abe administration (hard power), Japan is ready to deal with an increasingly assertive China and the existential nuclear threat from North Korea. But Japan's most important foreign policy tool remains its ODA (soft power) for it continues to provide for the broader national interests of Japan in a global and regional context, more effectively than any other foreign policy tool in their arsenal.

Ties with Taiwan Tighten under Abe

Jianan Ye has written a valuable paper analyzing Japan-Taiwan relations, a subject that is rarely approached in recent academic writings. The timing is just right, because under Prime Minister Abe, Japanese relations with Taiwan have been incrementally upgraded to more accurately reflect the burgeoning trade and cultural ties between the two economies.

Japan and Taiwan cut diplomatic ties in 1972 after the United Nations expelled the government of Chiang Kai-shek and recognized the People's Republic of China as the "legitimate representative of China at the United Nations." To maintain unofficial ties, Tokyo established Interchange Association as its de facto diplomatic mission in Taiwan, and Taiwan set up a similar office in Tokyo handle bilateral affairs with Japan.

Trade relations have blossomed since, with Japan now being Taiwan's third largest trading partner, and Taiwan being Japan's fourth largest trading partner. Tourism is booming, as well, with a record 6.1 million visitors from Taiwan coming to Japan in 2016. Tokyo and Taipei in 2017 changed the names of the associations handling bilateral matters to reflect the growing ties.

Trump Dumps TPP, Upsets Japan's Strategy

Japan's decision under the Abe administration to participate in Trans-Pacific Partnership negotiations was linked from the start to national interests and was backed by multiple strategic goals. First, it was seen as an important but unarticulated component of Abenomics, the Prime Minister's signature policy to reboot the sluggish economy through monetary and fiscal policy measures and structural reform. The reform "arrow" of Abenomics was aimed in particular at the agricultural sector that had dwindled over the decades to produce a mere 1.5% of so of GDP.

Second, the Abe administration wanted Japan to be able to participate in a new set of trade rules for the Asia-Pacific region that would set the high standard for the global economy, something that the Doha Round of the WTO had been unable to achieve a decade earlier. And third, Japan wanted the U.S.-led TPP – the 12 participants representing 40% of world GDP – to reduce China's growing economic influence in regional and global markets. Moreover, TPP to Prime Minister Abe meant of revival of Japan's international leadership and global political and economic reach.

In its anti-free trade stance, the Trump administration seems to view trade as a zero-sum game. But the U.S.'s trade deficits with its major economic partners do not mean that those countries are stealing American jobs big time, as a result. First, the health of the American economy depends now in large part on exports of goods. Boeing, for example, makes over 60% of its aircraft sales overseas. The same can be said by other famous American companies like Apple and McDonalds.

Moreover, the inflation adjusted value of U.S. manufacturing over the past 20 years increased 40%, even though U.S. factory equipment decreased by 5.1 million jobs (29%). The manufacturing sector's share of GDP has been almost unchanged since the 1960s. Manufacturing output in 2016 reached a record high of \$1.91 trillion, with the same number of factory workers (12.5 million) as in the early 1960s. Productivity is the reason that allowed the quadrupling of output with about the same number of workers. Further, 88% of manufacturing job losses are due to productivity increases, including automation.

This issue of the Johns Hopkins SAIS yearbook features several papers that discuss the ramifications of President Trump's decision to withdraw from the TPP, undoing years of negotiations between the United States and Japan and leaving Abe's above outlined policies and strategies high and dry. **Jeremy Fuller** examines the direct impact of U.S.-Japan relations without TPP. The Trump administration, deeply skeptical of existing U.S. trade agreements, has announced its intention to renegotiate NAFTA with Canada and Mexico, review the KORUSFTA with South Korea and push for a bilateral Free Trade Agreement (FTA) with Japan. Although an "economic dialogue" chaired by Vice President Mike Pence and Deputy Foreign Minister Taro Aso was launched in April, the contents remains amorphous.

Getting Japan back to the table to renegotiate another trade agreement will be a challenge, for Japan has already stated its distaste for such an ordeal. Moreover, the Abe government does not have the political capital to go beyond the TPP agreement on agricultural issues. Abe and the ruling LDP fought a protracted battle to pass the TPP, particularly against entrenched agricultural interests, and few Japanese policymakers see a reason to repeat such a struggle for a bilateral FTA. Japan's goals remain regional: the Abe Administration wants to use multilateral institutions and to create a framework of free and open trade in the Asia-Pacific that conforms to high standards of labor protections, IP laws, and environmental rights.

Meanwhile, the United States under the Trump Administration is breaking with decades of bipartisan support for free trade, instead concentrating on reducing the U.S. trade deficit through the renegotiation of trade agreements and harsher enforcement of trade infractions. A U.S.-Japan FTA is seen as a tool to reduce the imbalance bilateral trade between the U.S. and Japan, though most trade economists deny the relevancy of bilateral trade balances in a globalized economy and would likely disagree that such an approach would make any difference in the structural imbalance in U.S.-Japan trade flows that have existed for decades. The Trump administration has pointed to the auto trade deficit as one area in which U.S. exporters are currently being hampered by unfair trade barriers. But that argument going back to the 1980s no longer convinces most economists, and the strategy of using an FTA to alter the trade balance does not make sense from an economic standpoint. Moreover, Japan's direct investments in the U.S.

auto sector have meant that most Japanese brand vehicles are made in U.S. factories than in Japan. Neither country's goals are compatible with a bilateral FTA, so the Trump Administration's efforts are unlikely to bear fruit.

Fuller's paper provides an overview of the state of trade between the U.S. and Japan today, before launching an in-depth look at automobile and agricultural trade, assessing the gains made under the TPP agreement, the goals of U.S. actors in a bilateral FTA, and political sentiment in Japan. It also reviews the results of the first meeting of the newly established U.S.-Japan economic dialogue. The paper continues with an examination of the broader goals of the Trump Administration and why they are ill-suited for the framework of a bilateral FTA. It concludes with an appraisal of the receptiveness in Japan to an FTA and an assessment of how the two countries will move forward.

Whereas Fuller's essay examines the broader dimension of the TPP fallout, **Jingyi Guo** takes a close look at one of the issues that the Trump administration has singled out as a main reason for the trade imbalance between the U.S. and Japan: auto trade.

The U.S. and Japan have long been at loggerheads over trade in automobiles, with Washington claiming that the Japanese auto market tended to be closed to American cars due to non-tariff barriers and accusing the Japanese auto industry of flooding the U.S. market with imported cars to the detriment of Detroit's Big Three auto makers. The issue just never went away, but the TPP talks provided an opportunity to resolve non-tariff measures and disputes on auto parts. U.S. tariffs on Japanese auto and truck imports also would be phased out. However, the U.S. withdrawal from the TPP brought everything back to an undesirable square one. Guo's paper examines the history of the auto trade dispute, its origins, policy responses, and results. It also seeks to answer the question about what will happen with TPP reduced to 11 partners now that the U.S. is out of the pact. Guo also probes into what kind of resolution, if any, might be possible through the new bilateral dialogue between Washington and Tokyo.

What will the Asia-Pacific region look like without the TPP agreement? In her paper, **Liangliang Zhu** looks into alternate scenarios, focusing especially on the possibility of another mega-FTA replacing the TPP. Although the Japanese government has decided to press ahead with a TPP-11, or a TPP minus the U.S., such a regional pact without the US may be economically meaningless. Her research found that experts in Japan agree that the withdrawal of the U.S. from the TPP would likely galvanize momentum for the successful conclusion of the Regional Comprehensive Economic Partnership (RCEP), an ASEAN-led mega-regional trade agreement that also includes Japan, China, South Korea, and India. The RCEP could become the default regional architecture and thus the most significant economic force in the Asia Pacific after its conclusion. Some scholars argue that the RCEP might even surpass the TPP by leading to the goal of establishing the Free Trade Area of the Asia-Pacific (FTAAP). Zhu's paper thus gives extra analysis to assessing the merits and demerits of the RCEP, arguing for

example that it could be more beneficial to Japan than at first expected, particularly if Japan can contribute to adding new trade rules through the RCEP process. If RCEP becomes the regional architecture of the Asia Pacific, the United States will end up the net loser, she concludes.

In her paper, **Laura Kuang** has taken an in-depth look at the anticipated effect of TPP on agricultural trade and the current post-TPP situation. As a key U.S. trading partner, Japan ranked 4th for total goods trade in 2016, and is the 4th largest export destination of U.S. agricultural products. U.S. agricultural exports to Japan totaled \$11.1 billion in 2016.

Japan has concluded various free trade agreements (FTAs) with a number of countries but never negotiated one with the U.S. – until the TPP, which in effect was an FTA with the U.S. when a bilateral deal was reached. The agricultural sector has been the most protected sector in Japan with significant trade barriers on some sensitive products. In 2015, twelve countries, including the U.S. and Japan, announced the conclusion of their Trans-Pacific Partnership (TPP) negotiations, and TPP member countries are supposed to eliminate or reduce tariffs and other restrictive policies on agricultural products, which will increase agricultural trade in the region, and enhance food security. U.S. farmers were deeply disappointed when the U.S. pulled out of the TPP, ending their chance to make further inroads into the Japanese market.

Although the U.S. pulled out from the TPP in January, Japan decided to continue domestic agriculture reform and implementation of the TPP-11 after critical efforts in restructuring the agricultural sector. Although the Trump Administration has expressed its interest in pursuing a bilateral trade agreement, Japan is not willing to go beyond the limits of the concessions on agriculture it agreed to under the TPP framework. Talks under the U.S.-Japan economic dialogue that seek more than that earlier deal are likely to bog down.

Matthew Gee's paper explores Japan's agricultural sector to see if can survive in a post-TPP world. Recall that a successfully launched TPP was to be driving force for structural reforms in Japan's agricultural sector to make it stronger domestically and internationally. Gee concludes that it will not be easy at all.

Still, Abenomics seems to be directly or indirectly breathing some life into a severely declining industry. Business-minded Japanese farmers are eager to find new markets abroad for some of their high quality products, including beef. In 2016, beef was Japan's number one export in the agricultural and livestock category, reaching \$121 million (Nikkei Asian Review, July 19, 2017). Other delicious products, including fruits and rice, are also starting to be exported to countries eager to try them.

Gee's paper shows, though, that as Abe attempts to implement his "third arrow" (structural reform) of Abenomics, he is encountering stubborn resistance from the

entrenched interests of the agricultural cooperatives (JA group), which make up the farmer's main lobby to pressure the LDP and the government. Even when Abe's reforms have actually started to take hold, the political pushback has been successful in reducing their scope. However, public opinion increasingly recognizes the need for agricultural reform and popular support for JA has been weakening – particularly as its main constituency, the farm population, ages rapidly.

His paper thus seeks to answer the question as to what extent will the reforms by Abe's administration have any lasting or significant impact on the agricultural sector of the Japanese economy. It explores the reforms proposed and those so far implemented. The findings indicate that although Prime Minister Abe's administration has obtained reforms unlike any predecessor, the scope has been consistently reduced due to prolonged bargaining and negotiation with JA and its allies. JA's power may have diminished but it is still a formidable opponent. The future of agricultural reform in Japan remains a slow march, but the Prime Minister is not one known to give up on a good thing.

Is Japan Inc. Back?

Tyler Kellermann's study on the relative health of the Japanese industrial sector, researched in the U.S. and Japan, examines recent business trends, with a focus on the state of Japanese direct investment activities within the United States. It finds that, despite new and remaining challenges, Japanese businesses are increasing foreign acquisitions at a rapid rate in an aim to globally diversify, remain competitive, and ensure future success. The study factors in such challenges affecting the business world as corporate decay, as seen in scandal-ridden Toshiba's attempt to avoid death throes; the impact of demographics on Japan's labor force; and the "Galapagos Syndrome" – companies focusing only on the domestic consumer and not the global market. Kellermann poses the question: how can Japanese industries avoid such slow economic death? He finds rays of hope, such as a strong trend in business-to-business transactions in intermediate goods and components through production networks, and international investment trends, such as high value M&A deals in the United States. His paper concludes with a reflection on Japan, Inc. 2, and policy recommendations, and offers some thoughts on the future of Japan's business relations with the United States in the context of the new Trump presidency.

Japan's Healthcare Crisis

Jingwei Zhang has written a timely and important assessment of the impact on Japan's healthcare system of the country's demographic crisis. With its population aging rapidly and workforce shrinking precipitously, Japan's healthcare system is facing enormous challenges to its delivery system and sustainability. Although Japan's healthcare system has maintained high reputation for its universal coverage and

affordability while keeping national healthcare spending relatively low, there also exist problems and inefficiencies in its healthcare infrastructure and care-delivery system. Aware of these urgent challenges, the Japanese government has implemented a series of policies targeting mitigating the negative influence of labor force shortage, improving the efficiency of the present healthcare system and encouraging innovations and technological advancement. Zhang evaluates which policies have made some progress and which have been ineffective. The paper on Japan's experience could offer some insights for future healthcare reforms in the United States, which is facing its own aging population crisis.

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The list of institutions and individual experts whom the students met in DC and Tokyo is long and impressive, but will remain anonymous to protect the confidentiality of the interviews. Many are cited, however, in the footnotes of the papers. In addition, we thank the visiting scholars from Japan at the Reischauer Center for their advice and help in setting up meetings in Tokyo.

Shinzo Abe's Reconciliation and Revisionism

Mr. Xiaochen Cai

Introduction

When Shinzo Abe was first elected as the prime minister of Japan in 2006, he inherited a negative legacy from World War II that Japan had still not adequately addressed in its relationships with the Asian victims of its militarist past, or for that matter, brought to full closure with its WWII enemy the United States. Abe since then has had to deal personally as well as in his capacity as Japan's leader—returning for his second time as prime minister in December 2012—the challenging tasks of wartime reconciliation and dealing with his own oft-criticized revisionist views of Japan's history. He initially tackled in 2006 the need to repair the serious damage done to Japan's relations with China and South Korea by his predecessor Prime Minister Junichiro Koizumi, who continued to anger those countries by visits to Yasukuni Shrine, where Class A war criminals are enshrined. But Abe also brought along with him his own historical baggage—a view of the past cultivated by associating with rightwing groups and individuals—that sought to justify Japan's wartime acts that the world sees as unjustifiable. He had associated with since his days as a junior politician in the activities of conservative groups that professed hard-core revisionist views, such as denying the Nanjing Massacre in China and the military comfort-women (sex slaves) system that was rampant during the war. In essence, he became their titular leader in the Diet.

But Abe, who is a self-professed patriot and nationalist, is also a pragmatist who as prime minister has sought to put Japan's national interests first. Even his nationalist goal of amending the Constitution during his term in office has been tempered by a realist's view of what is achievable and what is not. For example, he seeks to revise the war renouncing Article 9 by leaving the main text intact but adding a clause that would recognize the existence of Japan's Self-Defense Forces, which now has no constitutional basis.

In general, the Prime Minister has been carrying out a carefully balanced policy that on the one hand, satisfies the bottom-line expectations of his conservative supporters, and on the other hand, pursuing an agenda of reconciliation not only with Asian neighbors but also with Japan's ally, the U.S., as well. This paper examines that balancing strategy. It shows the duality of his policy approaches, objectively evaluates his efforts, and analyzes the background and reasons for the Prime Minister's approach. The paper details Abe's reconciliation process, starting with his April 2015 U.S. visit, highlighted by his landmark speech to the U.S. Congress, his historic statement on the 70th anniversary of the end of WWII, the still controversial agreement with South Korea to permanently resolve the comfort women issue, Abe's remarkable Pearl Harbor visit

with President Obama, and his efforts to bring about reconciliation with China. The paper will then discuss in depth the nature of Abe's historical revisionism, tracing his family roots. The research has led to the conclusion that Prime Minister Abe's balancing efforts between reconciliation (realism) and revisionism (idealism) have generally been successful, with some exceptions, such as his spontaneous visit to Yasukuni Shrine in December 2013 that riled China and South Korea. Still, even though Abe deep down remains a hard-core revisionist, he has been able to put the broader interests of the country first in pursuing a realistic and effective reconciliation policy to bring to closure the negative legacy of Japan's militarist past, as well as to restore Japan's economic strength and tier-one image as a nation in the international community.

Abe and His Political Position

Shinzo Abe, born in 1954, came into office in 2006 for the time as the youngest prime minister of Japan since World War II. His first time as Japan's top leader was short and not so sweet, however. He resigned from this position in less than a year over some cabinet scandals, plummeting popularity in the polls, and a chronic health condition (that is now under control) (BBC, 2015). In December 2012, he returned again as prime minister after his party, the Liberal Democratic Party (LDP) won a landslide victory in the House of Representatives election. Since then, the party has reelected him president, and thus prime minister, and in March 2017, the party changed the rules to allow him to serve a third term in office that would take him to 2021. If so, he would become the longest serving prime minister in Japanese political history (Nikkei, 2017).

Abe comes from a distinguished family background. His grandfather, Nobusuke Kishi, was the 56th and 57th prime minister of Japan from 1957 to 1960 and his father, Shintaro Abe, was foreign minister in the 1980s under Prime Minister Yasuhiro Nakasone. But a cloud has been over his family since his grandfather was an unindicted war criminal in the Tokyo War Crimes Trials, accused of brutally managing the wartime puppet state Manchukuo in Northeast China. He later was imprisoned for three years as a suspected Class A war criminal but was released by the U.S. Occupation, which judged that he would be useful to help the U.S. lead Japan in a democratic direction. He then went on to be elected to the Diet and was afterward elected LDP president and thus prime minister, helping lead the reconstruction of postwar Japan. Kishi was the prime minister involved in the revision of the U.S.-Japan security treaty in 1960 that led to massive protests by radical forces, his attempted assassination, and ultimately his resignation from the prime minister's post after ramming the security treaty through the Diet. Kishi had a closer relationship with his grandson Shinzo and greatly influenced the boy's thinking.

In his book *Utsukushii Kuni e* ("Toward a Beautiful Country"), Abe wrote: "Some people used to point to my grandfather as a 'Class-A war criminal suspect,' and I felt strong repulsion. Because of that experience, I may have become emotionally attached to

‘conservatism,’ on the contrary.” Abe’s “conservative” and “hawkish” nature thus stems from the memory and influence of his beloved grandfather (Yoshida, Japan Times, 2012). As a result, Abe has long been labelled by critics and the media as a rightwing conservative with revisionist historical views (Muneo, 2012). He was one of a group of young Diet members opposed to the statement by Prime Minister Tomiichi Murayama in 1995 apologizing for WWII (Statement by Prime Minister Tomiichi Murayama, 1995).

Abe has been long involved with a group of lawmakers advocating conservative causes, including education reform. In particular, the group is part of a rightwing movement to promote the adoption of revisionist school textbooks that paint a rosy picture of Japan’s past and omit mention of atrocities or other aspects of militarism. As a revisionist, Abe has taken issue with the official statement on comfort women in 1993 by then LDP Chief Cabinet Secretary Yohei Kono. He also has denied that Manchukuo (where his grandfather was an administrator) was a “puppet state” of the Japanese empire and has taken the view that the Class-A war criminals were unjustly labeled because “crimes against peace” were not covered by domestic Japanese law (Muneo, 2012). The fact that the international war crimes tribunal established such a label that had not existed before in any domestic legal system seems to have been lost in the narrow logic of Abe and other revisionists.

Despite his ultra-conservative roots, Abe in his foreign policy has been both strategic and internationally-minded. This reflects the strong influence of his father Shintaro, who as foreign minister was known for his global diplomacy. He admires his father’s policy goals, and desires to fulfill his father’s mission, which included closer ties with Japan’s Asian neighbors. As foreign minister, his father cultivated close relations with the U.S., tried to orchestrate a kind of Middle East peace diplomacy, and worked hard to improve relations with the USSR, including trying to resolve the territorial dispute over four northern islands seized by that country at the end of the war. (Akiyama, 2014).

Today, Shinzo Abe, following in his father’s footsteps, has pursued similar goals, including a globe-trotting diplomacy, strategic use of foreign aid, and seeking to rectify long-standing issues with Russia, namely, the signing of a peace treaty for WWII and resolving a territorial dispute over four islands north of Japan that the USSR seized at the end of the war. Abe has developed a strategic framework for dealing with Russia, basically using economic leverage to get concessions on the territorial issue, and now, during his second time as prime minister, he has developed a personal relationship with President Putin that he hopes will pay off in the end (Akiyama, 2014).

Abe has a personal liking for the United States and views Japan’s alliance with the U.S. as vital for Japan’s security and future existence. He built good personal ties with President Obama, and now with President Trump. The Alliance has been upgraded and updates under Abe.

In his diplomacy toward China and South Korea, however, Abe's efforts have received mixed reviews. Ongoing tensions with China over a territorial dispute in the East China Sea continue. China's claims and assertiveness in the South China Sea also has impacted Sino-Japanese relations. Since 2014, Abe has been actively pursuing summit diplomacy with President Xi Jinping. The effort seems to be bringing about a slow thaw in bilateral ties. With South Korea, relations hit rock bottom in recent years over territorial and historical (comfort-women) issues, but during the ROK presidency of Park Geun-Hye, Abe achieved some success in putting relations on the road to recovery, centered on summitry with Park and the December 2015 agreement on the comfort-women issue. Unfortunately, with a change in government in Seoul, and a political backlash against the comfort-women agreement, Abe's efforts at reconciliation have been pushed back, hopefully temporarily, to square one.

Abe's Reconciliation Strategy: Targeting the U.S. in 2015

In 2015, Prime Minister Abe embarked on a series of diplomatic moves that were designed not only to strengthen the U.S.-Japan alliance (see the essay by Ms. Nikki Tan in this volume) and bring to closure the negative legacy of World War II that continued to sour ties with neighboring Asian countries, and complicate relations with even Japan's ally, the U.S. On January 5, 2015, Abe delivered a New Year's press conference in Ise, Mie Prefecture in which he expressed his positions on the past war and on the apologies issued to the victims by his predecessors.

Abe stated: "Over these 70 years, Japan has earnestly built up a free and democratic nation while feeling deep remorse regarding World War II... The Abe Cabinet upholds in its entirety the positions taken by previous administrations, including the Murayama statement." (Abe, New Year's Press Conference by Prime Minister Shinzo Abe, 2015)

In April 2015, during an official visit to the U.S. for summit meetings with President Obama, Abe delivered a landmark speech before a joint session of the U.S. Congress. The title of his speech was "Toward an Alliance of Hope" (Abe, Address by Prime Minister Shinzo Abe to a Joint Meeting of the U.S. Congress "Toward an Alliance of Hope", 2015). He first expressed his feelings about the World War II Memorial that he had visited before the Congressional speech. He believed that the gold stars on the Freedom Wall were "a proud symbol of the sacrifices in defending freedom" and they represent the pain, sorrow, and love for the families of the young Americans. He continued, "History is harsh. What is done cannot be undone. With deep repentance in my heart, I stood there in silent prayers for some time." Then, he offered "with profound respect my eternal condolences to the souls of all American people that were lost during World War II."



Abe at World War II Memorial. Source: The Japan Times,
(<http://www.japantimes.co.jp/wp-content/uploads/2015/04/n-memorial-a-20150501.jpg>)

“Post war, we started out on our path bearing in mind feelings of deep remorse over the war. Our actions brought suffering to the peoples in Asian countries. We must not avert our eyes from that. I will uphold the views expressed by the previous prime ministers in this regard.”

Abe accepted the fact that Japan had did terrible harm to other countries during the war, but he carefully avoided the word “invasion” or “aggression.” Still, because he clearly upheld the views expressed by his predecessors implied that he accepted the wartime “actions” as aggression. He further expressed Japan’s responsibility by saying that “we must all the more contribute in every respect to the development of Asia. We must spare no effort in working for the peace and prosperity of the region” (Abe, Address by Prime Minister Shinzo Abe to a Joint Meeting of the U.S. Congress "Toward an Alliance of Hope", 2015).

During a press conference with President Obama before the speech, Obama was highly appreciative of Abe’s reconciliation effort, telling him: “Shinzo, on behalf of the American people, I want to thank you for your visit to Arlington National Cemetery. Your gesture is a powerful reminder that the past can be overcome, former adversaries can become the closest of allies, and that nations can build a future together” (Remarks by President Obama and Prime Minister Abe of Japan in Joint Press Conference, 2015). Abe also showed his strong desire for reconciliation, when he was asked during the press conference about the comfort-women issue. He stated: “On the issue of comfort women, I am deeply pained to think about the comfort women who experienced immeasurable pain and suffering as a result of victimization due to human trafficking.” He went on, “This is a feeling that I share equally with my predecessors. The Abe Cabinet upholds the Kono Statement and has no intention to revise it. Based on this position, Japan has made various efforts to provide realistic relief for the comfort women” (Remarks by President Obama and Prime Minister Abe of Japan in Joint Press Conference, 2015).

Earlier during his U.S. trip, Abe visited Harvard University and delivered a speech, mainly about his efforts to resolve the country's numerous economic and political challenges. During the question session, a student asked him whether he denied that the Japanese government and military were directly involved in forcing “hundreds of thousands of women” into “sexual slavery” (Yoshida, At Harvard Abe sticks to Kono message when pressed on ‘comfort women’ issue, 2015). Abe answered, "My heart aches when I think about the people who were victimized by human trafficking and who were subject to immeasurable pain and suffering, beyond description. On this score my feeling is no different from my predecessor prime ministers." He said he upheld the Kono statement as his predecessors did. When he was questioned about how to mitigate diplomatic tension in the Asia-Pacific region, he answered Japan “has steadily tread on the path of a peace-loving nation” based on “deep remorse regarding World War II” (Yoshida, At Harvard Abe sticks to Kono message when pressed on ‘comfort women’ issue, 2015). He also reminded the audience that he had pledged that Japan would fight against sexual trafficking during the United Nations General Assembly in 2014 and Japan had contributed \$34 million since then (Pazzanese, 2015).

While Abe was delivering his speech at Harvard, a small group of demonstrators held signs calling on Abe to make a formal apology for the government to the women forced to be military sex slaves (Pazzanese, 2015). Many protesters also demonstrated outside the U.S. Capitol before Abe's speech to the Congress, again calling on him to formally apologize to the former comfort women (Nakamura, 2015).



Protest outside the U.S. Capitol. Source: The Washington Post, (<https://img.washingtonpost.com/wp-apps/imrs.php?src=https://img.washingtonpost.com/blogs/post-politics/files/2015/04/abeprotest.jpg&w=1484>)

Responding to Abe's remarks in the U.S. about the comfort women issue, China's Foreign Ministry Spokesperson Hong Lei commented:

“The forced recruitment of the comfort women was a gross crime against humanity committed by Japanese militarism during the Second World War against people of the victimized countries in Asia. There is iron-clad evidence

proving this, and the victims are still suffering from untold miseries. It is hoped that the Japanese side would face up to the history, properly handle the history issues including the comfort women issue in a responsible manner, and win the trust of its Asian neighbors and the world with tangible actions” (Foreign Ministry Spokesperson Hong Lei's Regular Press Conference, 2015).

As can be seen from the comment, China did not recognize Abe's reconciliation effort. And neither did South Korea, whose foreign ministry spokesperson also rejected it by stating: “It is highly regrettable that Prime Minister Abe...missed the opportunity of tuning around Japan's relations with its neighbors by not showing a correct understanding of history or offering a sincere apology” (Sekiguchi & Hayashi, 2015). Abe's intention during his formal statements in the U.S. was never to seek reconciliation with Asian countries; the thrust of his efforts was aimed at reconciliation with the U.S. for World War II, and on that, he was seen even by the U.S. Congress as successful.

Abe Statement on 70th Anniversary of End of WWII

On Aug 14, 2015, Prime Minister Abe issued a statement marking the 70th anniversary of the end of World War II. He undoubtedly intended the statement, which his Cabinet had approved, as a reconciliation effort. It was received well domestically and in some circles abroad, but Abe critics were dissatisfied because it did not go far enough and was only indirect in talking about “apology.” The Washington Post's reporter concluded that Abe “tried to offer something for everyone” (Fifield, 2015). Let us examine some of the details in the statement. Here is how Abe described Japan's prewar transformation into a militarist state:

“However, with the Great Depression setting in and the Western countries launching economic blocs by involving colonial economies, Japan's economy suffered a major blow. In such circumstances, Japan's sense of isolation deepened and it attempted to overcome its diplomatic and economic deadlock through the use of force. Its domestic political system could not serve as a brake to stop such attempts. In this way, Japan lost sight of the overall trends in the world.”

Abe then continued, stressing how Japan “transformed itself into a challenger to the new international order”, “took the wrong course and advanced along the road to war,” and “was defeated.”

The message was filled with clear expressions of remorse for Japan's wartime acts: “On the 70th anniversary of the end of the war, I bow my head deeply before the souls of all those who perished both at home and abroad. I express my feelings of profound grief and my eternal, sincere condolences.” He acknowledged the great losses suffered by countries Japan had attacked: “In China, Southeast Asia, the Pacific islands and elsewhere that became the battlefields, numerous innocent citizens suffered and fell

victim to battles as well as hardships such as severe deprivation of food.” And he specifically mentioned women as victims, an oblique reference that can be taken to include the comfort women: “We must never forget that there were women behind the battlefields whose honor and dignity were severely injured.” He never referenced the Japanese army’s direct involvement as the aggressor, but instead opted for a passive sentence construction that has been interpreted in the media as an attempt to avoid laying blame on Japan (Fifield, 2015).

Still, the important point is Abe’s acknowledgement of the overall responsibility for the horrors inflicted on the victims of the war: “Upon innocent people did our country inflict immeasurable damage and suffering” and for this, he expressed his “utmost grief.” He further stated that Japan has “deep repentance for the war” and “Japan has repeatedly expressed the feelings of deep remorse and heartfelt apology for its actions during the war.” The media tend to overlook in its analysis of the statement the following important portion:

“How much emotional struggle must have existed and what great efforts must have been necessary for the Chinese people who underwent all the sufferings of the war and for the former POWs who experienced unbearable sufferings caused by the Japanese military in order for them to be so tolerant nevertheless? That is what we must turn our thoughts to reflect upon. Thanks to such manifestation of tolerance, Japan was able to return to the international community in the postwar era. Taking this opportunity of the 70th anniversary of the end of the war, Japan would like to express its heartfelt gratitude to all the nations and all the people who made every effort for reconciliation.”

From this part, it was very clear that Abe in his statement took China’s feelings into consideration, tried to understand the bitterness of the victims, and expressed his gratitude for the acceptance of Japan’s return to the international society. The words can only be taken as a sincere effort to reconcile with Japan’s neighbors. That being said, there is one statement following the above humble words where Abe has received much international criticism: “In Japan, the postwar generations now exceed eighty per cent of its population. We must not let our children, grandchildren, and even further generations to come, who have nothing to do with that war, be predestined to apologize.” In other words, he intended the statement to bring to closure not only the reconciliation phase of the postwar period, but also to make it no longer necessary for future generations to continue to apologize for events and acts that they had nothing to do with.

Abe was frank about the need not to forget the past: “Still, even so, we Japanese, across generations, must squarely face the history of the past. We have the responsibility to inherit the past, in all humbleness, and pass it on to the future.” These two statements show that while Abe did not want future generations to have to continually apologize for

Japan's aggression year after year, he nonetheless wanted every Japanese to remember into the future what Japan once had wrought.

Abe has been faulted for not offering a direct and fresh apology of his own in the statement; he only stated: "I bow my head deeply before the souls of all those who perished both at home and abroad." Such words did little to satisfy Japan's neighbors, given that Abe also bowed his head deeply to the souls enshrined at Yasukuni during his 2013 visit. An apology with sincerity is not the same as merely stating "Japan has repeatedly expressed the feelings of deep remorse and heartfelt apology."

Abe that day in a press meeting further explained his position on the expression "feelings of apology":

"I believe that the feelings of apology for Japan's actions during the war have been upheld consistently by the post-war Cabinets. I believe that feeling was expressed in the form of the Murayama Statement on the 50th anniversary of the end of the war, and that feeling of apology was also carried into the Koizumi Statement issued to commemorate the 60th anniversary. Such a feeling articulated by previous Cabinets has also been upheld and will be upheld as unshakable by my Cabinet. I presume that future Cabinets will do the same. This has been indicated clearly within this Statement."

In upholding past statements of his predecessors, Abe was stating that he and his government, too, had the same feelings of apology for Japan's wartime aggression. He further elaborated saying that he believed "there were also actions to be regarded as aggression." (Press Conference by Prime Minister Shinzo Abe, 2015). For the Prime Minister, the statement was about as far as he could go in pursuing reconciliation with Japan's wartime victims, and to have expected more from an individual who also had strong revisionist views was not reasonable. Abe's balancing of the two imperatives guiding his political course merit praise and not criticism.

China's Xinhua recognized Abe's wish to bring about reconciliation with Japan's neighbors, but the news agency criticized Abe for performing "linguistic tricks", and "attempting to please his rightwing base" and "avoid further damage in Japan's ties with its neighbors" (Tian, 2015). Vice Foreign Minister Zhang Yesui commented that "Japan should make a clear explanation and a sincere apology to the people of the countries who suffered from that era of military aggression" and urged Japan to "take concrete actions to gain the trust of its Asian neighbors and the global community" (Siu & Yee, 2015). South Korea's president Park Geun-hye also commented that Abe's speech "left much to be desired" and Japan should have "consistent and sincere conduct" to earn the trust of its neighbors (Soble, Shinzo Abe Echoes Japan's Past World War II Apologies but Adds None, 2015). She also said it contained "regrettable elements", but she hoped Japan could quickly address the issue of women's "honor and dignity" (McCurry, 2015).

Tomiichi Murayama, the author of the famous Murayama Statement, was sharply critical of Abe, saying: “He(Abe) used flowery words and talked at length, but he didn’t make clear why he was doing it” (Soble, Shinzo Abe Echoes Japan’s Past World War II Apologies but Adds None, 2015). Compared to Abe’s “utmost grief”, Emperor Akihito in his own statement expressed his “deep remorse”, using a more apologetic tone. He stated: “Reflecting on our past and bearing in mind the feelings of deep remorse over the last war, I earnestly hope that the ravages of war will never be repeated”. Emperor Akihito had expressed remorse before, but never on the end-of-war anniversary. This departure from his annual script “could be seen as a subtle rebuke of Prime Minister Shinzo Abe” (Sieg, 2014).

Washington, in contrast, responded positively to Abe’s statement and highly appreciated his reconciliatory effort. National Security Council spokesman Ned Price stated: “We welcome Prime Minister Abe’s expression of deep remorse for the suffering caused by Japan during the World War II era, as well as his commitment to uphold past Japanese government statements on history. For 70 years Japan has demonstrated an abiding commitment to peace, democracy, and the rule of law. This record stands as a model for nations everywhere.” (McCurry, 2015)

Comfort Women Agreement with South Korea

Prime Minister Abe was also resolved to resolve and bring to closure by the end of 2015 the comfort-women issue with South Korea that had soured relations for decades. On November 2, he visited Seoul to attend the Japan-China-ROK Trilateral Summit Meeting. During a small-group meeting between Abe and ROK President Park Geun-hye, the two leaders recognized the impact of the issue on bilateral relations and the need to reach an agreement that would resolve the problem. They “shared recognition of the importance of two countries building a future-oriented relationship so as not to allow the future generations to be impaired by the issue” (Japan-ROK Summit Meeting, 2015).

On December 28, a month after the Abe-Park meeting, Foreign Minister Fumio Kishida and his South Korean counterpart, Yun Byung Se, sealed an agreement that they said would “finally and irreversibly” resolve the issue, based on the premise of a new foundation that South Korea would set up to support former comfort women. Kishida said Japan would provide about ¥1 billion to the foundation and seek in that way to make amends for the suffering they had endured.

“The honor and dignity of many women was harmed under the involvement of the military at that time, and the Japanese government is keenly aware of its responsibility,” Kishida said. He added that Prime Minister Shinzo Abe will “again express an apology and remorse to those who, as comfort women, experienced so much pain and suffered damage to their minds and bodies that is hard to heal.”

That day, Abe and Park, in a phone call, confirmed and appreciated that an agreement on the comfort women issue had been reached (Japan-ROK summit telephone call, 2015).

Kishida also stated:

“The issue of comfort women, with an involvement of the Japanese military authorities at that time, was a grave affront to the honor and dignity of large numbers of women, and the Government of Japan is painfully aware of responsibilities from this perspective. As Prime Minister of Japan, Prime Minister Abe expresses anew his most sincere apologies and remorse to all the women who underwent immeasurable and painful experiences and suffered incurable physical and psychological wounds as comfort women... the Government of the ROK establish a foundation for the purpose of providing support for the former comfort women, that its funds be contributed by the Government of Japan as a one-time contribution through its budget ... While stating the above, the Government of Japan confirms that this issue is resolved finally and irreversibly with this announcement, on the premise that the Government will steadily implement the measures...”

From the ROK's side, Foreign Minister Yun stated that the South Korea government values Japan's announcement and efforts and would cooperate in the implementation of Japan's measures. He also acknowledged the concern from Japan regarding to the statue built in front of the Embassy of Japan in Seoul “from the viewpoint of preventing any disturbance of the peace of the mission or impairment of its dignity.” And he stated that the ROK “will strive to solve this issue in an appropriate manner through taking measures such as consulting with related organizations about possible ways of addressing this issue” (Full text of announcement on ‘comfort women’ issue by Japanese, South Korean foreign ministers, 2015).

The statue built in front of the Embassy of Japan mentioned by Yun was erected in 2011 by the Korean Council for Women Drafted for Sexual Slavery by Japan (‘Comfort women’ funds won’t be paid until sex slave statue outside Japanese Embassy removed: source, 2015). Both sides used the same expression and added that they together “will refrain from accusing or criticizing each other regarding this issue in the international community, including at the United Nations.” But South Korea’s announcement added one condition, “on the premise that the Government of Japan will steadily implement the measures it announced” (Full text of announcement on ‘comfort women’ issue by Japanese, South Korean foreign ministers, 2015).

Compared to a previous unofficial reconciliation from Japan in 2007, this time was an improvement since Abe offered an official apology and provided funds directly from Japan’s government. The comfort women issue is a huge historical barrier between Japan and ROK, as the U.S. hopes to “strengthen a joint front with its Asian allies to confront China’s growing assertiveness in the region” (Choe, 2015). Thus, in the past, the

U.S. had repeatedly urged Japan and South Korea to resolve the dispute. After this agreement was made, Obama congratulated both the leaders on their effort to resolve the comfort women issue. He praised them for “having the courage and vision to forge a lasting settlement to this difficult issue” (Eilperin, 2016). President Obama’s National Security Adviser Susan Rice announced: “We support this agreement and its full implementation...The United States applauds the leaders of (South Korea) and Japan, two of our most important allies, for having the courage and vision to forge a lasting settlement to this difficult issue” (U.S. welcomes Japan-South Korea accord over ‘comfort women’ issue, 2015). From these comments, Washington was breathing a great sigh of relief that the resolution of comfort- women issue had finally come to fruition.

Regarding Abe’s latest effort in reconciliation, former Prime Minister Murayama quipped that Abe had “decided well.” The opposition Democratic Party of Japan welcomed Abe’s effort but cautioned that the settlement would be undermined if Abe’s government supported revisionism in the future (Choe, 2015).

Reactions in South Korea, however, were not promising. The former comfort women reportedly were unhappy that they had not been consulted during the negotiation process. One of those survivors, Kom Bok-Dong, told Korean Vice Minister Lim Sung-nam that “The matter has not been settled. We didn’t fight for all these years to see a result like this.” Ironically, most of the victims have since decided to accept funds provided for their support by the Japanese government.

South Korean President Park Geun-hye had hoped to gain more support from the victims to understand the agreement with Japan. She stated:

“As for Japan’s historical wrongdoings, I ask you victims and the people to understand the agreement in view of efforts to improve relations between South Korea and Japan and from a broader perspective... Through the agreement, sufferings of the victims should be clearly remembered in the hearts of our descendants and a similar occurrence should never be repeated in our history (AFP-JIJI, 2015)”

Chinese Foreign Ministry spokesman Lu Kang expressed China’s position this way: “During the Second World War, the Japanese militarists forcibly recruited comfort women from different places in China, committing a severe crime against humanity. We urge the Japanese side to assume its responsibility, respect the concerns of the victims, and properly handle relevant issues” (Foreign Ministry Spokesperson Lu Kang’s Regular Press Conference, 2015).

In June 2016, a UN panel, The Committee on the Elimination of all Forms of Discrimination against Women (CEDAW), urged Japan to “recognize the rights of victims to remedy, to provide full and effective redress and reparation, including compensation, official apologies and rehabilitative services, to ensure that the views of

the victims be taken into account as well as their rights to truth, justice and reparations ensured in the implementation of the 2015 agreement". This committee criticized the agreement between ROK and Japan for not adapting a "victim-centered" approach. Also, the committee pointed out that Japan had not expressed its obligations under international human rights law towards "comfort women" victims in other concerned countries. Further, the committee regretted that Japan had deleted references to comfort women issue in textbooks (Chung, 2016). UN Human rights experts also raised concerns at the comfort women issue agreement and criticized it for "falling short of meeting the demands of survivors." The group remarked:

"We are also deeply concerned that the Republic of Korea may remove a statue commemorating not only the historical issue and legacy of the 'comfort women' but also symbolizing the survivors' long search for justice. Neither the surviving victims nor the organizations representing them for more than 20 years were consulted in the preparation of this agreement" (Japan / S. Korea: "The long awaited apology to 'comfort women' victims is yet to come" – UN rights experts, 2016).

After Japan's officials indicated that the precondition for provision of funds included removing the statue in Seoul, tensions arose again. In January 2016, South Korea announced that a white paper on the issue of "comfort women" would be published, drafted by the Gender Equality and Family Ministry. Although this white paper claimed to be "unrelated" to the agreement, Chief Cabinet Secretary Suga said Japan would pay close attention to the document, and expected Seoul to "deal with the matter appropriately" (Kyodo, 2016). On December 28 2016, one year after the comfort women issue agreement, a second statue was built in Busan in front of the Japan's consulate, despite opposition from the Korean government. Japan abruptly withdrew its ambassador to South Korea and suspended high-level economic talks because of this new dispute over the "comfort women" statue (Yoshida & Mie, Japan recalls envoys over new 'comfort women' statue in Busan, 2017). In 2017, South Korean Foreign Minister Byung-se Yun commented that "Our government is not against the installment of a girl statue... but I think we need to pool our wisdom on the issue of location." But Japan considered the existence of the statue in Seoul was a violation against the 2015 agreement (Park J.-m. , 2017). In April 2017, a civic group in South Korea was planning to build 3-meter-tall stone statues beside the comfort women in Busan on August 15th, the anniversary of Japan's surrender in WWII and the liberation of the Korean Peninsula. This plan is to symbolize Korean victims of forced labor under Japan's colonial rule. Japan raised strong objections and South Korean Foreign Ministry official called this new statue "undesirable" (The Japan Times, 2017).

Abe's Pearl Harbor Visit



Shinzo Abe at the Ehime Maru Memorial at Kakaako Waterfront Park in Honolulu.

Source: (<https://qz.com/872569/it-took-years-of-diplomacy-for-abe-and-obama-to-stand-together-at-pearl-harbor/>)

75 years after Imperial Japanese warplanes launched a sneak attack on Hawaii, Prime Minister Abe paid a historic visit to Pearl Harbor, including the USS Arizona Memorial, with President Obama in December 2016 (Mason, 2016). Abe commemorated the victims of Japan's attack and pledged that Japan would never wage war again. This visit was 7 months after Obama's visit to Hiroshima, where he paid his respects to those who died from the nuclear bomb. Abe's Pearl harbor visit was carried out in return for Obama's gesture:

"President Obama's message for the world without nuclear upon his visit to Hiroshima was engraved in the heart of the Japanese people. This will be a visit to soothe the souls of the victims. We should never repeat the ravages of the war" (Park M. , 2016).



Obama in Hiroshima & Abe in Pearl Harbor. Source:

(<http://www.chicagotribune.com/news/nationworld/ct-obama-hiroshima-visit-20160526-story.html>; <https://www.thesun.co.uk/news/2486243/words-of-japanese-prime-minister-shinzo-abe-during-historic-meeting-with-barack-obama-at-pearl-harbor/>)

Although Abe, like Obama in Hiroshima, did not apologize, he expressed his sincere condolences to those who died on December 7, 1941:

"I offer my sincere and everlasting condolences to the souls of those who lost their lives here, as well as to the spirits of all the brave men and women whose lives were taken by a war that commenced in this very place, and also to the souls of the countless innocent people who became victims of the war. We must never repeat the horrors of war again" (Schmidt, 2016).

He further pledged:

"It is my wish that our Japanese children, and President Obama, your American children, and indeed their children and grandchildren, and people all around the world, will continue to remember Pearl Harbor as the symbol of reconciliation." ... "We will spare no efforts to continue our endeavors to make that wish a reality. Together with President Obama, I hereby make my steadfast pledge" (Malloy, 2016).

Obama told the audience, including survivors of the attack:

"The United States and Japan chose friendship and they chose peace. Over the decades, our alliances have made the nations more successful. Today, the alliance between the United States and Japan, bound not only by shared interests but also rooted in common values, stands as the cornerstone of peace and civility in the Asian-Pacific and a force for progress around the globe, our alliance has never been stronger. In good times and in bad we're there for each other."

Given that records show that none of Abe's predecessors ever participated in any memorial ceremony at Pearl Harbor and that senior Japanese leaders have largely avoided the site, Abe's visit was a historical success marking a new chapter for Abe's reconciliation with the U.S. (Schmidt, 2016). The White House spoke highly of Abe's visit and stated that, "The two leaders' visit will showcase the power of reconciliation that has turned former adversaries into the closest of allies, united by common interests and shared values" (Park M. , 2016). This reconciliation effort that made ties much closer with the U.S. was a critical component in Abe's foreign-policy strategy.

The visits of key members of Abe's cabinets to Yasukuni Shrine continue to draw rebukes from South Korea and China. Yasukuni is the equivalent of the Holy Grail for the ultra-conservatives who surround the Prime Minister in the Cabinet and other senior positions. What may have irked even Abe was one visit by a cabinet member right after the Prime Minister had paid tribute to the war dead at Pearl Harbor, one who had even accompanied Abe there: Defense Minister Tomomi Inada. She has long been known as an ultraconservative and hard-core revisionist, and her visit to Yasukuni immediately after the Pearl Harbor ceremony, fully knowing the ramifications of such, was a slap in the face to Abe. Her record includes a denial of Japan's wartime atrocities and of the

legitimacy of the war crimes trials in Japan. (Kurtenbach, 2016). It is common knowledge that Hideki Tojo, the prime minister who authorized the 1941 attack on Pearl Harbor, is one of the 14 Class A war criminals enshrined at Yasukuni. She rationalized her visit there by saying:

“Regardless of differences in historical views, regardless of whether they fought as enemies or allies, I believe any country can understand that we wish to express gratitude, respect and gratitude, to those who sacrificed their lives for their countries” (Kurtenbach, 2016).

But Tojo and the other war criminals enshrined at Yasukuni did not die in battle for their country; they were collectively responsible for sending millions to their deaths to fight an indefensible war.

Responding to her visit, South Korea’s Foreign Ministry expressed “serious concern and regret”, stating that it was “deplorable” that Inada had visited a shrine that “beautifies past colonial invasions and invasive war and honors war criminals” (Kurtenbach, 2016). Chinese Foreign Ministry Spokesperson Chunying Hua expressed China’s opposition to Inada’s visit and noted that her visit was only one day after the Pearl Harbor visit. Hua questioned Japan’s intention in reconciliation by stating that:

“China is firmly opposed to it and will lodge solemn representations with the Japanese side. As a significant member of the Japanese cabinet, Tomomi Inada followed Prime Minister Abe to the Pearl Harbor yesterday. Their trumpeting of ‘reconciliation’ and ‘tolerance’ there still rings in our ears. Only one day later, she paid tribute to the Yasukuni Shrine which honors Class-A criminals and whitewashes Japan’s history of aggression. This is another reflection of certain Japanese people’s bigoted and wrong perception of history, and an irony of Japan’s so-called ‘tour of reconciliation’ to the Pearl Harbor, only putting us on higher alert on Japan’s moves and true intentions. Without credit, a man cannot establish himself and a country cannot prosper” (Foreign Ministry Spokesperson Hua Chunying’s Regular Press Conference, 2016).

Commenting on this, Jeffrey Kingston, director of Asian studies at Temple University Japan, felt Abe needed to be more proactive if he wanted to bring wartime issues to closure:

"A symbolic gesture of contrition to your closest ally is easy. If he (Abe) really is sincere about reconciliation diplomacy and overcoming lingering enmities he needs to visit similar symbolic sights (in China and Korea) ... and make similar remarks of remorse that are more specific about Japan's responsibility" (Mason, 2016).

Reconciliation with China

During Abe's first time as prime minister (2006-2007), he visited China to meet then President Hu Jintao and promoted the establishment of a Japan-China Joint History Research Committee as a way to bring about mutual understanding of both countries views of history and enhance cultural exchange. This joint research project marked the first time for both sides to jointly research history in a relaxed atmosphere and using an academic approach free from political messages. Although the report was officially published in 2010 with little fanfare (Japan-China Joint History Research Committee, n.d.), it is unlikely that many Japanese or Chinese are even aware of its existence, let alone having read it. Certainly, the media in both countries paid little attention to it, and except for the deep scholars involved, the project has not had much if any positive impact.

When Abe was in his second term, he first met with President Xi in November 2014. The meeting started with an awkward handshake. Abe spoke to Xi while shaking hands, but Xi was stiff and did not say a word. Though the atmosphere was ice cold, it was seen as a breakthrough, given the past few years of each side facing down the other over the disputed islands. The two leaders also agreed to launch maritime crisis-management discussions to prevent physical clashes near the Senkaku Islands. Chief Cabinet Secretary Suga commented, "I think there was big progress in freshly improving the economic and various relationships between Japan and China" (Kihara & Wee, 2014).



Abe's First Meeting with Xi. Source: Reuters,
(<http://s3.reutersmedia.net/resources/r/?m=02&d=20141110&t=2&i=990197844&w=&fh=&fw=&ll=780&pl=468&sq=&r=LYNXNPEAA904N>)

On April 22, 2015, Abe again met Xi, the second time in only five months. This time both leaders were more at ease. Abe said: "The development of relations between our countries is in the interests of the people of Japan and China. By promoting strategic, mutually beneficial relations, we contribute to the stability and prosperity of the region and the world." The two leaders agreed to resume a dialogue between lawmakers and officials that had been frozen for years (Reynolds, Abe Meets Xi in Sign Historic Differences Won't Derail Ties, 2015).



Abe's second meeting with Xi. Source: The Japan Times
(<http://www.japantimes.co.jp/wp-content/uploads/2015/04/n-abexi-a-20150423-870x644.jpg>)

One month later, on May 23, 2015, LDP Secretary General Toshihiro Nikai led a 3000-member delegation of Japanese business leaders and Japan-China Friendship organizations to Beijing. President Xi hosted an exchange ceremony in the Great Hall of the People. He spoke highly of the delegation as representing “Japanese with a sense of justice and reason” and encouraged the members to “jointly oppose attempts to distort history.” Although he admonished, “It is not forgivable to conceal the past crimes of aggression by militarist Japan and distort the historical truth”, he added that “the Japanese people were also victims.” He wanted to promote people-to-people exchanges and concluded that “China places great importance to developing Sino-Japanese relations. China has not changed this basic policy and will not change it in the future” (Przystup, 2015).

Nikai met Xi at the gathering and handed over a personal letter from Abe. According to Nikai, Xi said “I have met Abe twice and am expecting that this will bring about positive results ... please send my best regards to Prime Minister Abe.” Later, when Nikai talked with Abe, he noted that Abe was “paying attention to our meeting, he was very pleased” (Przystup, 2015). This meeting helped prepare the way for a third meeting between Abe and Xi.

On June 15, 2015, Abe further reached out in seeking reconciliation with China. During an interview with a Chinese-language TV station, Hong Kong-based Phoenix TV, he said Japan had learned profound lessons from WWII and that the proposed security legislation, then before the Diet, would not lead to conflict between China and Japan. This was the first time for a Japanese Prime Minister to be interviewed by a Chinese broadcaster in seven years. He further stated: “Seventy years ago Japan made a pledge that the horror of war must never be repeated” and he pledged “constant effort” to improve Sino-Japanese relations (Shi, 2015).

During the G-20 summit in Hangzhou, China 2016, Abe met Xi for the third time in a meeting on the sidelines. Abe was warmly greeted at the airport by Chinese high officials. Then when Xi greeted the G-20 leaders at the start of the summit on Sunday, Xi gave Abe a brief smile, and Abe flashed a grin and appeared to laugh a little. Later, during the bilateral meeting between China and Japan, Abe withheld criticism against China on the disputed islands, but leaned toward promoting an early start of a “Maritime and Aerial Communication Mechanism” between two sides defense officials in order to reduce the possibility of unintended clash at sea.



Abe's third meeting with Xi. Source: The Japan Times,
(<http://www.japantimes.co.jp/news/2016/09/04/national/politics-diplomacy/g-20-leaders-gather-eyes-abe-xi/#.WQ42e4grJhF>)

As can be seen from the above, Abe has been serious in his desire to repair the soured relationship between China and Japan. His efforts seem to have paid off, for indeed there has been positive feedback from China. Dr. Akio Takahara, a professor of Contemporary Chinese Politics at the University of Tokyo, thought that the situation between the two countries merits “cautious optimism,” despite the tense state that continues to exist between the two maritime forces in the East China Sea. Unfortunately, the Chinese media has not reflected the thaw at the top but has continued to bitterly criticize Abe (Takahara, 2015). It will take some time for the modicum of goodwill showing up at the senior government and party levels to filter down to the rest of society. Still, if one looks at the flow of Chinese students and tourists coming to Japan each year, there indeed would seem to be “cautious optimism” that the two governments can continue to make progress to address and resolve the territorial and historical problems, and ease maritime tensions in the East China Sea.

Abe's Revisionism:

Nanjing Massacre Denial

Long before he became prime minister, Shinzo Abe the LDP politician had actively participated in the activities of historical deniers in the Diet and the private sector. There are numerous examples of Abe's activism. When the outspoken mayor of Nagoya City, Takashi Kawamura, created a stir by raising doubts about the veracity of the "so-called Nanjing Incident" in a meeting with China's Nanjing City Committee on February 20, 2012 (Muneo, 2012), right-wing groups in Japan held a meeting to support Kawamura and "condemn the myth of the 'Nanjing Massacre.'" Abe sent a message of support to this meeting, and that August, he backed an advertisement that ran in the ultra-conservative daily *Sankei Shimbun* supporting Nagoya Mayor Kawamura's Nanjing Statement (Muneo, 2012). On December 26, 2012, Abe, on being elected prime minister, announced his new Cabinet of 19 members. It turned out that nine of the members, including Abe, belonged to the "Group of Diet Members for Consideration of Japan's Future and History Education." The purpose of this group is to promote revisionist school textbooks from which such atrocities like military sex slavery and the Nanjing Massacre had been deleted. Abe and twelve ministers in his Cabinet also were members of the "Nippon Kaigi Parliamentarians League (Nippon Kaigi Giren), which is affiliated with the "Nippon Kaigi (Japan Conference)," the largest right-wing organization in Japan (Muneo, 2012).

2013 Yasukuni Visit

Abe's surprise visit to Yasukuni Shrine in late December 2013 set off strong reactions in China and South Korea, and even earned him a sharp rebuke from the U.S. government, which issued a statement of its "disappointment." He has never visit the shrine again since then, although he has sent proxies to visit and donations on important occasions. Abe's action was calculated to satisfy his conservative base who had expected such a visit.

In retrospect, Abe had prepared for such an action since his first time in office in 2006-2007. Queried in the Diet in February 2013, Abe replied, "I really regret that I didn't visit Yasukuni Shrine during my (first) tenure." In 2007, he only sent an offering to Yasukuni Shrine without going there. He told reporters that he would "neither confirm nor deny whether I will visit the shrine or whether I have sent an offering, given that matters relating to Yasukuni Shrine have become diplomatic issues" (Yomiuri, 2007). Fast forward to April 2013, when, during the annual spring festival at Yasukuni Shrine, Abe sent an offering of a "masakaki" tree paid out of his own pocket. Although it was claimed as a private offering and not an official behavior, on the board of the "masakaki" tree, Abe's title, "Prime Minister", was inscribed.

At the same time, Abe was making controversial statements. On April 22, 2013, he created another stir by stating that his administration did not necessarily wholly support the 1995 Murayama statement of apology to the victims of Japan's wartime aggression (Asahi, Yasukuni visits only harm national interests, 2013). But then, he reversed himself a month later, apparently to assuage the wave of criticism that had hit him. On May 15, Abe issued a statement clearly supporting the Murayama apology: "My administration upholds the statement as a whole."

But his position on Yasukuni in the face of strong criticism from China and South Korea over visits to the shrine by some of his Cabinet ministers and Abe's own offering, the Prime Minister told an April 24 session of the Upper House Budget Committee: "It is only natural to express feelings of respect to the war dead who gave up their precious lives for the sake of their nation," and "We will never bend to any form of threat. We have secured the freedom (to make such visits)." He implicitly blamed South Korea for rehashing historical disputes for political gain by stating that, "There was some criticism" when Kim Dae-jung was president from 1998 and "there was very little before that." He also noted: "There was no protest when the prime minister visited after Class-A war criminals were included among those memorialized there (in 1978)" (Abe: Cabinet will stand firm against 'threats' from neighbors, 2013).

After Abe himself visited the shrine on December 26, 2013, Chinese Foreign Ministry spokesman Qin Gang said, "We strongly protest and seriously condemn the Japanese leader's acts. This poses a major political obstacle in the improvement of bilateral relations. Japan must take responsibility for all the consequences that this creates." China also called this visit "absolutely unacceptable to the Chinese people." South Korea expressed "regret and anger" to the visit (Japan PM Shinzo Abe visits Yasukuni WW2 shrine, 2013). In addition, the U.S. Embassy in Tokyo stated:

"The United States is disappointed that Japan's leadership has taken an action that will exacerbate tensions with Japan's neighbors. The United States hopes that both Japan and its neighbors will find constructive ways to deal with sensitive issues from the past, to improve their relations, and to promote cooperation in advancing our shared goals of regional peace and stability" (Washington vexed by Abe Yasukuni visit, 2013).

Abe commented on his visit by saying that "It is not my intention at all to hurt the feelings of the Chinese and Korean people." Japan's officials also stated that Abe's visit was a private capacity and was not representing the government (Japan PM Shinzo Abe visits Yasukuni WW2 shrine, 2013). However, Seiichi Eto, a member of the upper house of parliament and a special adviser to the prime minister made this statement in a video posted on YouTube on February 16, 2014: "America said it was disappointed, but we are the ones who are disappointed they said that. Why doesn't America value its ally Japan?" He further criticized the U.S. for appeasing China, by saying, "You may think

the 'disappointed' statement was directed at Japan, but that's not the case. They are telling China that they are disappointed. My understanding is that it's just an excuse they are making to China." Abe immediately instructed Chief Cabinet Secretary Suga to direct Eto to delete this video (Reynolds & Takahashi, Abe Aide Told to Delete Video Criticizing U.S. Over Shrine Issue, 2014). As can be seen from this rapid action, Abe carefully reacted to avoid any potential conflict with the U.S. because for him, it was more important to manage damage control to Japan's ally, the U.S., than continue to stand on principle.

Denying Comfort Women Issue

When Abe was first elected Prime Minister in 2006, he said, "The government's basic position is that it follows the Kono Statement" of apology to the comfort women. But however, his position changed in 2007 (Muneo, 2012). On January 31, 2007, when Democrat Congressman Mike Honda called for Japan's government to "formally acknowledge, apologize, and accept historical responsibility in a clear and unequivocal manner for its Imperial Armed Forces' coercion of young women into sexual slavery," Abe refused. He responded he had "no plan to apologize" and argued that there was "no evidence that supports 'narrowly-defined coercion,' or the allegation that Japanese soldiers kidnapped women and coerced them" (Nakayama, 2007). Abe's argument implied that the women had voluntarily provided sex to Japanese soldiers, which of course denies the overwhelming evidence to the contrary.

On March 5, 2007, Abe stated that the government would "continue to follow the Kono Statement," but he still would not relent in his belief that "there was no evidence that verifies coercion, narrowly-defined coercion such as authorities breaking into houses to take away women like kidnappers would" (Muneo, 2012). Here, his denial of "coercion in the narrow sense" suggested that he rejected the well-documented view that there had been direct military involvement in the recruiting of comfort women for the Japanese military. His denial provoked sharp reactions in the U.S. and elsewhere. Then, on April 17 before Abe made an official visit to the U.S., he gave an interview to the Western media and corrected himself, saying, "I feel extremely sorry" about the comfort women issue and accepted it was "Japan's responsibility." Being a pragmatist, Abe apparently felt this was the only way to alleviate the critical reactions from U.S. that threatened to spoil his visit (Asahi, Prime Minister Abe gives interview to US media, expressing "Japan's responsibility" for comfort-women issue, 2007).

On April 26, Abe in a summit meeting with President George Bush stated: "As a human being and as the prime minister, I feel genuine sympathy for the comfort women for their having to undergo such painful experiences under excruciating circumstances. I feel sorry that they were placed in such a situation." He went on: "The 20th Century was a century in which there were many human-rights transgressions, and Japan, too, was a

part of it. I would like Japan to make major contributions in the 21st Century so that it will be a better age without human-rights violations."

President Bush responded: "I accept the Prime Minister's apology. It was a frank statement filled with great compassion" (Ahiru, 2007). However, when Abe was asked about this issue on May 1 by reporters, he waffled, "I did not at all apologize to the United States." He said he only "felt sorry for those who were comfort women." The South Korean media criticized him by commenting that "he picked the wrong person to apologize to" (Nakayama, 2007).

In February 2014, Abe again flirted with controversy by making remarks that seem to indicate he intended to review the Kono Statement of 1993. The Kono Statement acknowledged and apologized for the harm done to the victims who were made into military sex slaves. The Kono statement made on August 4, 1993, by then Chief Cabinet Secretary Yohei Kono admitted the responsibility of the Imperial Japanese Army with such expressions as, the "Japanese military was, directly or indirectly, involved in the establishment and management of the comfort stations", and "The recruitment of the comfort women was conducted mainly by private recruiters who acted in response to the request of the military." Kono had pointed out that "in many cases they were recruited against their own will, through coaxing, coercion, etc.", that "at times, administrative/military personnel directly took part in the recruitments", and that "they lived in misery at comfort stations under a coercive atmosphere" (Yoshida, Asahi Shimbun admits errors in past 'comfort women' stories, 2014).

However, Chief Cabinet Secretary Suga contended that the testimonies from 16 former Korean comfort women that were used in preparing the Kono Statement had not been reliable and should be examined again (Abe Relays Intention To Revise Kono Statement, 2014). A spokesman for the ROK Ministry of Foreign Affairs responded bitterly: "Looking at recent remarks by some Japanese politicians, rather than a change in attitude, they seem to be showing a worsening attitude. They do all the things we request them not to. In such a situation, how can we improve Japan-Korea relations" (Abe Relays Intention To Revise Kono Statement, 2014).

On March 10, 2014, Abe in a news conference asserted that his government would not revise the Kono Statement after all. He stressed: "With regard to the 'comfort women' issue, I am deeply pained to think of the comfort women who experienced immeasurable pain and suffering, a feeling I share equally with my predecessors...The Kono Statement addresses this issue ... and, as my Chief Cabinet Secretary Suga stated in news conferences, the Abe Cabinet has no intention to review it." He also confirmed that his government would adhere to earlier governments' positions on history based on the Murayama Statement. He concluded: "We must be humble regarding history. Issues regarding history should not be politicized or made diplomatic issues. I think that research on history should be left in the hands of intellectuals and experts" (Sieg, 2014).

Japan's Revisionists Bolder under Abe in 2017

In recent months, Abe's name has been dragged into a number of scandals linked to rightwing groups or individuals. It first started with the APA Hotels revisionist book issue. APA Group is a successful hotel chain with 413 hotels or resorts and 70,000 hotel rooms. Its founder Toshio Motoya, well-known for his rightwing revisionist views and for sponsoring revisionist essay contests, wrote his own revisionist history book -- *Theoretical Modern History II — The Real History of Japan* -- and placed copies in all APA hotel rooms. The book is filled with rightwing propaganda and ludicrous claims, contending, for example, that the Imperial Japanese Army's involvement in the 1937 Nanking Massacre was "fabricated by the Chinese side and did not actually happen." Motoya also wrote that the Chinese claim that "300,000 people slaughtered in Nanking" was a "falsehood". No one knows the exact number of civilians killed by the Japanese in that incident and estimates vary, but Motoya flat out denies that anything bad happened. His book also denies the existence of forced prostitution in South Korea (Murai, 2017). Motoya's book is filled with "alternative facts," including this whopper about Japan's action in Pearl Harbor:

"At the time of the Spanish-American War the U.S. blew up and sunk its own USS Maine, blaming it on Spain. It then used the slogan 'Remember the Maine' to inspire the citizens to fight against Spain ... and snatched away Guam and the Philippines. ... It is thought that the U.S. did the same thing during World War II, when it used the slogan 'Remember Pearl Harbor'" (Schreiber, 2017).

Motoya's bilingual book was soon revealed to the world when excerpts were posted on the Internet by appalled guests to the hotel chain. The hotel magnate rapidly came under fire in China and South Korea (Soble, Right-Wing Hoteliers in Japan Anger China With Radical Historical Views, 2017). Both countries reacted by boycotting the hotel and pulling their athletes from APA Hotel in Sapporo where the Asian Winter Games were held. An official of South Korean Sport & Olympic Committee asked Japanese officials to take "appropriate steps", noting that placing revisionist history books in rooms to be used by the athletes is "hurting the basic spirit of sports" (Murai, 2017). The China National Tourism Administration urged tour operators to stop cooperating with this chain hotel. Chinese Foreign Ministry spokeswoman Hua Chunying noted: "This once again shows that some forces in Japan are still reluctant to look squarely at history, and even try to deny and distort history" (Soble, Right-Wing Hoteliers in Japan Anger China With Radical Historical Views, 2017). Motoya, however, adamantly told his supporters that he would "never withdraw" the book under foreign pressure. The Western media, in picking up the story, asserted that revisionist groups that whitewash Japanese history were growing more emboldened under Abe (AFP, 2017). Tamotsu Sugano, an expert on Japanese right wing groups, revealed that Motoya has

close ties with the ultra-rightist group Nippon Kaigi, with which Abe has close ties through the related parliamentarians' league.

The Abe administration was careful to stay out of the fray, and avoided public discussion on the hotel issue. Deputy Chief Cabinet Secretary Koichi Hagiuda said Tokyo does not intend to comment on the furor and Japan's government should not intervene in the activity of a private company (Murai, 2017). Chief Cabinet Secretary Suga also declined to comment on the APA books when asked and only replied that Japan, China and South Korea should seek "forward-looking" ways to cooperate (Soble, Right-Wing Hoteliers in Japan Anger China With Radical Historical Views, 2017).

In February, a political scandal regarding the Tsukamoto Kindergarten, which offered to children a prewar-style education, dragged Abe and his wife Akie into what developed into a heated controversy that at this writing is still not over. Akie knew the owner's wife, and had once given a speech at the school, which was by any measure an anomaly in postwar Japan. Every morning, children were made to march in crisp rows to military music, bow to pictures of the emperor, vow courageously to offer themselves to defend Japan, and recite instructions for patriotic behavior laid down by the Meiji Emperor in the late 19th Century (An ultranationalist kindergarten in Japan, 2017). The school has been accused of promoting bigotry against Chinese and Koreans and of receiving illicit financial benefits from the government.

In addition, Akie Abe was listed as the "honorary principal" of a new primary school being built in Osaka by the same owner of Tsukamoto Kindergarten. The owner, registered as a private foundation, bought the school site from the government at an extremely discounted price, approximately 14% of its market value. The owner and principal of the Tsukamoto Kindergarten, Yasunori Kagoike, had a bad reputation with even some of the parents. They said simple complaints about school issues would be met with bigoted replies, with school officials accusing "Koreans and Chinese with evil ideas" of stirring up trouble. They said the school's principal, Kagoike, accused parents who challenged the school of having Korean or Chinese ancestors. "The problem," Kagoike wrote in one notice sent to parents, was that people who had "inherited the spirit" of foreigners "exist in our country with the looks of Japanese people." (Soble, Bigotry and Fraud Scandal at Kindergarten Linked to Japan's First Lady, 2017). In the note, he also called Chinese people "Shinajin", a discriminatory term equivalent of "Chink" (An ultranationalist kindergarten in Japan, 2017). Kagoike's bigotry and crookedness finally caught up to him. He is being tried on fraud and other charges.

Abe foolishly seemed to have let Kagoike take advantage of him. Kagoike claimed that he had given Abe a huge political contribution, which would have been illegal. Abe denied and it appears that the whole incident was fabricated by Kagoike. But for a while, the lies by Kagoike almost cost Abe his position as Prime Minister. Abe's foolishness though cannot be denied, for he once praised Kagoike for having an

“admirable passion” for education and that they shared a “similar ideology”. What he meant by that was that Kagoike reportedly was a member of the ultra-right Nippon Kaigi.

Attacked by the opposition in the Diet, Abe defended his wife, noting that she had resigned as “honorary principal.” He stated: “My wife and I are not involved at all in the school’s licensing or land acquisition, and if such were the case, I would resign as a politician” (Soble, Bigotry and Fraud Scandal at Kindergarten Linked to Japan's First Lady, 2017). Abe insisted that he and his wife were badgered into helping the kindergarten by Kagoike, who, Abe claimed, had used his name for fund raising “despite my repeated insistence he should not do so” (An ultranationalist kindergarten in Japan, 2017). Abe’s argument that he was set up by Kagoike, who claimed in testy Diet testimony to have received money from the Abe couple, was persuasive, and the scandal seems to have slipped off the public’s radar.

Although Abe has been personally trying to keep his distance from the ultra-right groups in order to protect his administration politically, his choices of cabinet ministers have been controversial. For example, 16 out of the 20 cabinet ministers are members of the Nippon Kaigi Parliamentarians’ League. And his defense minister Inada is a hard-core revisionist and ultra-conservative. On March 8, 2017, at a meeting of the House of Councilors Budget Committee, she shocked the country by touting the controversial Imperial Rescript for Education that was used by the militarists in prewar Japan to promote a nationalistic education and Emperor Worship. She stated: “I think Japan should reclaim the core elements of the Imperial Rescript on Education.” The spirit of the Imperial Rescript is “Japan’s aim to be moral country... I do not think the Imperial Rescript itself is completely wrong” (Defense Minister Inada praises Imperial Rescript on Education, 2017). The Rescript was officially abolished in 1948 by the U.S. Occupation to rid Japan of a tool used by the militarists. (Abe Cabinet Approves Textbook Use of Controversial Imperial Rescript Despite Opposition, 2017).

In April 2017, the Abe Cabinet approved the use of the Imperial Rescript in textbooks, causing considerable controversy. The Imperial Rescript is precious to right-wing groups, like the Nippon Kaigi, which has as one of its goals the elevation of the constitutional status of the Emperor. The organization links education, the Emperor, and constitutional revision in its policy agenda. On the Rescript, although the government allows teachers and principals to decide whether they will use those textbooks and how the schools will teach what is in them, the government’s pro-conservatism position is quite clear, and the Nippon Kaigi has been actively promoting the adoption of such textbooks at the school-board and local levels. Hiroshi Ogushi, policy chief of the opposition Democratic Party, criticized Abe this way: “We might end up reintroducing the Imperial Rescript. This clearly shows the Abe administration’s move to return to prewar philosophy” (Abe Cabinet Approves Textbook Use of Controversial Imperial

Rescript Despite Opposition, 2017). That the Abe administration is lined up with the goals of the Nippon Kaigi seems obvious.

Summary for Abe's Reconciliation and Revisionism

In Abe's book, *Towards a Beautiful Country: My Vision for Japan*, he wrote, "The framework of [Japan] has to be created by the Japanese people themselves from a blank sheet. ... Only then can [Japan] regain its true independence." Perhaps, Japan is still suffering the trauma for being a "defeated nation" for 70 years. In Abe's logic, he is seeking a "departure from the postwar regime" by "bringing back Japan (Mulgan, UNSW, & Canberra, 2012). Yet, he did not clearly state what exactly he wants to bring back. Japan's rightwing groups, such as the powerful Nippon Kaigi, seem to have faith in Abe to raise Japan's status in the world as an independent power. Abe, though, as a realist, knows that Japan's very survival rests on the Alliance with the U.S. and not on choosing an independent path, which would alienate Japan from Asia and the U.S. The public hopes Abe will maintain strong security ties with the U.S. and at the same time reboot the sluggish economy to bring Japan back on track. The narrow nationalist agenda of the Nippon Kaigi and other rightwing groups may crisscross with Abe's agenda on some points, such as amending the Constitution to recognize the Self-Defense Forces as a national army, but not on other issues that would serve to isolate Japan in the world.

So China and South Korea's worries that Abe might seek to return to its pre-war glory by remilitarizing Japan are unwarranted. Abe would much rather stick to a realistic approach, letting the U.S. take the lead in security affairs in the region and in the world. This is why Abe will continue to downplay his revisionist tendency and prioritize reconciliation with Asia and strong ties with the U.S.

It is a mistake to type-cast Abe as an ultra-conservative politician Abe in bed with such rightwing groups as the Nippon Kaigi. He is much more complex and clever than that. The Prime Minister has been seriously pursuing the goal of reconciliation during his three years in office, and he has kept his rightwing base in check by offering it small concessions that they have come to expect from him. That balancing act has been generally successful, though not fully appreciated or understood by his critics. Of course, threading the needle so carefully has meant that his achievements in the diplomatic sphere have received mixed reviews.

Yes, Shinzo Abe came into office with heavy ideological baggage in tow, due to his personal views of history, his family legacy, and linkage to rightwing groups. But since then, despite some regression, he has been making efforts, some successful, to set and implement a policy agenda that includes reconciliation with Asian neighbors and the U.S. Relations with China are on the mend, particularly at the summit level, and the contentious comfort-women issue with South Korea, though still volatile, has been

resolved at least at the government-to-government level. On this, the ball seems to be in the court of the new ROK government under President Moon.

In addition, Abe seems to set on carefully keeping his distance from rightwing groups, though his Cabinet is clearly in the Nippon Kaigi camp. However, when it comes to foreign policy, there is a clear break, for Abe has been trying to prioritize Japan's national interest over the xenophobic stances of the rightwing groups. Rebooting the economy is his primary goal. He remains in sum a revisionist with close ties still to ultra-right organizations, but he is also a realist and a patriot who desires to see Japan play a constructive and positive role in the international community, while linking its security and destiny to the alliance relationship with the U.S. On that front, Prime Minister Abe must be given credit where it is due.

Appendix

Timeline

Reconciliation

2005-2010 Abe supported Japan China Joint History Research and Japan South Korea Joint History Research

2006 Abe pledged to work to improve ties with China

2006 Abe's trip to Beijing and Seoul

Apr 2007 Abe avoided visiting Yasukuni by donating 50,000 yen as private citizen.

Apr 2007 Abe visited US for the first time as prime minister.

Oct 2007 Towards a Beautiful Country: My Vision For Japan

Oct 16, 2011 The government of Japan invited seven former US-Japan POWs to Japan for a week-long visit

Mar 2014 Abe paid a visit to the Anne Frank House in Amsterdam on the sidelines of the Nuclear Security Summit in the Netherlands.

Jan 2015 New Year's press conference by Prime minister Shinzo Abe

Apr 2015 Abe's visited to the US and delivered a speech at the Congress of US

May 2015 The Hate Speech Act was enacted by Japan's National Diet, supported by Abe

Aug 2015 the 70th anniversary of the end of WWII

Dec 2015 Japan-South Korea Agreement on the "comfort women issue"

May 2016 Obama embraced Hiroshima Survivor

Dec 2016 Abe visited Pearl Harbor with Obama

Revisionism

1995 Abe and the right-wing revisionist book, "the Greater East Asia War"

1995 Abe was selected as the deputy executive director of "Diet Members' League for the 50th Anniversary of the End of War"

1996 Abe was appointed deputy executive director of "Bright Japan - League of Diet Members" to revise textbooks

1997 Abe became the executive director of "Group of Young Diet Members for Consideration of Japan's Future and History Education"

2001 Abe complained about the content of an NHK program on the sex slaves issue and part of the Women's International War Crimes Tribunal was deleted

Dec 2006 Textbook revisionism: Fundamental Law of Education of 1947

Mar 2007 Abe denied Japan's war in Asia was a war of aggression; Denied Nanjing Massacre; Asserted that comfort women were not taken by force, but were regular wartime prostitutes; the US House of Representatives called on Japan to formally apologize for the comfort women tragedy

2012 Abe questioned Nanjing Massacre and comfort women issue; Argued that textbooks with descriptions of the comfort women issue were "far from common sense"

2012 Reviewing the "Murayama Statement"

Dec 2013 Abe visited Yasukuni Shrine

2017 March Defense Minister Inada praised Imperial Rescript on Education

2017 April Abe Cabinet allowed schools to study banned imperial order

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Resetting U.S.-Japan Trade Relations after TPP

Mr. Jeremy Fuller

Introduction

The alliance relationship between the United States and Japan has been a mainstay of U.S. foreign policy and the bedrock of Japan's national security since the Treaty of Mutual Cooperation and Security was revised in 1960. Although the countries have had their differences at times, particularly over trade issues, the alliance has endured, expanded, and grown stronger over the years, redefining itself accordingly as the international security environment has changed. Trade issues, once contentious, seem to have found resolution with a landmark agreement between the U.S. and Japan in 2015 after lengthy negotiations to sign the 12-country mega-free trade agreement known as the Trans-Pacific Partnership or TPP. The agreement would significantly open up markets across the Asia-Pacific and set new rules and high standards for trade and investment throughout the region.

All that came crashing down with the surprising election of Donald Trump as U.S. president last fall and his decision to pull the rug out from Japan and the other TPP members by taking the U.S. out of the agreement. Japan was abruptly shaken out of its relative complacency about the future of economic ties with the U.S. Trump on the campaign trail had warned Japan that trouble was coming if he were elected. The real estate magnate openly questioned many of the basic tenets of the U.S.-Japan security relationship, demanding that Japan pay more to host U.S. forces stationed there (Japan now provides more than 70% of the cost), threatening to pull U.S. forces out of Japan, and even suggesting Japan might be better off developing its own nuclear weapons. The rhetoric later proved to be just that, but during the campaign it caused serious consternation among policy makers in Tokyo.

To Tokyo's relief, however, the first few months of Trump's presidency, such campaign rhetoric was soon replaced with realpolitik more in keeping with traditional U.S. policy in Asia. In fact, the bilateral relationship with Japan was a high-point of Trump's first turbulent foray into international diplomacy. Thanks to assertive diplomacy by Japanese Prime Minister Shinzo Abe, with a little help from a belligerent North Korea eager to show Trump its threatening long-range missile prowess, the alliance has continued to function as well as it did during the previous administration of President Barack Obama.

Tokyo may have felt reassured when the new U.S. administration returned security relations with Japan to the status quo, but the same cannot be said for trade relations, particularly after Trump's blow to the TPP. The President's decision to pull out

of the Trans-Pacific Partnership, accompanied by accusations that Japan engages in unfair trade practices -- singling out auto and agricultural trade -- threw into question the trajectory of U.S.-Japan economic ties. Japanese policy makers were shocked to hear trade rhetoric that harkened back to the era of fierce trade friction in the 1980s, set off then by the U.S.'s burgeoning trade deficit with Japan. Those issues were long ago deemed resolved to the satisfaction of both governments, so resurrecting them in 2017 made little or no sense.

In place of the TPP, the Trump Administration has made signing a bilateral trade agreement with Japan a priority. Japan is willing to engage in a dialogue, but it has made no secret that it will resist negotiating a bilateral FTA; after all, it took an exhausting four years of TPP talks to reach a successful conclusion. Tokyo's game plan then hinges on how willing the Trump Administration will be to tone down its combativeness over trade with Japan and seek cooperation. This paper explores the ramifications of U.S. withdrawal from the TPP and the possibility of resetting economic ties between the U.S. and Japan under a mutually-beneficial bilateral arrangement.

Retreat from Multilateralism: Back to the “Noodle Bowl”

The TPP was the economic centerpiece of the Obama Administration's vaunted “Pivot to Asia.” It would have tied the United States together in a mega-Free Trade Agreement (FTA) with eleven other countries from the Americas and East Asia, covering nearly 40% of global GDP¹. The East Asian countries that comprised the deal included Singapore, Malaysia, Vietnam, and Brunei from Southeast Asia, and Japan from Northeast Asia.

It would have been enormously significant for the United States and Japan, with the first and third largest economies in the world, respectively, to have come together in an FTA. The TPP would have raised GDP growth in both countries, up to 2% for Japan according to some estimates. Yet, neither country considered this to be the only motivation for concluding the 12-party agreement. Excepting a few key industries, trade barriers are low between the two countries, and their economic linkages are already extensive. Instead, the Obama Administration and the Abe Administration both supported the TPP with the understanding that the agreement would have strategic and geo-political merit. It would have demonstrated an enduring U.S. commitment to Asia, increased Southeast Asia's economic interdependence with the U.S., and established regional rules of trade, labor, and environmental policy that conformed to high standards.

The Obama Administration considered the TPP's immediate economic effects to be secondary to its function as a blueprint for an open, liberal trade order in Asia, but the candidates in the 2016 U.S. presidential campaign focused almost exclusively on the agreement's narrow, economic costs. On the right side of the political spectrum, Donald Trump warned that it would cause an exodus of American jobs. On the left, Bernie

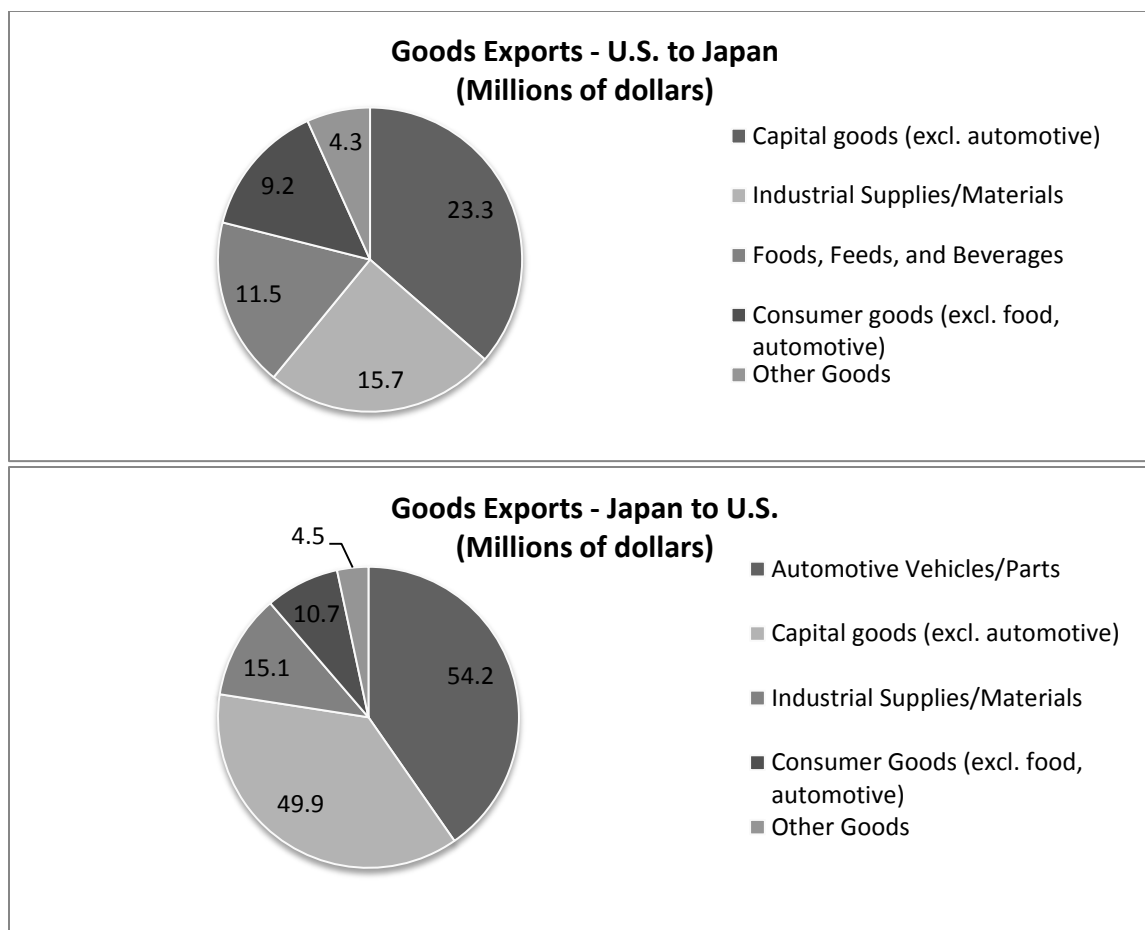
Sanders called it a corporate power grab and fixated on the secretive nature of the negotiations (a standard and necessary procedure for working out trade agreements). Even Hillary Clinton, who had served as Secretary of State during the formative stages of the agreement and endorsed the TPP as a “gold standard” of FTAs, made an about-face during the campaign to appeal to an electorate deeply skeptical of the benefits of free trade.² In the campaign, narrow-interest politics clearly trumped free-trade interests. None of them most likely had ever even read the contents of the massive agreement, let alone understand it.

President Trump has not kept all his campaign promises, but he has been remarkably consistent on trade. On his first day in the White House, he formally withdrew the United States from TPP, to the dismay of the other 11 TPP partners, who felt betrayed. Across the board, the Trump Administration has attacked U.S. trade deals, threatening to pull out of NAFTA barring renegotiation, criticizing the 2012 FTA with South Korea (KORUS-FTA), and briefly floating the idea of a border tax on imports. The Trump administration, in ripping up TPP, has adopted the antiquated strategy of pursuing bilateral deals instead of multilateral ones, believing that the U.S. can bring get better “deals” that way. Japan apparently will be the first test case.

A bilateral FTA between the United States and Japan is not an easy sell in the immediate aftermath of U.S. withdrawal from TPP. Negotiations would require revisiting politically sensitive issues, particularly in the agricultural sector and the automobile industry, as well as navigating President Trump’s antagonistic and often inconsistent claims. A U.S.-Japan FTA could be a model for Trump’s “America First” vision of trade deals; far more likely, the administration’s efforts to reach an agreement with Japan will showcase the difficulty of translating populist, protectionist rhetoric into a feasible basis for trade negotiations.

The State of U.S.-Japan Trade

Politics aside, the economic relationship between the United States and Japan is robust, and brings massive benefits to both countries. It should not be assessed only through the narrow and misleading prism of the bilateral trade imbalance. In trade in goods, Japan is the fourth largest destination for U.S. exports, receiving \$63.3 billion in 2016. It also is the fourth largest provider of goods imported into the United States. The United States is Japan’s largest destination for goods exports, taking in \$132.2 billion in 2016,³ and it is Japan’s second-largest source of imports. The charts below show the composition of goods traded between the two economies—notable asymmetries are in the automotive trade and the agricultural trade (which appears in U.S. exports in “Foods, Feeds, and Beverages”):



Source: Bureau of Economic Analysis⁴

The volume of trade between the United States and Japan has been relatively consistent over the past decade (with the exception of 2009), hovering around \$108 billion in goods and services exported from the U.S. to Japan and \$165 billion in goods and services exported from Japan to the U.S.⁵ The trade balance in goods amounted to a \$68.9 billion U.S. deficit/ Japanese surplus in 2016.⁶ Japan is the second largest source of foreign direct investment to the U.S. after the United Kingdom.⁷

Agricultural Trade: Revisiting a Contentious Issue

It remains to be seen whether the new economic dialogue between the U.S. and Japan will evolve into talks to conclude a bilateral FTA. If they do, a couple focal points are likely to emerge. In the TPP process, the agriculture and automotive sectors dominated bilateral negotiations between the U.S. and Japan until the last stage. Now, with the results of that long process undone, these sectors will remain at the forefront should bilateral discussions move toward a new FTA. Their prominence reflects a mix of opportunity for meaningful trade liberalization and the influence of political interests. It took years for American and Japanese negotiators to overcome the latter and make

moderate progress towards liberalization under the TPP. Replicating those gains, let alone surpassing them, could be an arduous task.

Japan has some of the lowest tariffs in the world, with an average rate of 4.3% (by comparison, the U.S. average is 3.5%).⁸ Agriculture is an exception: the average tariff faced by agricultural imports in Japan is 14.3%, and many agricultural products have tariffs of 100% or more.⁹ There are clear economic benefits for Japanese consumers and U.S. agriculture exporters in seeing these tariffs reduced. U.S. agriculture is already on board for a bilateral FTA with Japan, but Japanese farmers, represented by the powerful JA (Japan Agricultural Cooperatives or Nokyo), do not want to concede anything more than was agreed to during the TPP talks.

Japan is the number one market for U.S. beef exports¹⁰ and number two market for pork exports.¹¹ The U.S. is locked in a close competition with Australia to be Japan's largest beef supplier, but U.S. exporters have been at a disadvantage since Australia and Japan signed a trade deal in 2015 that lowered the tariffs paid by Australian beef producers.¹² The TPP would have leveled the playing field for U.S. exporters, lowering Japan's tariffs on chilled/frozen beef over a 16 year period from 38.5% to 9%. It would have also significantly weakened Japan's "gate price" system of import restrictions on pork and reduced tariffs on pork products over the next ten to twelve years.¹³

The CEO of the U.S. Meat Export Federation has said it is "urgent" that the U.S. pursue a bilateral FTA with Japan now that the TPP is off the table.¹⁴ The priority of U.S. meat producers is not to extract deeper concessions than received under the TPP but to make sure they do not get left behind in the Japanese market. Japan and the EU plan to conclude an FTA by the end of the year, and Japan remains in ongoing negotiations for RCEP and TPP 11 with Asia, so American meat exporters may find even tougher competition going forward if the U.S. government cannot conclude a bilateral agreement with Japan in the near future.

U.S. rice farmers also stand to profit from a bilateral deal. Japan's rice market is heavily protected by import quotas and prohibitively high tariffs. In the TPP, Japan agreed to a modest expansion of this quota over a 13-year period, along with the elimination of tariffs on animal feeds containing rice.¹⁵ USA Rice judged that these gains were too small to offset potential losses of exports elsewhere within the markets of TPP members (e.g. from Vietnamese competition in Mexico), so the organization came out in opposition of the agreement.¹⁶ However, if the TPP goes into effect without the U.S., those losses will still be realized. USA Rice only stands to gain from a bilateral agreement with Japan, but it will be difficult to attain greater concessions than under the TPP due to the lobbying efforts of Japan's rice farmers and the domestic attachment in Japan to Japanese-made rice (like beef, it is one of Japan's five "sacred" agricultural products).¹⁷

Japan's agriculture industry is badly in need of reform. Japanese farmers, 67 years old on average,¹⁸ have jealously guarded their small, privately-owned plots, obstructing productivity-enhancing measures that would facilitate farmland consolidation under corporate management. The Central Union of Agricultural Cooperatives (JA-Zenchu), which connects local farmers to vendors, is well organized and politically active, and it has long been a major source of support for Abe's Liberal Democratic Party (LDP). Government reforms and the shrinking population of farmers have caused JA-Zenchu's stature to wane in recent years, but taking on the farm lobby still demands enormous political capital. Abe was only able to do so under the TPP because it was a large agreement with many auxiliary geo-political and economic benefits.

The Japanese Diet ratified the TPP agreement in January 2017, even though the U.S. was pulling out. While the exit of the United States has put the agreement in jeopardy, the Abe Administration announced its commitment to support the implementation of the TPP 11 (TPP without the U.S.) agreement. This will entail altering the TPP's rules, as it currently requires ratification by member countries whose GDP makes up 85% or more of the total GDP under the agreement in order to come into force—an impossible target to hit without the U.S. If Japanese negotiators can find a way to implement TPP 11 or even a smaller permutation of the TPP,¹⁹ there is a chance that Abe could still realize the hard-fought gains of his battle with the farm lobby. In another scenario in which the TPP disappears completely, Abe may see the utility of using a U.S.-Japan bilateral FTA to solidify the structural agriculture reforms that are a critical part of his "Abenomics" growth plan.

The Hopeless Pursuit of Balanced Automotive Trade

Automotive trade between Japan and the U.S. has been subject to bitter disputes for decades. TPP negotiations were supposed to put remaining issues to rest (a gradual removal of remaining tariffs, etc.), but now with that option gone, autos could remain a point of contention. Japanese officials deny that there is still any issue with the U.S. auto market. As a result of the trade disputes of the 1980s and 1990s, Japanese auto manufacturers invested heavily in local-assembly factories in the United States. According to the Japanese Automobile Manufacturers Association, 75% of Japanese-branded automobiles sold in the U.S. in 2015 were built in North America.²⁰ Even so, automobiles and auto parts make up roughly a third of Japan's goods exports to the United States.²¹ U.S. tariffs on Japan's auto imports today are mostly insignificant, but there are exceptions, such as the 25% tariff on mid-sized trucks. The TPP would have phased out these remaining tariffs over a period of 25 years or more²² (which shows how wary U.S. automakers are of Japanese competition), and it would have reduced tariffs on auto parts, to the benefit of Japanese auto production based in the U.S.²³

Since the 1970s, U.S. automakers have made attempts to gain market share in Japan. They have never been successful, even though Japan imposes no tariffs on auto imports. Detroit has blamed its failures on non-tariff barriers (NTBs), from complicated regulations to a distribution system that discriminates against foreign cars. The Japanese side counters that most of the barriers have been removed over time, and that the problem is one of marketing in Japan, not NTBs. In his campaign, Trump took up the cause of U.S. automakers and complained about the difficulties of selling American-made cars in Japan, using arguments that date back to the 1980s. But if his administration is serious about reducing the auto trade deficit by shipping more U.S. brand autos to Japan, it has few policy options at its disposal. FTAs are effective at removing tariffs, but they are not well-equipped at tackling more amorphous NTBs, assuming that any still exist. For European car makers, who are generally doing well in Japan, NTBs do not seem to be a factor.

In 1992, President George H.W. Bush wrested a promise from the Japanese government to promote the sale of U.S. autos in Japan.²⁴ These “action plans” did not obligate meaningful compliance on the part of Japanese importers, so the Clinton Administration, which vowed to be tough on Japan, tried to go further by pressuring the Japanese government to agree to specific numerical import targets or guarantees. U.S. policymakers hoped the mandated imports would force Japanese businesses and consumers to reconsider prejudices against U.S.-made products. But the Ministry of International Trade and Industry balked at this heavy-handed tactic, protesting that it would undercut the market and lead to managed trade.²⁵ Japan simply said “no” to the U.S. demand to rig the market so that a certain number of American cars would have to be imported.

Some of the Trump Administration’s pronouncements recall the language of U.S. politicians during the acrimonious period of trade friction in the 1980s and 1990s. But most economists who know the market situation say such rhetoric is ultimately out of step with the economic reality of 2017. It is unlikely that the administration will try import guarantees. They may push for something less controversial, along the lines of the U.S.-Japan side agreement on auto trade under the TPP. This document incorporated harmonization of regulations and safety standards, a simplification of Japan’s certification procedures, and even the creation of a dispute resolution mechanism.²⁶ A similar agreement could be arranged today outside of the framework of an FTA.

Recycling the TPP side agreement could marginally improve the prospects for U.S. auto exporters, but the deficit in auto trade is not going to disappear soon, regardless of how tough U.S. negotiators are. The failure of U.S. automakers in Japan is mostly self-inflicted rather than the result of protectionism. The success of European automakers is a testament to this fact. Detroit simply has not invested in a strategy to be competitive in the Japanese market, whether through marketing, designing smaller more fuel-efficient

cars to meet the tastes of Japanese consumers (and the reality of Japan's roads), or even making the basic accommodation of selling right-hand-drive versions of U.S. cars to match with Japan's left-hand traffic. In a press conference this year, the chairman of the Japan Chamber of Commerce said of American automakers, "If they're going to sell cars in Japan, it's obvious that they need to make an effort to appeal to Japanese customers."²⁷ A trade deal cannot fix this.

The New Trade Team

At this point, no one really knows what the Trump Administration's trade strategy will be toward Japan or any other country. There has been no clear articulation in writing; all we have are campaign rhetoric and slogans, but no contents. The profiles of its top trade officials offer an indication, though most of the sub-cabinet officials have yet to be named, let alone appointed. It could be months, if not longer, before a coherent policy and agenda emerge.

Although the administration has been consistent in its desire to conduct bilateral trade deals that reduce U.S. trade deficits, there already is a complex "noodle bowl" of bilateral FTAs in Asia and around the world. That is the reason the world has been moving, until Trump, toward mega-FTAs such as the TPP. Another problem for the Trump administration is that his top officials responsible for trade policy display a diversity of philosophies that could complicate the administration's attempt to cobble together a coherent, effective strategy. Those most in line with the staunchly protectionist views expressed by the president during his campaign are Peter Navarro, Wilbur Ross, and Robert Lighthizer, while Gary Cohn leads the moderate, pro-trade faction.²⁸ Among these four, Wilbur Ross has been the most closely involved in the administration's economic communications with Japan to date, with Robert Lighthizer likely to take the lead in future trade talks now that he has been confirmed as U.S. Trade Representative (USTR).

Wilbur Ross, the Secretary of Commerce, has been a central figure in the new administration's first forays into trade negotiations. Simon Lester, from the Cato Institute, was skeptical about the role Ross could play, calling him an "investor, not a negotiator," but in the absence of a USTR, Wilbur Ross initially took charge of U.S. trade policy. He attended the first session of the new U.S.-Japan bilateral economic dialogue in Tokyo alongside Vice President Mike Pence, and he has met several times with Japan's Minister of Economy, Trade, and Industry, Hiroshige Seki.

In his short tenure as Commerce Secretary, Ross has spoken out many times about the need to reduce U.S. trade deficits, attributing them to the failings of existing U.S. trade deals and unfair trade practices by economic competitors. In an interview with CNBC, he declared, "We are in a trade war. We have been for decades. The only difference is that our troops are finally coming to the rampart."²⁹ The words could have

come out of a script from the 1980s trade disputes with Japan. Ross has highlighted the trade deficit with Japan as a problem on several occasions, but he has stopped short of publicly accusing Japan of discriminatory trade practices. His level of involvement in trade policy will likely diminish with the USTR in place.

Robert Lighthizer is poised to take charge of U.S. trade negotiations as the new USTR. Lighthizer has considerable experience working on trade deals, having worked as Deputy USTR in the Reagan Administration. In that role, he orchestrated the imposition of voluntary quotas on Japanese steel exports to the United States, to protect U.S. steel manufacturers. Lighthizer has been a lifelong protectionist, arguing in 2011, “The recent blind faith some Republicans have shown toward free trade actually represents more of an aberration than a hallmark of true American conservatism. It’s an anomaly that may well demand re-examination.”³⁰ As trade policy transitions to Lighthizer’s stewardship, the combative, single-minded focus on trade deficits will not falter.

The Bilateral Economic Dialogue

Japanese officials expected the worse from the Trump administration when they heard such hawkish comments on trade from the newly appointed U.S. trade officials. But, surprisingly, the early 2017 summit meeting between Trump and Abe went smoothly. Although the summit’s main purpose was to affirm the enduring strength of the Alliance, the two leaders spoke about economic cooperation, sidestepping delicate issues and confining the discussion to inoffensive assurances. In short, the two hit it off quite well, and the President indeed seems to like Prime Minister Abe. The meeting was well-received in Tokyo with officials there probably breathing a sigh of relief.

While Trump did not bring up the subject of bilateral trade negotiations during the summit meeting, he agreed to Abe’s proposal to open a bilateral economic dialogue, to be co-chaired by Deputy Prime Minister Taro Aso and Vice President Mike Pence. It took place in April in Tokyo.

In the run-up to the dialogue, media reports highlighted the differences in the goals of the two sides. Aso downplayed the topics of bilateral trade and currency manipulation, expressing an intention to discuss energy, infrastructure, and macroeconomic policy coordination, in keeping with the previously agreed upon agenda for the talks.³¹ Infrastructure in particular offers a rare alignment of interests, given Trump’s outspoken criticism of U.S. infrastructure and Japan’s expertise in high-speed rail. Japanese railroad executives have been trying to sell bullet trains to the U.S. for at least a decade, so far without much success.

U.S. officials, on the other hand, frequently spoke of the dialogue as a venue in which to begin trade negotiations. Abe shrewdly pre-empted some of these points of disagreement, fending off the original U.S. proposal to send Ross and the fiercely

protectionist Peter Navarro to the dialogue and suggesting Pence in his place. The vice president advocated free trade as governor of Indiana, a state in which Japanese companies employ 50,000 people.³²

The first round of the dialogue took place in Tokyo on April 18. In addition to the conversation between Aso and Pence, Ross met with METI Minister Seki in advance. The discussion comprised little more than a sounding-out of the two sides' aspirations for subsequent meetings, but it revealed the extent of the gap between the two governments. The slight, one-page joint statement released at the meeting's conclusion contains a plan to reconvene the talks before the end of the year, along with an outline of the "three pillars of activity" that will define the dialogue's contents moving forward:

- 1) Common Strategy on Trade and Investment Rules/Issues
- 2) Cooperation in Economic and Structural Policies
- 3) Sectoral Cooperation

The short descriptions provided for each of the pillars are noteworthy only for their vagueness. The first pillar does not touch on a U.S.-Japan trade agenda but proposes only a "bilateral framework for setting high trade and investment standards" and discussion of trade and investment strategies in the "regional and global trading environment" (as opposed to bilateral). The second pillar covers coordination on fiscal, monetary, and structural policies, as well as global and regional macroeconomic and financial cooperation. The third pillar receives a single sentence, which does not identify any sectors for sectoral cooperation but assures that efforts will concentrate on areas that can bring "mutual economic benefits and job creation in both countries."

A Japanese official in the Ministry of Foreign Affairs (MOFA) recommended judging the press release by what it does not include. In short, practically nothing *does* appear in the document. The issue of the bilateral trade balance is nowhere to be found, either explicitly or implicitly. Even uncontroversial topics, such as energy cooperation and infrastructure, did not make the cut. The language of the press release establishes a predominantly regional and global scope and is surely a victory for the Japanese side, which set out to avoid any and all points of bilateral trade friction and which still endeavors to use multilateral mechanisms to write regional rules of trade. From all that, one can conclude that at this rate, the economic dialogue will be a long, winding road possibly to nowhere.

Speaking to the media following the dialogue, Ross reaffirmed his administration's intentions to push for an FTA, saying, "We are certainly eager to increase our trade relationships with Japan and to do so in the form of an agreement."³³ He did not specifically tie this goal to the economic dialogue, so he did not commit the United States to an agenda for the next meeting. Aso, for his part, continued to emphasize the regional component of bilateral cooperation, stating, "Japan and the United States should work together to establish a deregulation framework for trade and

investment and spread it to the entire Asia-Pacific region.”³⁴ Japan’s goals are more expansive than those of the Trump Administration and more congruent with the multilateral character of RCEP and TPP 11 than with a bilateral deal.

Does Japan have any serious expectations for the dialogue? As a mechanism for setting regional trade standards, it is several orders of magnitude weaker than the TPP would have been. Without the incentive of greater market access that the U.S. offered in the TPP, there are few tools with which to motivate Southeast Asian countries to liberalize their economies. If Japan’s stated objectives for the economic dialogue therefore seem unworkable, it is because the dialogue has little real use to Japanese policymakers besides accommodating and deflecting U.S. pressure to discuss trade. Simon Lester dismissed the dialogue as a placeholder to give Japan time to prepare for bilateral negotiations, and a Japanese official bluntly characterized it as a “delaying tactic.” By compartmentalizing the tricky issue of bilateral trade into a manageable forum, Japan can placate the trade deficit hawks in the Trump Administration and, if need be, outlast the administration entirely.

Fair Trade, not Free Trade

It will take a determined effort to bridge the distance from the noncommittal first dialogue session to actual trade negotiations. It was inevitable that opening up the Japanese agriculture market to international competition would be a difficult task in the aftermath of the U.S. withdrawal from the TPP. However, the obstacles the Trump Administration faces in reducing the automotive trade deficit are self-imposed (American car manufacturers seem more interested in fending off Japanese competition in the U.S. market with government help than making a real effort to succeed in the Japanese market). And the U.S. administration will continue to have difficulty convincing tepid Japanese trade negotiators to cooperate as long as it maintains its fundamentally flawed approach to trade and trade negotiations.

In almost every presidential election, trade issues become highly politicized, with fingers pointed at this country or that as the culprit for the loss of U.S. jobs, and simple-minded protectionist solutions are usually proposed. Trump in the campaign captured a base of blue-collared workers with his anti-free trade rhetoric. He frequently harped on existing trade agreements as bad for America, and repeated the nationalistic, protectionist slogan, “America First”, which is now plastered across the homepage of the USTR website. What would an “America First” trade deal look like? Based on administration’s own words, it would be a beggar-thy-neighboring country agreement that would somehow create jobs, reduce trade deficits, and combat unfair trade practices.

The Trump Administration has emphasized “fair” trade even more than it has advocated free trade. The term appeared in the joint statement released at the conclusion of the February summit between Abe and Trump.³⁵ What is “fair” trade? One Japanese

economist dismissed it as shorthand for protectionism. In his statement in front of the Senate Finance Committee, Lighthizer described the “vast, vast majority” of his decades of working in trade law as “representing U.S. manufacturing companies opposing unfair trade.”³⁶ The term fair trade is combative by nature and suits the administration’s aggressive tactics. U.S. officials have used it in the context of accusations of dumping government-subsidized manufacturing goods into world markets and competitive manipulation of currency (which is not a diversion from Obama era trade enforcement). But if the administration wants to reduce the U.S. trade deficit, should it prioritize fair trade?

Trade Deficits and Trade Policy

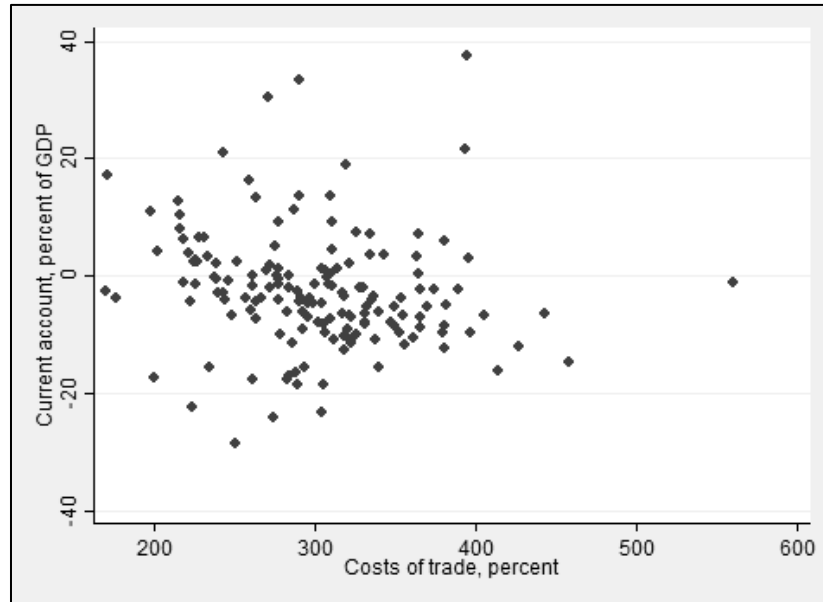
After China, Japan is the U.S.’s second largest trade deficit, at \$69 billion in 2016. The U.S. has run a trade in goods deficit with Japan since the early 1970s. Trade data released this May indicated that Japan’s trade surplus with the United States grew to \$7.2 billion in March. Secretary Ross responded to these figures, calling the deficit unsustainable and reiterating the U.S. commitment to “rebalance” its trade relationships.³⁷ A preoccupation with trade deficits has been a central feature of the Trump Administration’s trade policy. In fact, it is probably the single most important factor motivating the administration’s approach to evaluating existing U.S. trade agreements as well as potential future agreements. The political narrative advanced by the administration is that bad deals and unfair trade practices have created trade deficits which have cost U.S. jobs. This narrative was compelling during the 2016 election, but it does not accord with economic reality.

Barriers to trade (i.e. tariffs) and unfair trade practices have a negligible effect on the trade balance. The trade balance is a function of domestic savings and investment. If a country invests more than it saves, it must finance the investment not covered by domestic savings by using international savings. The U.S. has never had trouble attracting foreign capital; this has allowed U.S. households to maintain a relatively low savings rate, hovering around 5%. Japan’s high-growth decades were propelled by high household savings rates, but since the bursting of the bubble economic at the end of the 1980s, Japan’s household savings rate has dropped precipitously, to the point that it briefly became negative in 2015.³⁸ In isolation, the fact that the United States currently has a higher household savings rate would suggest that the U.S., not Japan, should be running a trade surplus. Household savings do not tell the whole story, however—the current account is a function of both the private savings-investment gap and the government budget balance.

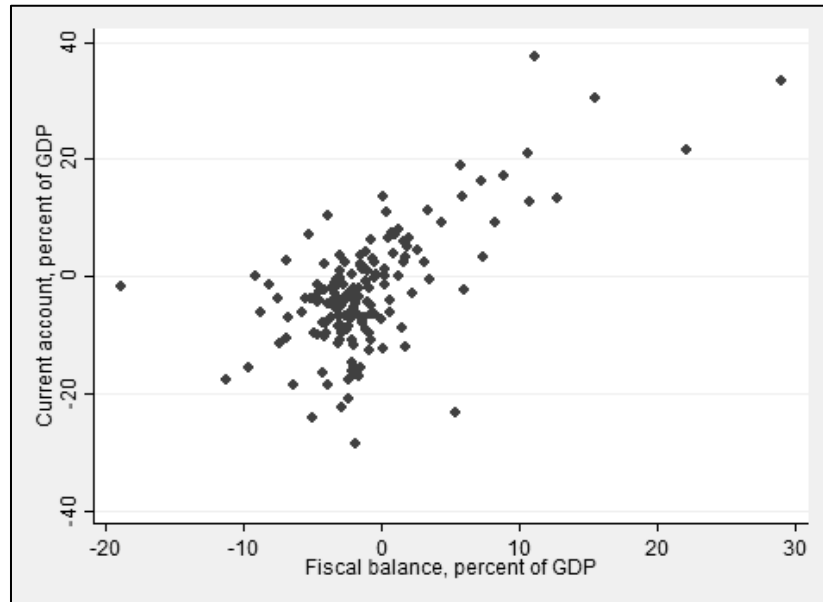
Therefore, the most direct action the government can take to reduce the trade deficit is through fiscal policy to reduce budget deficits. Considering the Committee for a Responsible Federal Budget has estimated the administration’s initial tax proposal

could reduce government revenues by \$3-\$7 trillion over the next decade,³⁹ the trade deficit may very well expand regardless of how aggressively the United States polices trade infractions and renegotiates trade deals. The graphs below illustrate that there is a lack of correlation between trade barriers and the current account balance but a noticeable relationship between fiscal policy and the current account:

Overall Trade Barriers and Current Account Balance



Fiscal Policy and Current Account Balance



Source: The Peterson Institute of International Economics⁴⁰

While these structural variables explain why the United States runs a trade deficit in the aggregate, they do not fully account for why it runs a trade deficit with Japan in particular; after all, the U.S. runs trade surpluses with many countries. The deficit with Japan primarily reflects the role that each country plays in the international marketplace. As a resource-poor country with little territory, Japan imports raw materials and energy resources from developing countries and oil states. To pay for these imports, Japan exports advanced manufactured goods, produced in supply chains that span East Asia, to upper-income developed markets such as the U.S. and Europe.⁴¹ No U.S. trade policy can unilaterally change this reality. Perhaps shale gas exports to Japan can be increased, as some Japanese officials have suggested, but the effect would be muted due to Japan's increased energy diversity, and it would still not come close to solving the problem of the overall U.S. trade balance.⁴² If the Trump Administration is serious about reducing the trade deficit, it should focus on the savings-investment gap and fiscal policy instead of haggling for piecemeal anti-economic concessions with established trade partners like Japan.

Currency Manipulation

A recent article from the Peterson Institute for International Economics explains: "The most important government policies influencing trade imbalances are fiscal balances and currency intervention."⁴³ The Trump Administration may neglect to make the connection between trade deficits to national savings, but it has been vocal about the problem of currency manipulation. During the campaign, Trump time and again stressed the need to name and punish countries who competitively devalue their currencies. China was at the top of his list, and he promised to label them as currency manipulators on day one of his presidency, but he accused Japan as well (and repeated this charge as president).⁴⁴

Day one of Trump's time in office came and went without a word on currency manipulation, and in April, U.S. officials explicitly stated that the administration has no intentions of naming China as a currency manipulator at this time.⁴⁵ Strategic concerns probably motivated this decision, as the U.S. hopes to secure China's cooperation in the current standoff with North Korea, but it is nevertheless a sign that the administration does not intend to follow through on its tough talk about currency intervention.

This should relieve Japanese officials and U.S. trade experts. In the context of bilateral economic talks, such accusations against Japan would be both unfounded and counterproductive. Japanese policymakers vehemently denied Trump's previous claims, asserting that Japan has not intervened in currency markets in years. While the Bank of Japan has employed quantitative easing in an attempt to spur investment and hit inflation targets, this is distinct from devaluing the yen in order to stimulate exports and not much different from the U.S. Federal Reserve's actions since 2008. The sharp reactions of

Japanese officials to Trump's accusations are indicative of the animosity a formal rebuke could unleash.

The U.S. is unlikely to label Japan a currency manipulator, but even trying to fold a clause on the topic into a bilateral FTA would be a non-starter. During his campaign, Trump argued that the TPP was a bad deal because it did not tackle currency manipulation,⁴⁶ but no FTA has ever addressed currency manipulation. Ironically, the TPP was perhaps unprecedentedly attentive in that regard; TPP member countries signed an accompanying joint declaration expressing a commitment to refrain from “unfair” currency manipulation practices and competitive devaluation. The document even stipulated standards for reporting exchange-rate-related information and relevant macroeconomic data.⁴⁷ Apparently, the Trump camp was unaware of that fact or chose to ignore it during the campaign.

The Political Outlook in Japan

It should not be surprising that few politicians in Japan are clamoring to sit down at the table with the United States to discuss a new trade deal. There are still some who even believe that the U.S. can be coaxed back into the TPP. According to a Japanese economic analyst, a handful of Japanese industries may be “reluctantly receptive” to the idea of a bilateral FTA, but none have come out actively in favor. Keidanren, the Japan Business Federation, takes a more comprehensive view of Japan's economic welfare, so it typically promotes the expansion of trade, but it has not yet expressed its support either. In a paper released on April 18 entitled “Keidanren's Principal Position on the US-Japan Relationship,” the group called for “Establishing free and open trade and investment rules in the Asia-Pacific region” on the basis of the outcomes of TPP in order to prepare for an eventual Free Trade Area of the Asia-Pacific, which would essentially merge the member countries of RCEP and the TPP (including the United States) under one FTA—the document makes no mention of a bilateral trade deal with the U.S.⁴⁸

Indeed, the experts in Japan whom I interviewed were not aware of any private or public groups in Japan that have stepped forward to urge the Abe Administration to work with Trump on bilateral trade. Meanwhile, there is clear resistance to trade talks from the agricultural lobby, the LDP base, and the opposition Democratic Party (although it is beset with internal problems and lacks focus). Even if Abe himself is willing to explore the possibility of an agreement in principle, he exhausted his political capital in the TPP negotiations. Taking on the agricultural sector again will be a herculean task, and it is extremely unlikely that he will try anything before the 2018 election.

Abe managed to shore up sufficient support for the TPP not because of its bilateral economic component with the U.S. but because of how the agreement would drive liberalization in the region. Statements by Japanese officials, the press release from the economic dialogue, and Keidanren's position paper all demonstrate that the focus of

Japan's trade policy is emphatically regional. A bilateral FTA negotiated with the Trump Administration would most likely be less favorable for Japan (or at least tougher on its politically sensitive industries) than the U.S.-Japan portion of the TPP, and it would do practically nothing to advance the Asia-Pacific's regional economic architecture. Japan's trade goals are completely at odds with the "America First" policies of the Trump Administration, so if Japan returns to the negotiating table, it will be for reasons beyond economics.

Although Trump has stepped back from the most alarming comments he made about Asia during the campaign, his administration has yet to articulate a coherent Asia policy, and Asian allies fear that the United States will retreat from its leadership role as a guarantor of peace and stability in the region. At the same time, the severity of regional threats has increased—the DPRK has made strides in ICBM technology, and China continues to militarize the South China Sea. Insecurity caused by these developments might make Japan more amenable to U.S. trade demands. By working towards a deal with the United States, Japan could keep its ally engaged in the region and ensure that the U.S.-Japan relationship does not lose its early momentum under the new U.S. administration.

Will these strategic concerns be strong enough to outweigh the present political and economic obstacles in the way of an agreement? In the judgment of one MOFA official I interviewed, it is not likely. The new U.S. administration has already demonstrated that it will remain committed and attentive to Asian-Pacific security. A U.S.-Japan FTA built on "America First" principles, in addition to being economically imprudent, would have no geo-political significance.

Robert Lighthizer himself recently admitted, "I don't think Japan is in a position where they want to do [a bilateral] negotiation." While his judgment here is probably sound, his subsequent request that Japan unilaterally lower barriers on some U.S. exports is quixotic. It also belies the administration's range of options to achieve progress on bilateral economic relations.⁴⁹ The United States and Japan can continue to deepen their economic ties through cooperation in infrastructure, energy, and macroeconomic policy, and these matters can be handled outside the framework of a trade agreement.

A Misguided Starting Point

Does the Trump Administration really want a free trade agreement with Japan? It does not look like it. The administration wants to reduce the trade deficit with Japan, and in this context, a trade agreement is a means, not an end. The rules of economics tell us that it will be an ineffective means. Are there areas in which Japan and the U.S. can gain from further liberalization? Certainly, and Japan's agricultural sector is a prime example: relaxing barriers to trade would benefit Japanese consumers and U.S. exporters, and it would expedite structural reforms to increase the productivity and competitiveness of

Japanese agriculture. But the United States just threw out a finished agreement that addressed most of the major barriers to trade faced by both countries, and starting over will not be easy, particularly if the U.S. approach is based on a combative, futile effort to reshape the bilateral trade balance.

The Trump Administration has shown itself flexible in many aspects of its foreign policy, and even though the administration has been far more consistent on trade than on matters of national security, the reversal on labeling China a currency manipulator suggests there could be room to maneuver. Further reversals will be necessary if the U.S. hopes to start negotiating an FTA with Japan; in fact, it will require nothing short of a sea change in the administration's trade philosophy. Perhaps the rhetoric can be retained—terms like “fair trade” can be politically expedient at a time when U.S. voters seem united in antipathy towards trade. If the U.S. lets the politics follow the economics, rather than the other way around, the odds of productive negotiations will improve. But getting more for less will not be possible with Japan. Abe wants to increase the proportion of Japanese trade covered by FTAs, but with Japan a party to several major FTAs under negotiation, he has other avenues by which to accomplish this goal without having to turn to the United States.

By all accounts, Abe and Trump have formed an amicable working relationship, and they have been in frequent contact since Inauguration Day. Anxieties over the future of the alliance that were heightened after Trump's unexpected electoral victory have been mostly assuaged. The U.S.-Japan relationship will continue to be the cornerstone of U.S. engagement in the Asia-Pacific, and the robust bilateral economic relationship will not erode; it most likely will continue to thrive. Neither country will be much worse off if no bilateral trade deal is reached—the real damage in political terms has already been done.

By pulling out of the TPP, the U.S. sent a message to Southeast Asia that it is no longer serious about competing with China for economic influence, and it forfeited a chance to write the rules of trade in the most economically significant region of the world. A bilateral FTA with Japan cannot rectify that. Japan worked alongside the United States under the TPP, but now it will have to act alone. As a member of RCEP and TPP 11, Japan is still in a position to wield influence on regional macroeconomic and trade policies. Despite Trump's disruptive trade policies, Japan will remain a true friend and ally of the United States. While the Trump Administration frets over trade deficits and antagonizes U.S. trade partners, it will be up to Japan to fight for real U.S. interests and carry the banner of trade liberalization in the Asia-Pacific.

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Can Shinzo Abe Revive Japan's Dying Farm Sector?

Mr. Matthew Gee

Introduction

Japan's agricultural sector is shrinking fast, the result of a rapidly aging and dwindling farm population and declining productivity, farming contributing a mere 1.5 percent to GDP. Moreover, agriculture in Japan remains highly protected by misguided policies that only contributed to the weakening of the sector. Prime Minister Shinzo Abe, who has made structural reform a key component of his comprehensive policy ("Abenomics") to reboot Japan's economy, has specifically targeted the dying farm sector for special treatment. What has he done so far to revive agriculture in Japan? And what are the chances that his policy mix, if implemented, will begin to bring agriculture back from the realm of zombie industries? This paper seeks to probe that effort in detail, evaluate the Prime Minister's progress to date, and assess the future chances of agriculture in Japan.

The land reform implemented in Japan during the postwar occupation years resulted in numerous small scale farmers coming into existence. With the Japanese Miracle sending the economy seemingly upwards forever during the high-growth years of the 1960s and 1970s, government policies, coupled with protective legislation by the Diet, ensured that these farmers would not be left behind as the manufacturing sector soared. Their land ownership rights were reinforced and they were granted subsidies to lower their costs. Meanwhile, as young men in the rural villages realized they could make significantly more money in the corporate world than as farmers, many would transition to white-collar work. Young women, too, left the farm villages to work in the lucrative urban environment. The legal system set up to protect the agricultural sector did nothing to stem off the decline over the years in the farm population and the farm economy. The subsidies encouraged part-time farmers to stay in the business, while the number of full-time farmers dwindled. The system encouraged the phenomenon of weekend-farmers, or white-collar workers retaining their land and engaging in marginal farming on weekends and holidays, adding nothing to the economy. Farm holdings remained miniscule. Productivity in the agricultural sector dropped along with output, an obvious result of the transition of a full-time workforce to part-time.

This was further compounded by rising land prices, which started in the 1980s. This incentivized many part-time farmers to retain their land, hoping to make money on it one day when developers would grab it up at a high price. Herein lies one of the great contradictions of Japanese agriculture. Although the consolidation and purchase of land for agricultural reasons is legally discouraged, the consolidation and purchase of Japan's scarce arable land for urban development reasons is not only acceptable, but desired. In

urbanizing remote suburbs and regional towns and cities, it is common to see what used to be paddies and fields be turned quickly into shopping strips and other retail ventures, as well as residential areas.

Incentives for Agricultural Sector Reform

In recent years, calls for comprehensive reform of the agricultural sector have finally reached a critical mass, and the current government under Prime Minister Shinzo Abe has embarked on an ambitious plan that if successful could start to change the face of farming in Japan. Politics aside, there are many incentives -- geographic, demographic, and international pressures -- driving change in the farm sector.

All of the geographic and demographic facts point to the inescapable conclusion that Japan's agricultural system needs to be reformed. As other authors have explored this issue in greater depth, I will offer only a brief overview. Although Japan is about the same size as Germany, it has mountains over 70% of its landmass, thereby reducing the land available for agricultural utilization.ⁱ In addition, there is a growing aging crisis in Japan, with farmers representing perhaps the job sector with the oldest workers. According to Maclachlan and Shimizu, "while 23% of the population in 2010 was 65 or older, the corresponding rate for commercial farmers was a staggering 61.6%."ⁱⁱ The younger generations, attracted to the wealth and lifestyle of the cities have little desire to enter farming, even in the part-time capacity that describes the majority of Japan's farmers. This leaves the dual problems of these farmers working with little help, and without any apparent heirs interested to work the land in the future.ⁱⁱⁱ Farmland that is inherited but not utilized, falls fallow and becomes known as abandoned farmland. The inheritors cling on to the land, generally unwilling to sell it to other farmers and instead hoping for urban and suburban developers to buy the land at premium prices.^{iv} Abandoned farmland and urban sprawl have steadily consumed agricultural land, with one scholar finding a decline in agricultural land from 4,361,200 ha to 3,353,600 ha (23.1% drop) in the years from 1990 to 2010.^v

Pressures for agricultural reform have been building from both the domestic front and international sphere, although which is the main driver of this change is not clear. One commonly mentioned international incentive was the Trans Pacific Partnership (TPP). In addition, the notion of Japan acting only due to foreign pressures, (the reactionary state theory as proposed by Kent Calder and other scholars).^{vi} Such a framework assumes international agreements such as the TPP and WTO (and GATT before it) are more successful at moving politics in Japan to make difficult changes rather than pressure from grassroots pressure or domestic movements. In contrast, some scholars such as Patricia Maclachlan and Kay Shimizu point to evidence of increasing domestic support for change, arguing that although additional pressures from the TPP specter has accelerated the process, reform would have occurred sooner or later from

domestic pressures alone.^{vii} In the case of Japan's declining farm sector, however, would domestic-led change come in time to save it?

Regardless of which is the main driver, moves within Japan from the government and private sectors for agricultural reform have built in recent years. There is a growing realization across the country that protectionism over the decades has made Japanese agriculture weak and uncompetitive in the international market, and only a reinvigorated farm sector can meet the inevitable forces from outside – trade, FTAs, TPP – head on and survive. The consensus during the TPP negotiations that built, even in farming circles, that Japan has no choice but to reduce protection of its agricultural sector, while making structural reforms to beef it up. Aurelia George Mulgan relays what Dr. Honma told her in 2007, “While consumers in Japan may be relatively tolerant of agricultural protection... industries now are not [as tolerant] because the opportunity for growth through globalization is being blocked by such a small sector sharing just 1 per cent of GDP.”^{viii}

George-Mulgan also points out the geopolitical benefits of entering FTAs, as they facilitate closer relations between states. Therefore, failure to reform Japan's lagging sectors will not just cost Japan lost trade opportunities but may also affect its ability to strengthen and expand its international ties, since trade is a fundamental factor for doing just that.

Changes to Agricultural Regulation under Abe

In June 2013, the administration of Prime Minister Shinzo Abe issued its “Japan Revitalization Strategy”, which detailed the overall scope and extend of the changes to be made to the economy to facilitate the ‘third arrow’ (structural reform) of Abenomics, the Prime Minister's signature policy to reboot the Japanese economy. Further actions by the Prime Minister's Office (Kantei) allowed for the creation of the Japan Economy Revitalization Center “which in turn consisted of two councils, the Industrial Competitiveness Council and the Regulation Reform Council.” The Regulation Reform Council possessed several working groups on the various industries targeted for reform, including the Agricultural Working Group.^{ix} This group released its first reform proposal on May 14th, 2014.

Its dramatic proposals included reform of the agricultural cooperative system that had a hammerlock hold on government policy toward the farm sector:

- For the Central Union of Agricultural Cooperatives (JA-Zenchu): “Abolishment of the legalized system of JA-Zenchu supervising primary farm co-ops, and transforming it into a think tank to promote agriculture.”
- For the National Federation of Agricultural Co-operative Associations (Zen-Noh): “Transformation into a stock company”

- With regard to non-farmer members of JA: “Restriction of non-farmer members’ use of JA services to not more than half of farmer members.”^x

This policy proposal, though non-binding - was deeply unsettling to part-time farmers and JA, which supported them. The next day, on May 15th, 2014, the head of JA-Zenchu “expressed strong opposition... saying it is far from the actual situations of the organization [JA Zenchu] or the intentions of its members.”^{xi}

It is unknown if the working group held discussions with JA or the Kantei, but the Agricultural Working Group also encountered resistance from within its own party, with “LDP lawmakers close to the agricultural industry pressur[ing] the party to make its plan respect the JA group’s own decisions making.”^{xii} 30 days later the working group’s final report was released. Its proposals were still dramatic when compared to the stagnant Japanese agricultural sector but they were also a large step back from the initial suggestions.

	Final report (June 13)	Initial draft (May 14)
JA-Zenchu	The current system based on the Agricultural Co-operative Law should be transformed into a new autonomous system after an appropriate transition period. Specific functions and powers of the new system should be decided based on the JA group’s plan before the end of fiscal 2014 and related bills should be submitted to the next ordinary Diet session.	Abolishment of the legalized system of JA-Zenchu supervising primary farm co-ops and transforming it into a think tank to promote agriculture
JA Zen-Noh	The government should consider transforming JA Zen-Noh into a stock company with JAs as investors, on condition that lifting antitrust exemptions would not cause problems. Related bills should be submitted to the next ordinary Diet session.	Transformation into a stock company
Non-farmer members’ use of JA services	The government should start considering this year certain rules to restrict non-farmer members’ use of JA services in order to maintain JA’s function as a co-operative organization for farmers.	Restriction of non-farmer members’ use of JA services to not more than half of farmer members

Source: Chart from The Japan AgriNews. See (Government panel proposes reforming agricultural co-operatives in five years, 2014).

The moderation in recommended policies did not stop the criticism from the entrenched anti-reformist, JA. The lobby group’s opposition to government interference in their operations was noted several times including two months after the release of the final draft of the suggested reforms, in August of 2014. The Chairman of JA Zenchu

stated, “Agricultural cooperatives are autonomous and independent... We will seriously listen to different opinions, but our idea is that we take our own responsibility.”^{xiii}

However, it is interesting to note that following the release of the final report in June of 2014, little more was concretely decided with regard to agricultural reform. The Regulation Reform Council proposed a few more ideas in November and was quickly countered by JA-Zenchu representatives and lawmakers who backed JA. The relative lull in reform proposals was attributed to the upcoming general election in December 2014. According to Patricia Maclachlan and Kay Shimizu, candidates on both sides seemingly ignored the elephant in the room with little discussion of how the agricultural reforms would proceed:

“Neither the ruling Liberal Democratic Party nor the opposition Democratic Party of Japan paid more than perfunctory attention to the issue in their election manifestos; nor did individual candidates, most of whom went out of their way to avoid talking about it on the stump.”^{xiv}

After the election, the ruling LDP emerged the clear winner over a rag-tag fragmented opposition. The commanding position of Prime Minister Abe’s party allowed him to continue applying the necessary pressure for his ‘third arrow’ of structural reforms, using the TPP negotiations as the Sword of Damocles over the farm sector. As stated by Patricia Maclachlan and Kay Shimizu, even though parties involved in the election did not mention agricultural reform, Abe’s party’s success at the polls “could then be use[d] as a mandate to forge ahead on farm reform.”^{xv} In fact, on December 16th, just two days after the election, the Regulatory Reform Council’s head Motoyuki Oka, stated his intent to “strongly urge the government to abolish the legal authority of agricultural co-operative’s central and prefectural unions to audit member co-ops.”^{xvi} This was followed by the Agricultural Minister, Koya Nishikawa, stating that he was “instructed by Prime Minister Shinzo Abe to proceed mainly with agricultural co-ops reform.”^{xvii} These news articles support Maclachlan and Shimizu’s conclusion that Abe reserved additional pushes for reform until after the election was over.

Although not without resistance^{xviii}, the Kantei was able to introduce the reform bill into the Diet in early 2015. By February 2015, the head of JA-Zenchu publically announced his support of the reforms, subsequently announcing his resignation a few months later and publically stating need for JA-Zenchu to cooperate on reform.^{xix}

Finalized Reforms of JA

The end product was another compromise between the reformists and anti-reformists. The proposal that reached the Diet in June 2015 involved the removal of JA Zenchu’s auditing powers while reducing the requirement for JA Zennoh to transform itself to a regular corporation to a mere suggestion.^{xx} The removal of JA Zenchu’s

auditing power was described by Aurelia George Mulgan as “the core of JA reform and a significant deregulatory step”.^{xxi} The subsequent impact on JA Zenchu was a loss in revenues estimated at 8 billion yen per year.^{xxii} Perhaps the most crucial revelation is that the reforms “also [have] implication for JA Zenchu’s power to mobilize the JA organization as one of the nation’s most powerful interest groups.”^{xxiii} Experts, however, doubted the widely repeated government claim that these reforms would facilitated the ‘independence’ and ‘increased the productivity of farmers’. Aurelia George Mulgan cites several scholars and politics who question such claims including an interesting reported conversation in the Japanese Diet:

“No clear explanation was forthcoming from the government when some LDP Diet members asked the question: ‘How will agricultural income increase [by abolishing the authority to audit]?’⁶⁷ MAFF Minister Nishikawa Kōya himself was unable to explain the benefits of abolishing the audits. When Democratic Party of Japan (DPJ) Lower House member Tamaki Yūichirō asked him, ‘How does fiddling with JA-Zenchu’s authority to audit increase farmers’ income?’⁶⁸ Nishikawa only repeated abstract arguments such as, ‘In any case, we want to heighten the level of freedom.’^{xxiv}

The most likely reason for the inability of the LDP’s inability to effectively explain how agricultural income will increase is because it is at best a long-term objective and at worst just a good sound-bite when justifying the reform. The likely hidden primary goal is to weaken the overall JA organization as a political lobbyist, thus allowing for the Kantei’s subsequent reforms to pass through with limited opposition. Reflecting upon the post WWII history of Japan, it becomes apparent that all opposition to agricultural reform was manifested through JA Zenchu and facilitated by its close relationship with the government. The term used by scholars of Japan is the “steel and rice coalition.” It means that the LDP was backed by heavy industry (steel) that provided money for campaigns and farmers (rice) who turned out the vote in large numbers. JA, or course, played a great role in turning out the farm vote.

As this collusive relationship has broken down over time, the government can now pursue increasingly independent and reformist agricultural policies. In the long term, such reforms would consolidate the agricultural sector, improving its productivity and increasing the agricultural income of those entities that are productive enough to stay in business in an era of less government support and more open international competition. Of course, this means those inefficient entities will have to exit the market, something politicians would have a hard time stating in public, especially given that part-time farmers are still the majority of farmers in Japan.

Reform and Anti-Reform Movements

Reforms can only be made possible in the farm sector when compromise occurs between reformist and anti-reformist groups. That slow process has begun under the Abe administration. But it also means that reforms become more limited in scope than those originally proposed. Still, that the Abe administration was able to break the JA's absolute hold on power is notable. It occurred in spite of JA Zenchu's monolithic presence in the agricultural scene and its historically close relationship with the government. JA even ascended to a semi-government role, attending regular meetings with high level government members within both the Agricultural Ministry and the Kantei (Prime Minister's office). This close relationship is described by Aurelia George Mulgan as an example of an "Iron Triangle" between the vested interests of the politicians, bureaucracy and relevant industry. Prior to the reforms enacted recently and especially before 1994, such collusive ties were exceptionally strong. The 1994 electoral reforms, which transformed multi-seated election districts to single-seated ones, and subsequent incremental reforms initiated by Prime Ministers Hashimoto (1996-1998) and Koizumi (2001-2006) have resulted in JA's diminishing involvement within government affairs.^{xxv} According to George-Mulgan, JA was not even privy to the final meetings regarding the reforms, a very unusual movement on the part of the government. This shift in behavior towards JA, resulting in its losing some of its privileged status, was part of the "breakdown of the Iron Triangle" in Japan – the phenomenon occurring in other industries where politics, business, and the bureaucracy controlled policy and budget allocations. It also signaled the end of the "steel and rice coalition," another way of looking at the Iron Triangle.

However, as JA and its political allies were still powerful enough to place limits on recent reforms, it is important to remember that a relative weakening is not the same as being weak on an absolute scale. JA no longer has inescapable political clout, but its power cannot be discounted. either. Indeed, Abe's administration has not had any subsequent reforms targeting JA since the aforementioned changes. Instead, the administration's efforts have continued working on some persistent problems in agriculture aside from JA.

As stated in the 2015 version of the yearly "Basic Concept of Revising Japan Revitalization Strategy" (sic), these key reforms are:^{xxvi}

1. Improvement of the support system to strengthen management capabilities of agriculture, forestry, and fisheries
2. Acceleration of efforts towards farmland consolidation
3. Promotion of Export of Agriculture, Forestry and Fishery Products as well as Foods

These objectives existed before and during the administration's prolonged fight with JA, and have made varying degrees of progress in the time since. These key initiatives include other measures explained below.

Creation of 'Tokku' or National Strategic Special Zones

In 2013, Abe's Japan Revitalization Strategy stated Japan should "Accelerat[e] reforms with National Strategic Special Zones serving as the gateway".^{xxvii} On January 8, 2014, Abe held his first meeting with the advisory council on National Strategic Special Zones, having paved the way by enacting major legal changes to agricultural regulatory laws within the designated special zones. Over time, Abe and the advisory council have added other regulatory changes, such as: allowing agricultural production companies to derive less than half of their profits from agriculture; reducing the number of board members who are also farmers to one, instead of half; and allowing corporate ownership of agricultural land (This is a remarkable achievement, only passed in May 2016).^{xxviii} In March 2014, the advisory council picked the locations for these zones. According to research by James Brady in one of the zones, the program has facilitated an increase in corporate investment in agriculture. These organizations have engaged in production of the following listed goods according to Mr. Brady's research:

"flower cultivation, honey processing, seeds, biomass power generation, farm restaurants, cultivation of tomatoes, peppers and other vegetables and the cultivation of rice for sake production."^{xxix,xxx}

It is important to note that none of these listed goods comprise the 'sacred five', except for rice used for sake production, not table food consumption. Still, such an increase in food production is a move in the right direction. Since the establishment of these zones in 2014, some reforms have spread across the nation. For instance, the relaxation of regulations regarding the number of farmers serving on the board of agricultural production companies have been relaxed nationwide and the percentage of ownership of non-agricultural companies of agricultural production companies has increased (although it is not allowed to be a majority holder in the nationwide environment). As with other special economic zones, they function as a test bed for new ideas. Therefore, viewing the changes undergoing in these *tokku* can show us the desired direction Abe's Kantei would like to take the rest of the nation. With this in mind, it is therefore important to note that on February 28, 2017, an amendment was passed to allow foreigners to work on farms within these special economic zones.^{xxxi} The degree to which foreign workers are encouraged to participate in Japanese agriculture will have a direct impact on the growing issues of Japanese farmer age and lack of young Japanese people's interest in taking up farming. It was reported in late 2016, that some 24,000 foreigners are working under the aforementioned training program, which is also the only legal framework upon which foreigners can work in agriculture in Japan.^{xxxii}

Farmland Intermediary Administration Organization (FIAO)

In an attempt to solve the earlier mentioned problem of abandoned farmland, Japan's government has proposed a solution called the Farmland Intermediary Administration Organizations, which were founded around 2014. They are similar to their predecessors (Farmland Harmonization Groups) in that they assist farmers sell and lease their land to interested buyers.^{xxxiii} The difference between the Farmland Harmonization Groups and the current FIAO is that the Farmland Harmonization Groups attempted to match producers with suppliers. In cases where there are no buyers and the land is not being utilized, the FIAO can actually purchase the land and then lease it to whoever is the most appropriate. This organization is an excellent example of the government correcting detrimental market behavior (the market behavior being that some farmers consider the effort of farming provides insufficient returns, and they only hold out for a purchase and conversion of the land to non-agricultural means).

According to a knowledgeable source, the success of this program has been limited thus far. This is largely due to the difficulty with tracking down the owners of abandoned land, although it is unknown if many lessees are willing to invest the heavy financial costs required to restore abandoned land to agricultural use. The source noted that the scale of the land plots under the management of the FIAOs is approximately only 7.6 ha.^{xxxiv} On the plus side the amount of land under FIAO's control has tripled from 2014-2015 and has continued to see strong growth.^{xxxv}

Rise of Agricultural Corporations

Given the difficulty of centralizing the ownership of land, its continued disjointed ownership is not surprising. However, Japan has attempted to bypass this difficulty through the consolidation of farmers into agricultural corporations. The MAFF records the number and type of these organizations, referring to those with the right to own land as Agricultural Production Companies. These entities are regulated by the Agricultural Land Act, which has undergone two major reforms in the past decade. The first occurred in 2009, while the most recent was part of Abe's agricultural reforms. Reforms towards the Agricultural Land Act have targeted two key sections, the requirements to be an Agricultural Production Company and the limitations place on Non-Agricultural Corporation ownership of Agricultural Production Companies.

Agricultural Production companies must maintain certain criteria that as of 2014 are listed below:^{xxxvi}

- More than 50 percent of the corporation's business sales must come from agricultural activities such as agricultural production, food processing of agricultural products, packing, warehousing and transportation of agricultural

products, contracted agricultural farming, the production of agricultural materials such as fertilizer, greenhouses, etc.

- More than 50 percent of corporation members must be full-time agricultural workers.
- More than 50 percent of the board of directors participates in full time agricultural or agriculture-related work.
- Over 75 percent of the total voting rights must be held by agricultural workers.

Non-Agricultural Corporations ownership of Agricultural Production Companies

Abe's reforms are also encouraging the increase in farmer productivity through the greater participation of corporations in agriculture, something which is a very contentious issue in its own right. There is a long standing perception within Japan that while corporations may be more efficient, they are also motivated solely by profit and will abandon the land as soon as it is no longer viewed as a profitable endeavor. The Japanese government attempts to avoid this public perception by emphasizing the 'professionalization' of agriculture not the 'corporatization' of it. Abe's recent reforms have allowed for non-agricultural companies to own up to just under a majority share of an agricultural production company. This is a change from the previous restriction of only 25% ownership, which itself was the product of a recent reform in 2009 to the Agricultural Land Act. However, it still means no producers can be majority owned by corporations, effectively hindering the creation of any large agri-businesses in Japan. On the positive side, these reforms have still resulted in the increased participation by non-agricultural companies in the agriculture. By 2013, a total of 1,392 non-agricultural entities had come into existence after the reforms of 2009. Of these, around a quarter were formed from food related companies attempting to develop vertical integration into their supply chain. (Clever, Iijima and Petlock 2014)

"Japan's large-scale food processors and restaurant chains are major investors in agricultural corporations and incorporate their integrated cultivation, processing, and marketing systems into these operations. By taking an integrated role in agricultural production, food processors and restaurants hope to reduce their overall operating costs, guarantee a stable and reliable supply, and ensure the safety and quality of their products." (Clever, Iijima and Petlock 2014)

Scraping the Gentan System by 2019

There has been some confusion amongst politicians as to whether the reduced-acreage (gentan) policy will be repealed by 2019. One of the fundamental traditional Japanese agricultural policies, the gentan is the yearly payment the government makes to rice farmers to not farm. This keeps supply low and prices high, while simultaneously

reducing competition between these small-scale farmers. It was widely reported in 2013 and even stated by the Prime Minister that the gentan policy was abolished.^{xxxvii} However, as the *Japan Times* reported in early 2014, the policy was not abolished but the government had decided to abolish the gentan in five years. The newspaper noted:

“Although the prime minister’s headquarters stresses a shift in the nation’s agricultural policy, what the government has actually done is make a broad decision to abolish gentan five years from now. This is just putting off a true decision and in fact means that the existing gentan scheme will be strengthened, instead of being abolished.”^{xxxviii}

According to Yamashita (2014), the policy was never abolished and the government has since retracted its statements that the gentan policy was scrapped.^{xxxix} In his view, this simultaneous misleading information of the public and acquiesce towards the agricultural community shows the strength that still remains within the farming community and their political allies.^{xl}

If the gentan policy remains intact, it will illustrate the limitations on the reforms Abe so vocally has stated he supports. Upholding the policy will continue the yearly government subsidies to keep rice farmers from producing more than a predetermine quota and keep rice prices artificially high, thus both harming consumers and keeping small-scale and inefficient part-time farmers in business and overall productivity low. According to the third quarter BMI research report from 2016, “more than 70% of rice farmers in Japan work on less than a hectare of land, with an estimated 42% on half a hectare.”^{xli} Changes in such statistics are unlikely if the government’s protectionist policies continue unabated.

Focus on High-end Goods.

In 2015, the Abe administration established export promotion institutions with the goal of having agricultural exports reach 1 trillion yen in value by 2019.^{xlii} This is in agreement with the Kantei’s earlier goal of increasing “promotion of export of agriculture, forestry and fishery products as well as foods”, as outlined in the “Basic Concept of Revising Japan Revitalization Strategy”.^{xliii} Attaining this goal, the Japanese government is well aware of the difficulty in competing in international markets, where its products are not subject to the same preferential treatment. There are two methods to moving forward towards this goal, either by increasing economies of scale, thereby increasing output or by focusing on value-added products i.e., high-end goods.^{xliv} Realizing their goods cannot compete with the volume of beef producers in Australia and America or rice with China, Japan is focusing on the high-end market.^{xlv} In that regard, Japan’s poster child may very well be wagyu beef, which is renowned for its unique marbling. That product has successfully performed in export markets such as the US. In fact, Kobe

beef is a derivative of Japan's high-end export.^{xlvi} Rice and high-quality fruit are other examples of exportable goods.

In pursuing the development of high-end exports the USDA noted that, aside from its small farms, the agricultural supply chain in Japan is well organized and efficient. This is due to the central role played by the JA organization in collecting and distributing agricultural inputs and outputs from suppliers and to wholesalers.^{xlvii} Therefore, it is not unreasonable to assume that it could handle the transmission of such high-end goods. Rather, the key question is whether Japan will be able to convince foreign consumers that Japanese products are of higher quality than their foreign rivals.

Focus on Diversified Imports of Agricultural Goods

Aside from the exportation of high-end goods, Japan is also concerned with the notion of agricultural self-sufficiency. The government's desire is to produce the large amount of the rice needed to match a sizeable portion of their consumption. Currently, Japan's overall food self-sufficiency ratio is only 39%.^{xlviii} Research by the MAFF has shown that this ratio is level but "the food self-sufficiency potential" has continued to decrease, largely due to the aforementioned systemic problems of an aging farmer population and declining productive farmland.^{xlix}

In addition, Japan has experienced past shocks to its import supply. One commonly mentioned example is found with soybeans. The vast majority of this product comes from the U.S., but when American exporters limited their sale of soybeans to Japan in 2008, prices jumped in Japanese markets. Japan realized it needed to diversify its sources of its crucial agricultural goods. BMI research highlights the investment of Japanese companies in overseas agricultural producers in India, Canada and Brazil.¹ The MAFF keeps track of these exporters and Japan's dependence upon only a few nations is still a concern. As of 2015, American exports to Japan accounted more than half of all Japanese imports for corn, soybeans and wheat. In addition, James Brady highlights the common misconceptions of Japan's level of agricultural imports, namely that on a per capita value basis, Japan is less dependent upon imports than Germany, the UK and Canada.^{li}

Grassroots Reforms

Outside of the traditional schemes of support and initiatives the Japanese government is currently offering, there are bold corporate enterprises that are attempting to address Japanese agricultural problems themselves. Vertical farms have received large publicity in Japan and abroad due to their futuristic, technology intensive approach to one of the oldest professions. They utilize Japan's comparative advantage in capital and technological knowledge. Operating in warehouses, large stacked shelves hold vegetables in a soil substitute (or highly enriched water) where the plants are subject to precisely

controlled light, nutrients, water and temperature. Several companies, including household names such as Panasonic and Sharp, have undertaken this endeavor to explore increases in their farming productivity and perhaps to also bypass the restrictions on corporate ownership of agricultural land.^{lii} Both these companies operate advanced farming facilities as described by Brady. Panasonic's facility is a "'passive house' greenhouse", which uses sensors to monitor the inputs the plants receive and adjusts these inputs appropriately. Meanwhile, Sharp's facility is reported to be operating out of the country, but still utilizing advanced technologies.

In addition, James Brady notes that railway companies have utilized the vacant land beneath their elevated railway lines to house such agricultural production facilities. He states that by 2014, the number of such facilities was 383, up from 93 three years earlier.^{liii} Some of the most advanced of these facilities, such as Spread's upcoming 'Techno Farm' TM, also take the typical Japanese solution towards its labor crisis by employing robots. One source states that Panasonic, Toshiba and Sharp (all of which are engaged in agricultural production) are "also experimenting with robotic farming solutions".^{liv,lv}

Of course, there are some obvious obstacles with this method of production, namely the high costs associated and the heavy energy consumption.^{lvi} James Brady also points out that the range of vegetables that such plants can produce is limited "mainly to leafy vegetables, herbs and some fruits like strawberries". The secondary importance of these goods in consumption volume limit the impact these facilities can have on the agricultural sector as a whole.^{lvii}

Table 4-1: Cultivation of Field and Plant Factory Lettuce

	Field cultivation	Plant factory
ANNUAL OUTPUT PER 1000M²	3,560 heads	289,683
CULTIVATION PERIOD	60 days (1 crop per year)	42 days (8 crops per year)
ELECTRICITY COST	N/A	1.75kw/head
LABOUR COST	N/A	19 yen/head
WATER USAGE	10.725 litres/head	0.825 litres/head
SOURCE: SPREAD		

Source: James Brady's article – Figures for Spread's Kameoka Facility

An official with Spread pointed out the troubling fact that companies exploring these vertical or smart farm techniques are actually not receiving any government assistance, in the form of preferential loans, tax breaks or even just technical support. The aforementioned obstacle of energy costs is one of main concerns of companies like Spread and they also receive no assistance in this regard. Given the goals of the Japan Revitalization Strategy and the 2017 version of the Kantei's *Abenomics* annual document, government support of this developing industry seems in agreement with their objectives.

The *Abenomics* document explicitly listed “Encourage cross-industry collaboration to spur smart farming”.^{lviii} Unfortunately, the companies have yet to see any actual assistance.

There is hope through a corporate-government dialog called the “Japan Plant Factory Industries Association”, which is currently in very preliminary open dialog with the Ministry of Economy, Trade and Industry (METI) to explore the possibility of government assistance to smart/vertical farms. In this dialog, the various companies also exchange ideas and can pursue joint ventures.

Abe’s Plan for the Future

The Abe administration undoubtedly still has ideas it would like to pursue in the realm of agricultural reform. The key question is whether there is the political capital to enable such reforms. The current session of the Diet (at the time of writing, May 2017) has received a proposal from the Kantei regarding the utilization of tax incentives and preferential loans to the producers of agricultural inputs, specifically fertilizer and pesticide.^{lix} The intent is to consolidate the small-scale producers of the goods into larger, more productive organizations. Successful implementation of this proposal would lower the costs of domestic inputs and make those same companies more competitive against large foreign firms such as Monsanto and Bayer. The lower costs would allow for the cheaper consumption of agricultural inputs, lowering the costs for agricultural producers. These consolidation efforts have been repeated before as the goals of many initiatives and projects before them. It remains to be seen whether these new proposals will attain any significant measure of success.

The road to reform has not been an easy one for Japan. It’s entrenched interest groups and the widespread political support of the aging part-time farmers has resulted in moderate successes in the past few years. But reviews are mixed, with some experts praising and others scorning the efforts. However, the basic demographic facts show that Japan’s agricultural sector requires change. It seems reasonable to state that if these efforts fail, change will still be necessary within 10 years to replace the outgoing agricultural labor force and address the systemic issue of abandoned farmland. In his reformist efforts, Prime Minister Shinzo Abe is attempting to prove that Japan is not a reactionary state, but that it is still an innovator. These next few years will be a crucial test to see if he is right.

Endnotes:

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- ⁱ (OECD 2008)
- ⁱⁱ (Maclachlan and Shimizu, Japanese Farmers in Flux: The Domestic Sources of Agricultural Reform 2016) 447
- ⁱⁱⁱ “the successor shortage was a fact of enormous import for anyone concerned about the future of Japanese agriculture.” - (Maclachlan and Shimizu, Japanese Farmers in Flux: The Domestic Sources of Agricultural Reform 2016)
- ^{iv} (Jentzsch 2016)
- ^v (Yoshitaka 2016)
- ^{vi} (Calder 1988)
- ^{vii} (Maclachlan and Shimizu, Japanese Farmers in Flux: The Domestic Sources of Agricultural Reform 2016)
- ^{viii} (George Mulgan, Japan's FTA Politics and the Problem of Agricultural Trade Liberalisation 2008)
- ^{ix} (Hironori 2015)
- ^x (Government panel proposes reforming agricultural co-operatives in five years 2014)
- ^{xi} (Agricultural cooperative union head criticizes panel's agricultural reform proposal 2014)
- ^{xii} (Ruling party proposes “new system” to reform the agricultural hierarchy 2014)
- ^{xiii} *Jiji Press English News Service*. 2014. "Interview: JA Zenchu Resolved to Implement Reforms of Farm Co-Ops." August 11.
- ^{xiv} (Maclachlan and Shimizu, The Kantei vs. The LDP: Agricultural Reform, the Organized Vote and the 2014 Election 2016)
- ^{xv} (Maclachlan and Shimizu, The Kantei vs. The LDP: Agricultural Reform, the Organized Vote and the 2014 Election 2016)
- ^{xvi} (Government panel head stresses need to take away legal auditing authority of agricultural co-op unions 2014)
- ^{xvii} ("Focus on Agricultural Co-ops Reform," Prime Minister told the reappointed Agricultural Minister 2014)
- ^{xviii} See (Maclachlan and Shimizu, The Kantei vs. The LDP: Agricultural Reform, the Organized Vote and the 2014 Election 2016) page 179. Loss of LDP politician in agricultural province.
- ^{xix} (Agricultural co-ops group chief to step down amid push for reform 2015)
- ^{xx} *Jiji Press English News Service*. 2015. "Japan to Strip JA Zenchu of Key Power." January 6.
- ^{xxi} George Mulgan, Aurelia. 2016. "Much Ado About Something? The Abe Government's Reform of Japan's Agricultural Cooperatives." *Japanese Studies* 36:1: 86.
- ^{xxii} George Mulgan, Aurelia. 2016. "Much Ado About Something? The Abe Government's Reform of Japan's Agricultural Cooperatives." *Japanese Studies* 36:1: 86.
- ^{xxiii} George Mulgan, Aurelia. 2016. "Much Ado About Something? The Abe Government's Reform of Japan's Agricultural Cooperatives." *Japanese Studies* 36:1: 88.
- ^{xxiv} George Mulgan, Aurelia. 2016. "Much Ado About Something? The Abe Government's Reform of Japan's Agricultural Cooperatives." *Japanese Studies* 36:1: 91.
- ^{xxv} Maclachlan, Patricia, and Kay Shimizu. 2016. "The Kantei vs. The LDP: Agricultural Reform, the Organized Vote and the 2014 Election." In *Japan Decides 2014*, by et al. R. J. Pekkanen. 171.
- ^{xxvi} Office of the Prime Minister of Japan and His Cabinet. 2015. "Basic Concept of Revising Japan Revitalization Strategy."
- ^{xxvii} (Office of the Prime Minister of Japan and His Cabinet 2013)
- ^{xxviii} (Government to step up agricultural deregulation in national strategic special zones 2014) & (Brady 2016)
- ^{xxix} James Brady
- ^{xxx} Note that none of these are
- ^{xxxi} (Japan's ruling party approves legislative amendment for allowing skilled foreigners to work on farms 2017)
- ^{xxxii} (Foreign skilled workers likely to be allowed to work for Japanese farmers in national strategic special zones in fiscal 2017 2016)
- ^{xxxiii} (Jentzsch 2016)
- ^{xxxiv} Interview with Japanese Embassy Official

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- xxxv *Ibid*
xxxvi (Clever, Iijima and Petlock 2014)
xxxvii (Abe's Deceptive Rice Reform 2014)
xxxviii (Abe's Deceptive Rice Reform 2014)
xxxix (Abe's Deceptive Rice Reform 2014)
xl (Abe's Deceptive Rice Reform 2014)
xli (BMI Research 2016)
xlii (Abeonomics 2017)
xliii (Office of the Prime Minister of Japan and His Cabinet 2015)
xliv Interview with Japanese Embassy Official
xlv *Ibid*
xlvi *Ibid*
xlvii (Fujibayashi 2016)
xlviii Interview with Japanese Embassy Official.
xlix (FY 2015 Annual Report on Food, Agriculture and Rural Areas in Japan 2016)
l (BMI Research 2016)
li (Brady 2016)
lii (Brady 2016) 45
liii (Brady 2016)
liv (Nichols 2016)
lv See Spread's website for more information on their implementation of robotics. <http://spread.co.jp/en/>
lvi Conversation with official with Spread, 2017
lvii (Brady 2016)
lviii (Abeonomics 2017)
lix From interview with Japanese Embassy Official

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Post-TPP World: Another U.S. Auto-Trade War with Japan?

Ms. Jingyi Guo

Introduction

Since the late 1970s, one issue that keeps coming back to center in the various trade conflicts between the United States and Japan has been automobile industry. The U.S. complains that Japanese autos are flooding the U.S. market, hurting domestic auto manufacturers and taking away American jobs. For a while, the problem seemed to be kept in check by voluntary export restraints and auto tariffs. But that only made cars in the U.S. more expensive for consumers still eager to buy them. The ultimate solution finally arrived when Japanese auto makers invested heavily in assembly plants in the U.S., creating significant American jobs and reducing exports. Detroit also complained that U.S. brands could not get into the Japanese market, citing a host of non-tariff barriers. But that was ultimately addressed by the Japanese side removing many of the problems. Still, U.S. cars did not sell well or at all in Japan, and ultimately, Detroit gave up on the effort. The Japanese side cited bad marketing strategies by the American companies.

Come the Trump administration in 2017 and the same accusations and same responses are coming out, and assuming the topic will come up in bilateral negotiations slated for later this year, we are about to see a replay of the familiar finger-pointing auto dispute again.

This is an example of false facts linked with election campaign rhetoric to become trade policy. Since the 1980s, Japanese automakers to preserve their lucrative U.S. market hit by frequent disputes over auto imports and auto part purchases, adopted a localized production policy and built manufacturing plants in key states all over the U.S. Three decades later, a majority of Japanese vehicles are made in the U.S.A., with imports from Japan having a much smaller share of the market. U.S. auto makers still say they are being kept out of the Japanese market, but the main reasons for poor sales can be traced to consumer preferences and not a barrage of discriminatory barriers. Japanese consumers say the cars are too big for Japanese roads, the steering wheel is on the wrong side, fuel efficiency is too low, and after-sale service is inadequate.

The Trans-Pacific Partnership (TPP) negotiations, which the U.S. and Japan

completed in late 2015, addressed the auto trade issue, yet again, and it seemed from the results that the trade dispute over autos would again be “resolved.” Then, President Trump withdrew from the TPP, returning the auto issue back to square one. An Economic Dialogue between the U.S., launched in April, will likely run along the same auto track as TPP did before, but it is unlikely that a better deal can be arranged. The markets will ultimately decide.

This paper examines the history of the auto trade dispute, its origins, policy responses, and results. What will happen now with TPP reduced to 11 partners now that the U.S. is out of the pact? And what kind of resolution, if any, is possible through the new bilateral dialogue between Washington and Tokyo?

This paper consists of five parts including conclusion. I will first look back upon the trade conflicts over automobiles between the United States and Japan in the 1980s and 1990s. The second section will look into the development of Japanese auto industry in the United States as well as the sales of U.S. cars in the Japanese market, and analysis the reasons why the U.S. vehicles are not sold well in Japan. The third section will explain the negotiations and concessions that both countries made under the TPP agreements, and the fourth part will discuss the challenges and opportunities that exist for both sides in the dispute and speculate whether a bilateral economic dialogue that rejects the TPP negotiations can be fruitful. The fourth part also probes the reasons why Japan has decided to go for a TPP-11 solution and not let the partnership die. The conclusion will offer some possible rational solutions to both governments and auto industries, free of false facts and campaign rhetoric.

Age of Japan Bashing and the Auto Disputes of the 1980s and 1990s

The auto trade dispute between the U.S. and Japan began in the late 1970s. The oil crisis of the 1970s had driven up the price of gasoline, and the smaller, fuel-efficient, well-designed models from Japan became a hit with American consumers, who abandoned gas-guzzling, large-sized American cars. Naturally, with the ensuing rapid increase of imported cars from Japan, the issue became politicized with industry, labor unions, and politicians denouncing Japan for causing a burgeoning bilateral trade deficit and taking away American jobs. Under the pressure from Washington, Tokyo convinced Japanese auto manufacturers to agree to voluntary export restraints (VERs) on automobile in the early 1980s. Realizing that the solution lie in local production,

Japanese automakers quickly switched gears, and they began to build assembly plants in the United States. They were often wooed by states that wanted foreign direct investment (FDI) to create jobs in localities. In the 1990s, under the Bush and Clinton administrations, the politicized auto issue again reared its ugly head, this time Washington demanding market access in Japan for American autos. For a while, under a misguided trade policy, the U.S. tried to force Japan to accept numerical targets for imports of autos, auto parts, and certain other U.S. products. Japan, willing to voluntarily limit exports but unwilling to rig the market at home to increase American imports, strongly refused, and negotiations collapsed in 1994.

The 1980s: VERs

Export restraints on shipments to the U.S. began in the 1970s on Japanese textiles and color televisions. There were no such restraints on automobiles until the 1980s, when the flow of auto imports into the U.S. reached politically unacceptable limits. Japanese passenger cars accounted for 6.5 percent of the U.S. market in 1973, but by 1980, the share increased to 21.3 percent. In contrast, the production of U.S.-brand cars declined by 30 percent from 1978 to 1980, and thousands of workers in auto, auto parts, and steel and support industries lost their jobs (Lochmann, 1996: 100). The fact that American-brand autos during that period were poorly designed and manufactured while Japanese cars were just the opposite never seemed to have seriously entered into the market. It was better to protect the auto industry rather than prod it to make better cars. The Carter administration in the late 1970s did not plan to impose import restrictions at first. Instead, the administration requested Japanese automakers to invest in the United States, and requested the Japanese government to reduce tariff and non-tariff barriers on auto and auto parts being sold in Japan (Satake, 2000: 4). The strategy did not work at first, since Japanese automakers were intimidated by strong American unions, demands for high wages and benefits, followed by frequent strikes, the different nature of the U.S. auto part system and generally, the complexities of the legal system in the United States. Eventually, such fears were overcome, and the automakers began to invest in plants on U.S. soil, choosing states with right-to-work (non-union) laws and state-government incentives, such as tax breaks.

On the other hand, Japanese government promised to remove auto tariffs and decrease non-tariff barriers. But the easing of the auto safety (shaken) and import inspection systems did little to boost U.S. exports of cars in Japan (Satake, 2000: 5). The

problems lay elsewhere. U.S. automakers and labor unions were disappointed by the results of the negotiations and put increasing pressure on the administration to impose import restraints. The newly established Reagan administration preferred VERs instead of import restrictions, and the Japanese agreed in 1981 to voluntarily restrain exports of automobiles for three years. Under the VER, the Japanese exports of passenger cars was limited to 1.68 million unit for the first year, with 16.5 percent of the first year's sales added to sales in the second year (Satake, 2000: 6).

The three-year VER was extended to four years. After the end of the VER, Reagan administration announced that the United States would not continue to request another one, since the U.S. auto industry had rapidly recovered and Japanese automakers were beginning to build assembly plants in the United States. However, Japan's Ministry of Trade and Industry (MITI) encouraged Japanese automakers to maintain VERs in order to prevent excess competition among Japanese makers until 1994, when VERs were abolished by the World Trade Organization (WTO) (Satake, 2000: 7-8).

The 1990s: Market Access

After the mid-1980s, the emphasis in bilateral trade negotiations shifted to increasing market access in Japan for U.S. cars and, in particular, auto parts. Although Japanese automakers built assembly plants in the U.S., most of auto parts they used were imported from Japan. This is because the U.S. and Japanese auto industries developed different auto part supply systems. In the United States, automakers usually offered detailed specification of a particular part to potential part makers, and part makers had to bid for the lowest price. U.S. automakers also import auto parts and their supplies were dependent on inventories (Levinsohn, 1995: 3). However, the Japanese automakers usually developed long-term relationship with specific part suppliers, rather than picking up suppliers for lower prices. Japanese automakers also invested heavily in their major part suppliers, allowing them access to new technologies and controlling them through share holdings (Levinsohn, 1995: 4-5). It would increase their cost if they gave up their long-term suppliers and switched to U.S. suppliers. In addition, the Japanese automakers required high quality of auto parts, while the U.S. automaker emphasized low price, which led to the weak technology, poor quality and low investment in the U.S. auto part sector. All of these factors made up the structural impediments that explained the U.S. auto part suppliers' complaints about the unfair advantage given to Japanese suppliers (Levinsohn, 1995: 6).

Due to political pressure and the rapid appreciation of the yen, Japanese auto assembly plants sought to establish relations with U.S. part makers. This process took time, therefore, the imports of Japanese parts increased with the establishment of Japanese auto plants. Moreover, the purchase of U.S. parts from Japanese firms in Japan remained low (Levinsohn, 1995: 7-8). In order to increase the sales of U.S. parts to Japanese auto makers, the U.S. government introduced a series of market-access talks, including the Market-Oriented, Sector-Specific (MOSS) talks and the U.S.-Japan Framework for a New Economic Partnership (Framework Talks) (Satake, 2000: 2). In response, Japan adopted liberalization measures in the early 1980s to reduce both tariff and non-tariff barriers (Satake, 2000: 16). In addition, the Japanese Automobile Manufacturers Association (JAMA) promised that both of Japanese automakers in Japan and manufacturing plants in the U.S. would expand their purchasing of U.S. auto parts in the final report of the auto parts MOSS. With the development of the MOSS talks, Japan made increasing concessions, setting up a voluntary purchasing plan and agreed to purchase auto parts up to \$19 billion (Satake, 2000: 17-19).

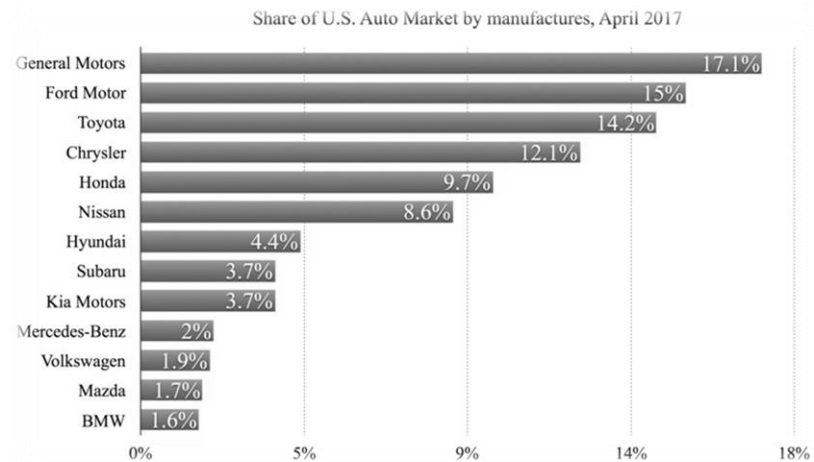
During the Framework Talks, however, the Japanese government refused the upward revision of voluntary plan that set up numerical targets, removal of inspection on after-market parts, and the request that Japanese automakers should encourage their retail dealers to sell U.S. cars. The talks finally collapsed in 1994 (Satake, 2000: 19-21). In 1995, the United States submitted a complaint to the WTO on barriers to market access and threatened to impose 100 percent tariff on 13 Japanese luxury cars (Satake, 2000: 21; Levinsohn, 1995: 9). This intense situation was finally eased by the announcement by Japanese automakers to reduce the export ratio through localizing production and increased purchases of U.S. auto parts (Satake, 2000:22). As a result, bilateral trade conflicts have receded since then, as Japan's share of the U.S.'s trade deficit rapidly declined (Satake, 2000: 25).

Current Situation of the U.S.-Japan Auto Trade

With the development of manufacturing plants in the United States for three decades, Japanese brands account for more than 37 percent of the U.S. car market (The Wall Street Journal, 2017).

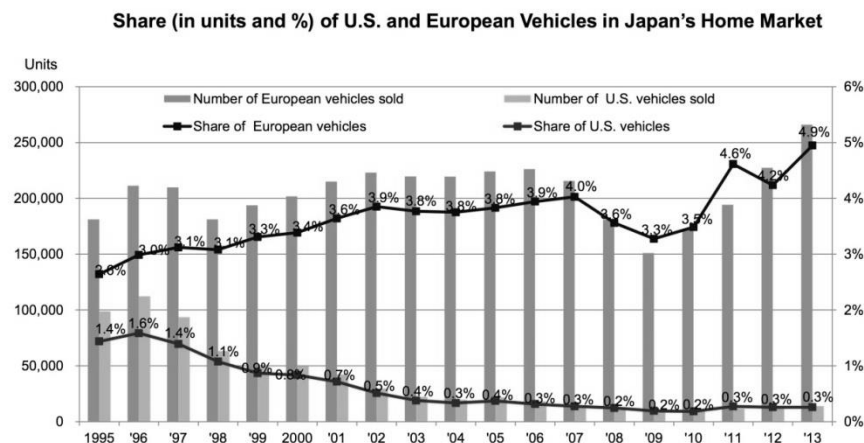
According to statistical data from JAMA, Japanese automakers as of 2015 operate 26 manufacturing plants and 36 R&D centers in the United States, which provided more

than 1.5 million jobs to the United States (2016 a: 3-5). Today, 75 percent of Japanese brand vehicles sold in the United States are produced in North America. The manufacturing plants in the United States spent \$67.9 billion for American-made auto parts in 2015, and exported 417,699 vehicles from the United States (JAMA, 2016 a: 6-8).



Source: The Wall Street Journal, Market Data Center. (2017). “Sales and share of total market by manufacturer”.

However, the U.S. automakers have not made any progress in the Japanese market since the 1990s. In contrast, the share of US vehicles in Japan’s market has dropped from 1.5 percent in the mid-1990s to 0.3 percent in the 2000s and is slowly heading now toward zero as U.S. auto companies leave Japan (JAMA, 2014: 6).



Source: JAMA. (2014). “Making the Trans-Pacific Partnership a win-win-win for all member countries”.

Why are U.S. cars unsalable in Japan?

Although the U.S. auto industry claims that the U.S. cars do not sell in Japan because of a host of non-tariff barriers, most Japanese consumers and auto dealers would argue otherwise. The key factor to explain the decreasing sales of U.S. cars in Japan is because of poor marketing of a product that has not been adapted to local social and economic and even safety conditions. Critics point to such characteristics as large size, engine capacity, gasoline efficiency, quality, steering wheel on the wrong side, etc. While 4x4 pickup trucks are quite popular in the U.S., Japanese consumers find them too big to even park, and trucks in Japan are primarily used commercially, not as a pleasure vehicle. In general, the sizes of most U.S. cars are too big to maneuver through the narrow streets in Japan (Mainichi Japan, 2017). Second, Japanese people prefer small-engine cars. Actually, 35.3 percent of passenger cars in use in Japan are mini cars (660cc and under in engine capacity), and another 35.3 percent are small cars (from 660 to 2,000cc in engine capacity), while only 29.4 percent are standard cars (over 2,000cc in engine capacity) (JAMA, 2016 c: 11, 61). American brands, however, feature very few small-engine cars. Third, Japanese people are concerned about gasoline efficiency, since Japan lacks energy resources and fuel prices are much higher in Japan than in the United States. Moreover, U.S. cars have lower gasoline efficiency than Japanese cars. Besides, the U.S. cars tend to have higher sticker prices than Japanese ones, and they do not have a good reputation for quality. Whether true or not, there has been no marketing strategy by U.S. automakers to dispel such consumer views.

Another big problem is that American brands provide very few right-hand-drive cars. The bestselling American brand in Japan is Jeep, which provides right-hand-drive vehicles (Mainichi, 2017; Soble, 2017). Furthermore, due to the small volume of sales, there are few repair facilities in Japan to provide parts and service (Elms, 2015). Replacement parts, too, may be hard to find in Japan.

European automakers also face the same non-tariff barriers that the U.S. automakers complain about. However, European brands sell many more cars in Japan. Especially over the past 20 years, European brands have earned an increasing share of Japanese market, while the US had a declining share. European automakers have very clear positions for their brands and products. Mercedes and BMW aim at luxury end market, while Volkswagen focus on economy models (Elms, 2015). Compare with the U.S. brands, European brands invest much more on advertisement and product promotion

(JAMA, 2014: 7). You can find commercials of European cars everywhere, but most Japanese never see a commercial for American cars. Ford and General Motors (GM) hardly ever show up at auto shows. European brands also offer right-hand-drive cars to Japanese market, while American brands do not (Elms, 2015; Soble, 2017).

Moreover, the European Union has negotiated steadily with Japan to overcome the difference of auto-related standards, and has achieved progress. For instance, in many European countries, drivers should keep their headlights on during the day for safety reasons. Hence, many cars' daytime running lights switch on automatically. However, in Japan, keeping headlights on during the day was illegal. After negotiation, Japan abolished the prohibition on daytime running lights in 2016. Another example is the reduction of tax advantage to mini-cars with engine capacity under 660 cc, which are only produced by Japanese makers. The change in the tax break led to decreasing sales of mini-cars in Japan, thereby making room for foreign models to expand their market shares (Soble, 2017). The United States, however, spent its energy pressing Japan to adopt VERs and trying to force Japanese automakers to purchase U.S. parts, rather than working bilaterally to harmonize the differences.

In addition, U.S. automakers have been reluctant to enter into cooperative arrangements and to co-develop products with Japanese companies, unlike European and Chinese automakers. Only GM maintained a co-development program with Honda (JAMA, 2016 c: 54-55). That once was not the case. For a while, U.S. automakers used to invest in and cooperate with Japanese carmakers. A number of American automakers became the largest shareholders of Japan brands. GM held 20 percent shares of Suzuki and Fuji, and 49 percent of Isuzu. Chrysler held 37 percent share of Mitsubishi. However, most of them withdrew from their investment and cooperation projects over the past decade (Neff, 2008; Tabuchi, 2010; JAMA, 2016 b).

For instance, Ford was Mazda's largest shareholder since 1979, and its ownership rose to 33.4% in 1997. Its investments helped Mazda survive the oil shock and Asian financial crisis. Ford also learned a lot from Mazda's strength in building smaller cars, and several of Ford's models were developed with Mazda. Their cooperation was regarded as a successful example. However, Ford reduced its share to 13% during the 2008 financial crisis, and decreased it again to 3.5% in 2010. The reason for reducing its stake in Mazda was Ford's new strategy to target fast growing markets, particularly Brazil, China and India, for its investments (Tabuchi, 2010). In other words, the

motivation for U.S. automakers moving out of the Japanese market was a change in their global strategy away a saturated market like Japan to emerging markets like China and Brazil.

Disputes and Measures under the TPP

The signature achievement in the Asia-Pacific region for the Obama administration was supposed to have been the TPP. The negotiations among the 12 countries aimed for a “comprehensive and high-standard” multilateral free trade agreement (FTA), in which the TPP partners aim at trade liberalization through the reduction of tariff and nontariff barriers and the establishment of rules on trade-related issues, including intellectual property rights and foreign direct investment, going beyond the current rules set by the World Trade Organization (WTO) (Fergusson, McMinimy & Williams, 2015: 1). The auto industry was one of the key sectors that concerned TPP members. Under the agreement with Japan, the United States would phase out the 2.5 percent tariff on cars and auto parts in 25 years, and phase out 25% tariff on trucks in 30 years (Jones, 2016: 2). After decades of trade conflicts over automobiles, the TPP provided an opportunity for the United States and Japan to finally put the festering issue to rest.

Auto Parts: Rules of Origin (ROO)

The auto part issue still exists as a key source of auto trade friction. Different from two decades ago, the debate is no longer about whether Japanese automakers should have more local content in their America-assembled vehicles. It focused during the TPP talks on whether Japanese automakers could use imported auto parts from non-TPP countries, and if so, how much contents. For example, in recent years, Japanese automakers are increasingly turning to China to supply auto parts, mainly because the prices are low and the quality has been improved. During the TPP negotiations, Japan attempted to lower the regional value content (RVC) for auto parts to 32.5 percent, while the U.S., Canada and Mexico tried to keep RVC higher than 45 percent (Whitman, 2015).

Same as most existing FTAs, the TPP includes rules of origin (ROO). ROO is used to “determine the country of origin of imported products so that goods from FTA trading partners can qualify for the benefits under the agreement” (Jones, 2016: 1). According to the ROO under the TPP agreement, in order to receive lower tariff, products

have to be grown and harvested in TPP countries, or produced in TPP countries with only TPP materials. As for automobiles and other manufactured products that are assembled with parts coming from all over the world, the products must be produced in TPP countries with non-TPP components meeting additional product-specific ROO requirements. RVC is one of the most common requirements (Jones, 2016: 1-2). The official RVC for auto parts ranged from 35 percent to 45 percent, depending on two types of calculations methods (Jones, 2016: 2).

Non-tariff Measures

The U.S. automakers have argued that non-tariff barriers in Japan limited market access for U.S. auto exports for almost three decades. Although Japan stressed that it had improved standards and regulations to reduce non-tariff barriers for imported cars, U.S. negotiators argued otherwise. Under the TPP agreement, both countries sought to resolve some longstanding non-tariff barrier issues and establish a dispute settlement procedure. They introduced the concept of a rapid consultation mechanism covering new non-tariff barrier issue that might emerge in the future.

In order to benefit from tariff reduction under the TPP agreement, Japan promised to improve transparency in its regulatory process and make it easier for U.S. auto distribution and repair facilities to get permission to operate. Japan also agreed to accept certain US standards, and reduce delay of permission to vehicles using new advanced technologies. Currently, Japan through its Preferential Handling Procedure (PHP) program makes available a faster and less costly certification procedure to U.S. auto distributors with small volumes of sales. Japan would double the size of the PHP program under the TPP (USTR, n.d.: 2-3).

In addition, the TPP also includes a safeguard measure for U.S. automakers, which will be available “when an import surge causes or threatens to cause serious injury to U.S. producers”. New dispute settlement procedures can address potential conflicts with “stiff penalties including delaying tariff cuts and duty snapback”. The TPP also offers a mechanism for emerging non-tariff measures, and will establish a Motor Vehicle Committee to monitor implementation of these agreements (USTR, n.d.: 3).

However, the U.S.’s withdrawal from the TPP would seemingly render those agreements on auto parts and non-tariff measures null, and send everything back to the nightmare of the 1990s.

“TPP-11” Era: Challenges or Opportunities?

The U.S.’s withdrawal from the TPP and reversion to a 1980s style of bilateralism has created much uncertainty over the future of trade relations between the U.S. and Japan. After months of hesitation, Prime Minister Abe finally decided to opt for a “TPP-11” solution and Japanese officials are now engaged with the other 10 countries to convince to adopt the new formula. What is Japan’s purpose for going ahead with the TPP without the U.S.? What are the challenges and opportunities under a possible TPP-11 agreement and how would that affect U.S.-Japan relations?

TPP without U.S.

When President Trump announced the TPP withdrawal, Prime Minister Abe initially declared that the TPP without U.S. would be meaningless for Japan. On the face of it, this is true since the U.S. accounted for approximately 60 percent of the total GDP of the 12 TPP members, and the tariff reduction on Japanese auto exports to the U.S. was regarded as one of the most important concession that Japan had wrested from the U.S. in the TPP. Later, however, Abe changed his mind and decided to go for a TPP-11 arrangement, citing the following reasons.

First, TPP was expected to be a high-standard FTA that deals with many trade-related issues that are not covered by existing bilateral FTAs, such as intellectual property, state-owned enterprises (SOEs), and the environment. (Fergusson, McMinimy & Williams, 2015: 5). Therefore, in these fields, the remaining TPP members could play significant roles in introducing de facto new trade rules. Besides, TPP was one of the most important parts of Abenomics, Japan’s long-term development strategy, and expected to apply leverage on the liberalization of certain sectors and to promote structural reform. One of my interviewees, who worked in the Ministry of Economy, Trade and Industry (METI), pointed out that other multilateral FTAs, including the (ASEAN + 6) Regional Comprehensive Economic Partnership (RCEP), were far less ambitious in scope and depth, and could not be expected to do what the TPP was ready to accomplish.

Another reason that RCEP was not a TPP substitute was because it has always been Japan’s preference to participate with the U.S. in a multilateral trade pact, such as the WTO, rather than opt for negotiating a bilateral FTA with it, as proposed a number of times in the past, as well as by the Trump presidency. In this way, Japan could benefit

from the broader agreement with the U.S. without facing too much pressure on sensitive agricultural products or on the highly politicized automobile trade front. Since the U.S. is not an RCEP member, the same benefits associated with the TPP will not come Japan's way.

Moreover, it was estimated that the TPP would still raise Japan's GDP by 1.11 percent even without the United States involved. The original TPP was estimated to improve Japan's GDP by 1.37 percent. Though a TPP-11 solution would only benefit the Japanese economy in a modest way, but it is still attractive for Japan (Nikkei China, 2017). The TPP was expected to increase the Japanese exports and therefore improve production. As a result, the increased production would boost domestic employment and wage levels, as well as increase domestic consumption.

Last but most importantly, both the METI official and Satoshi Osanai, the senior economist in Daiwa Institute of Research, indicated that Japan would like to maintain multiple options rather than focus on only one FTA. According to the METI official, Japan negotiated the TPP and the RCEP simultaneously, but it did not seek to replace the TPP with RCEP. In addition, Japan will not abandon its plan to bring the U.S. back to TPP. Moreover, the TPP is crucial to Japan's long-term growth strategy looking 10, 20 or even 30 years into the future. The Abe administration has been paying more attention to long-term effects rather than immediate effects, aware of Japan's demographic time bomb and the need for such a long-term strategic approach. The Trump administration has no such long-term vision, taking an ad hoc short term approach to trade policy (Nikkei, 2017, April 27).

TPP vs. TPP-11

On analyzing the impact of the U.S. withdrawal from the TPP on auto and related industries in both the U.S. and Japan, it is obvious that there are opportunities as well as challenges for the industries of both countries.

For the U.S., the withdrawal from the TPP will create three major problems. The first one is tariffs on Japanese vehicles. The United States can retain its 2.5 percent tariff on Japanese passenger cars and 25 percent tariff on trucks. The remaining sets of tariffs are designed to prevent import surges and potential damage to U.S. automakers. However, it will not help U.S. auto manufacturers raise their market shares in the U.S., since currently more than 75 percent of Japanese-brand autos sold in the United States are

made in North America. The withdrawal may also affect the U.S. auto part industry, since Japanese automakers need not comply with the ROO as agreed in the TPP talks, and they will continue to outsource more auto parts from China. This is a lost opportunity for U.S. auto part makers. The third problem is that agreements about non-tariff barriers in Japan sealed by the TPP talks are null and void now. This will not help U.S. automakers gain access to the Japanese market if they wish to reenter it.

As for Japan, the winners are Japanese automakers. Though the tariffs on cars and trucks stay the same, the industry has already been locally producing Japanese autos for decades and are well entrenched in the U.S. economy. They also may be able to reduce costs through purchasing more imported auto parts. The unknown factor is what the Trump administration plans to do, not only toward the Japanese auto industry but the trade deficit as a whole. This is highly dependent on the agenda to be set soon for the U.S.-Japan economic dialogue. Prime Minister Abe might be pressed to make more concessions to President Trump on trade issues than he did during the TPP negotiations (Reynolds & Hagiwara, 2017). In addition, Trump administration's approach to the North American Free Trade Agreement (NAFTA) will make the situation more complicated (Liptak & Merica, 2017). Japanese automakers will be impacted if the United States begins to impose tariff on imports from Canada and Mexico, as 17.4% of Japanese cars sold in U.S. are made in Canada and Mexico (JAMA, 2016 c; Mainichi, 2017).

Economic Dialogue

During Prime Minister Abe's meeting with President Trump in early February, Japan put forward for consideration Japanese investment in U.S. infrastructure projects and cooperation in global infrastructure investment, as well as joint development of robots and artificial intelligence, cybersecurity and space exploration (CNBC, 2017). The two leaders agreed to discuss trade issues, as well as investment and cooperation projects through bilateral economic dialogue (White House, 2017, February 10).

Vice President Mike Pence and Japanese Deputy Prime Minister Taro Aso met on April 18th for the first meeting of the U.S.-Japan Economic Dialogue. The two agreed that three themes would dominate the ensuing dialogue: common strategy on trade and investment rules and issues, cooperation in economic and structural policies, and sectoral cooperation (White House, 2018, April 18). However, the second and third pillars were hardly mentioned in the first meeting (Nikkei, 2017, April 19). The two countries have

very different views on even the first theme. On trade issues, Japan wants to continue cooperation with the United States under the TPP formula, and use that as the basis for establishing trade rules in the Asia-Pacific region. The United States prefers to focus on agriculture and automobile issues. As for infrastructure investment, Japan is interested in the high-speed railway construction projects, while the United States would like Japan to invest in more basic infrastructure construction (Goodman, Green & Szechenyi, 2017). Interestingly, Japan had expected to discuss the currency issue since it was accused of manipulating currency by Trump during the election campaign, but the currency issue never came up during the first meeting (Nikkei, 2017, April 19). The first meeting merely outlined the possible scope of a bilateral economic dialogue, and when the concrete agenda will actually be firmed up, and whether it will actually aim for a bilateral FTA, as promised during the election campaign, is still unknown. Only time will tell.

Conclusion

Since the TPP has been so important for Japan's long-term development strategy, the abrupt U.S. withdrawal from the pact will not have an immediate impact on Abe's economic policy agenda. As the result of the trade conflicts in 1980s, Japanese automakers invested heavily into plant and equipment in the U.S. and localized production and auto parts contents. Only 25 percent of Japanese-brand cars sold in the US are actually imported from Japan. Hence, the Japanese auto industry will not suffer much from the U.S.'s absence from TPP. However, the future of Japan's auto industry is dependent on what the Trump negotiating team wants to achieve from the bilateral economic dialogue.

Although the first meeting was just the beginning of the dialogue, already both sides seem to be digging in on the basic issues, and it may prove to be difficult to reach an agreement that will go beyond what Japan already promised to the U.S. during the TPP talks. If the U.S. tries to go for a bilateral FTA, Japan is not likely to be willing to commit to anything more than it has already. Japan hopes to use the dialogue to fend off trade conflicts and currency disputes, but round one produced little substance. Abe has no leeway politically at this point to make additional concessions in either the agricultural sector or the auto trade industry. In such an atmosphere, the economic dialogue could drag on indefinitely.

Finally, the apparent improvement of relations between the U.S. and China might spill over adversely into U.S.-Japan economic relations. President Trump accused China for manipulating currency during the campaign and the early months in office, however, the Treasury Department did not label China as currency manipulator in its report in April. Japan has been worried that “currency policy would be used as a bargaining chip” in trilateral relations (Nikkei, 2017, April 19). Politically, potential cooperation on the North Korea nuclear and missile problem has brought China and the U.S. closer together in strategic terms. This new factor also concerns Japan, which sees China’s maritime assertiveness in the East China Sea around the disputed Senkaku Islands as encroaching on its sovereignty.

Economically, the U.S. attendance at China’s Belt and Road Forum might be a signal of increasing economic cooperation between two countries. Is the U.S. going to reconsider its rejection of the AIIB, China’s infrastructure bank that is challenging the ADB, and leave Japan high and dry? Reading U.S. intentions toward China due to the unpredictability of the Trump policy is Japan’s major concern in the region, aside from the DPRK threat. In such an atmosphere of uncertainty, trilateral relations among the U.S., China, and Japan could be even more challenging than figuring out what the Trump White House wants to do about autos and other trade issues with Japan in a rudderless government

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Growing Regional Security Challenges for the U.S. – Japan Alliance

Ms. Monica Herman

Introduction

Since the inception of the administration of Prime Minister Shinzo Abe (2012 -), Japan has faced serious security challenges in the Asia-Pacific region. These challenges stem from the threat of a nuclear-armed North Korea and from growing maritime tensions with China, which is expanding its military presence in the East and South China seas. However, with the growing challenges has come a stronger and more effective security relationship with the United States to deal with them, based on a security treaty that dates back to 1960 and many recent updates to the U.S. – Japan Alliance.

This paper, the result of extensive research carried out in Washington and Tokyo, examines Japan's Alliance-building responses under Prime Minister Abe to China's military expansion in the East and South China seas as well as to North Korea's missile and nuclear weapons programs. It also examines the increasingly cooperative nature of the U.S. – Japan security relationship, which has evolved over the last few years to meet those challenges.

Due to the steady stream of North Korean missile launches directed toward Japan, as well as rising maritime tensions in the East and South China seas, Prime Minister Abe has indicated repeatedly that Japan is prepared to play a greater security role in the region. Abe came into office in December 2012 for a second time as prime minister (the first time being 2006-2007), with a security agenda that included Japan's first National Security Strategy, the creation of a Japan-style National Security Council (NSC) under the prime minister, and a commitment to strengthening Japan's defense posture, which included a landmark reinterpretation of Japan's peace Constitution in order to allow Japan the right to use collective self-defense. To date, Abe has accomplished all of these policy goals.

In addition, Abe has increased defense spending after years of decline, though the budget still remains below the traditional cap of 1% of GDP. He has introduced state-of-the-art military equipment, including the F-35, to Japan's arsenal. Thanks to good personal relations with then President Obama and now President Trump, U.S. – Japan security relations are stronger and more cooperative. Due to Abe's reforms, Japan now possesses a new set of bilateral defense cooperative guidelines which will make the Alliance more operative, effective, and, importantly, more symmetrical. Furthermore, Abe has also embarked on a proactive diplomacy that has created strategic partnerships with Australia, India, the Philippines, and Vietnam, all of which are designed to encircle and weaken the influence of China in the region.

In light of the shift in Japan's defense policy under Abe, this paper examines the situations in the East and South China seas and on the Korean Peninsula to see specifically how Japan, in cooperation with its U.S. ally, has been responding.

The East China Sea: Brewing Tensions

The current face-off between Japan and China over claims to the uninhabited Senkaku Islands – referred to as the “Diaoyu” by China – began in 2010, when a Chinese fishing trawler deliberately rammed into two Japanese coast guard vessels close to the isles. Tension between China and Japan then amplified in 2012, when the administration of Prime Minister Yoshihiko Noda decided to purchase three of the private islands from a Japanese owner. The dispute has continued in the years since, as China has increased its maritime patrols in the region as well as its military patrol flights.ⁱ In 2013, China declared an Air-Defense Identification Zone (ADIZ) which includes the Senkaku Islands, and now demands that all aircraft entering its ADIZ must submit flight information. To date, the U.S., Japan and South Korea (whose air zone is also claimed by China) have ignored these demands from China. Yet, China continues to intrude into Japanese waters with official vessels and invade Japan's airspace with military aircraft. The situation remains tense in 2017; both sides seem unwilling to provoke another incident, but the future remains unpredictable with no conflict resolution mechanism in sight.



Source: The Economist

While the Senkaku/Diaoyu dispute has escalated in recent years, conflicting territorial claims between China and Japan over the islands date back to the late nineteenth century, when Japan acquired the Senkakus following the Sino-Japanese War (1894-95), but not as a spoil of war. China, however, claims that its claim to the Daiyou

goes back to the 14th century. The official claim of the Government of Japan is as follows:

“The Senkaku Islands have historically and consistently been part of the Nansei Shoto Islands which have been part of the territory of Japan. From 1885, surveys of the Senkaku Islands had been thoroughly conducted by the Government of Japan through the agencies of Okinawa Prefecture and through other means. Through these surveys, it was confirmed that the Senkaku Islands had been not only uninhabited but also showed no trace of having been under the control of the Qing Dynasty of China. Based on this confirmation, the Government of Japan made a Cabinet Decision on January 14, 1895, to erect markers on the islands to formally incorporate the Senkaku Islands into the territory of Japan. These measures were carried out in accordance with the internationally accepted means of duly acquiring territorial sovereignty under international law (occupation of terra nullius). The Senkaku Islands are not part of Formosa (Taiwan) and the Pescadores Islands that were ceded to Japan from the Qing Dynasty in accordance with Article II of the Treaty of Shimonoseki, concluded in April 1895.”

“Although the Treaty of Shimonoseki does not clearly define the geographical limits of the island of Formosa and the islands appertaining or belonging to Formosa ceded to Japan by the Qing Dynasty of China, nothing in the negotiation history (or otherwise) supports the interpretation that the Senkaku Islands are included in the island of Formosa and the islands appertaining or belonging to it in Article 2b of the Treaty.”

The United States as a result of the Second World War administered the Senkakus as a part of Okinawa, but the isles were returned to Japan in 1972 through the Okinawa Reversion Treaty. The U.S., however, did not support Japan’s claim to the islands; it only placed them under Japanese administration. The U.S. government position is as follows:

“Since the end of World War II, the Senkaku Islands were placed under the administration of the United States of America as part of the Nansei Shoto Islands in accordance with Article 3 of the San Francisco Peace Treaty. With the entry into force in 1972 of the Agreement between Japan and the United States of America Concerning the Ryukyu Islands and the Daito Islands (the Okinawa Reversion Agreement), the administrative rights over the Senkaku Islands were reverted to Japan. As is expressed in a statement issued by Secretary of State Dulles at the San Francisco Peace Conference and in the Joint Communiqué of Japanese Prime Minister Kishi and U.S. President Eisenhower issued on Jun 21, 1957, the U.S. Government did recognize Japan’s “residual sovereignty” over the Nansei Shoto Islands.”

While the United States has not taken a formal position on the territorial claims, expecting the situation to be worked out diplomatically between the two parties, the U.S. government has stated repeatedly that the islands fall under Article 5 of the U.S. – Japan Security Treaty, because it is administered and under the effective control of Japan. Washington, however, has long been concerned that the tense situation around the Senkakus could develop into an unplanned or accidental armed conflict, one that could draw the U.S. into an unwanted war with China on behalf of its treaty obligations to Japan. This is one of the reasons that Japan's SDF (Self-Defense Forces) have been training to defend on their own the outer islands, including the Senkakus, and that the deterrent capabilities of the Alliance in the region have been beefed up in recent years, the premise being that China does not want an unintended war either. Moreover, the Obama administration encouraged good political relations between Beijing and Tokyo and ultimately dialogue to resolve the dispute. Japan, nevertheless, has never acknowledged that a territorial dispute exists. From the Japanese perspective, there is no territorial conflict since the Senkakus are legally Japan's; and China is intervening in waters and territory rightfully claimed by Japan according to international law.ⁱⁱ China has made no attempt to arbitrate the dispute either, since it also regards the territory as its own.

Japanese Position on the East China Sea

Despite enduring provocation by the Chinese, Japan continues to uphold its sovereignty over the Senkaku islands and their opposition towards China's ADIZ, declaring that China's requirement that all air vessels submit their flight information violates international law. However, Japan continues to refrain from engaging in dialogue with China over the East China Sea issue. Part of Japan's unwillingness to concede can be attributed to its historical tensions with China, although at present it is more likely that Japan is battling China for a position of power in the region, given that both China's economy and its defense spending have surpassed those of Japan. According to one particular Japanese scholar, Japan-China tensions will only increase, since tension with China is part of Abe's political agenda.ⁱⁱⁱ Furthermore, Japan's 2016 white paper released by the Ministry of Defense dedicates an entire section to China as well as maritime trends, which reveals that the Senkaku/Diaoyu islands issue remains a point of contention for Japan and therefore will not fade in the near future.

According to the 2016 white paper, Chinese naval vessels continue to conduct patrols and various operations in the East China Sea; Chinese maritime surveillance ships and naval intelligence vessels regularly patrol the region and have become more assertive.^{iv} As of June 2016, a Chinese naval ship – a Jiangkai I-class frigate – sailed into Japan's contiguous zone near the Senkaku islands, for the first time in twelve years.^v Later in 2016, China escalated military provocations in those waters, including flooding the area with fishing boats to make the situation even more risky.

Although tensions persist and Japan continues to condemn persistent Chinese provocations in the East China Sea, it is unlikely that Japan will go beyond diplomatic protests in response. One can say that attention of the Self-Defense Forces this year has been forced to turn to the North Korea threat, given the frequency of missile tests of increasing accuracy and capability by the Kim Jong-Un regime. However, another factor is the lack of strategic thinking in the SDF. According to one Japanese scholar, Japan's deterrence concept regarding the East China Sea is not well developed. The source stressed that in order for Japan to meet China's "aggression," Japan will need to develop a more coordinated plan in regard to force deployment and potential military exercises.^{vi} Several Japanese strategic experts believe the situation could escalate, citing their view that China seems to be becoming more aggressive toward Japan in the disputed waters over the past year. They worry that although things are tense but stable now, the island dispute remains a flash point that could explode into outright conflict at any time. Still, in terms of defense planning, Japan sees China as a long term strategic threat, whereas North Korea remains the immediate existential threat due to missiles and nuclear weapons that must be addressed on a priority basis.^{vii}

U.S. Position on the East China Sea

The U.S. does not take a position on who owns the islands, while confirming that Japan has effective administration over them. Washington expects Japan and China to work out a peaceful resolution eventually through diplomacy. For the U.S., the immediate issue of the East China Sea is to prevent a clash between Japan and China over the Senkakus. The broader issue, though, is one of freedom of navigation in international waters should China decide to block free passage in the shipping lanes of the East China Sea.

Washington began to voice its support for its Japanese ally following China's escalation of maritime patrols around the Senkaku islands in the fall of 2012.^{viii} After several committee hearings on the matter, Congress inserted a resolution into the fiscal 2013 National Defense Authorization Act which stated that "the unilateral action of a third party will not affect the United States' acknowledgement of the administration of Japan over the Senkaku Islands."^{ix} Furthermore, President Obama declared in a press conference with Prime Minister Shinzo Abe in April 2014 that "Article 5 covers all territories under Japan's administration, including the Senkaku islands," making him the first U.S. President to state publicly the U.S. position on the issue.^x

Since President Trump has taken office, vocal support of Japan and reconfirmation of U.S. – Japan cooperation on the territorial issue has continued. In the few weeks after the President was elected, Secretary of Defense James Mattis affirmed that the U.S. – Japan bilateral security treaty "applies to defending Japan's continued administration of the Senkaku islands," thereby continuing the U.S. position on the issue

voiced by the Obama Administration.^{xi} Predictably, China responded negatively to the remarks, stating that the United States should “stop making wrong remarks on the issue involving Diaoyu islands’ sovereignty.”^{xii} Yet, the United States continues to affirm Japanese administration of the islands as defined by the bilateral security treaty. Several days after Mattis’ remarks, President Trump and Prime Minister Shinzo Abe released a statement where both confirmed commitment to the treaty and U.S. – Japan cooperation. President Trump specifically stated that the Administration is “committed to the security of Japan and all areas under its administrative control,” which includes the Senkakus; Prime Minister Abe then added that both he and President Trump “confirmed that U.S.-Japan Security Pact Article 5 will be applied to Senkaku Islands,” garnering further criticism from China.^{xiii}

Like his predecessor, President Trump supports a stronger Japanese ally and has re-emphasized the familiar phrase that U.S.–Japan security cooperation is essential to the stability of the region. Thus, U.S. military aircraft continue routine flight missions in and around the East China Sea. On March 23, 2017 China tried to garner respect for its ADIZ in the region by claiming that a U.S. B-1 bomber illegally flew into its airspace.^{xiv} The United States responded stating that the bomber was performing “routine operations in international airspace” and that the U.S. “would continue flight operations in the region.”^{xv} Though the situation could have escalated, so far such incidents have not threatened to cause an actual clash.

The South China Sea: Chinese Claims and Capabilities

According to economist Arthur Fensom, “an estimated \$5 trillion worth of goods are transported through South China Sea shipping lanes each year, including more than half the world’s annual merchant fleet tonnage and a third of all maritime traffic worldwide.”^{xvi} For Japan, around 60% of its energy supplies are shipped through those waters. As result, the South China Sea is a vital region for the United States, Japan, as well as other nations transiting its shipping lanes. However, China has claimed almost all of the South China Sea as its territory through its ‘nine-dash line,’ which encompasses not only the disputed Paracel Islands, Spratly Islands and Scarborough Shoal, but also most shipping lanes reaching from the Southern coast of China down to Malaysia.^{xvii} Despite negative reactions from Vietnam, Taiwan, Malaysia, Brunei, and the Philippines, China continues to claim the Paracel Islands, Spratly Islands and Scarborough Shoal as part of its territory, and therefore remains mired in disputes over these areas.



Source: The Economist

Occupied with its own dispute with China in the East China Sea, Japan has not become directly involved in the South China Sea until recently. Despite the fact that the area is a significant shipping lane for many countries in the region, Japan has prioritized other items on its defense agenda – namely, developing its own 2015 defense guidelines and continuing to deter China from the Senkaku Islands. However, the United States has expressed opposition to Chinese actions in the South China Sea, particularly China's increasing military capabilities, since these pose a threat to any ship passing through the region.

According to a March 2017 report by *Military Times*, China is nearly finished with its construction projects on the Subi, Mischief and Fiery Cross reefs; satellite footage confirms that China has built hangars which could store an estimated twenty-four fighter jets as well as a few larger aircraft including bombers.^{xviii} Furthermore, China has advanced radar capabilities and surface-to-air missiles on Woody Island, which would enable the Chinese military to “operate over virtually the entire South China Sea.”^{xix} China continues to assert that its actions in the South China Sea are for “civilian purposes” as well as to protect Chinese ships in the region.^{xx} However, the Chinese military presence continues to threaten to block naval and merchant operations in large areas that China claims.

Japanese Response to the South China Sea

Although the Japanese government has refrained from taking a position on the territorial claims in the South China Sea, it has supported freedom of navigation and the

rule of law in the region. According to a source in the Japanese government, “Japan wants to secure the sea lane in the South China Sea and supports freedom of navigation because it is critical to importing oil.”^{xxi} With Japan’s new national security strategy, as well as its new legislation allowing for the use of the right to collective self-defense, Japan’s posture is slowly changing in the region to the south.

Japan’s 2016 white paper, *Defense of Japan*, released by the Ministry of Defense defined Chinese actions against ships in the South China Sea – particularly U.S. Navy vessels – as “dangerous acts that could cause unintended consequences.”^{xxii} Two Japanese destroyers just completed joint drills with the U.S. military in South China Sea in early April 2017.^{xxiii} Moreover, media confirmed that Japan’s largest warship, the JS Izumo, at the time of this writing, is in the process of escorting U.S. military ships near the Japanese coast.^{xxiv} This marks the first time that a Japanese vessel has protected a U.S. ship, which demonstrates that Japan is can now operate in the region. Furthermore, Japan is increasing its strategic partnerships with Vietnam and the Philippines by providing military-related aid to both nations.^{xxv}

Still, what Japan can do in the region remains limited, despite the new legislation. Experts in Japan acknowledge that open conflict in the South China Sea due to territorial disputes could become a direct security problem. Unlike the U.S. Navy, Japan still avoided Freedom of Navigation Operations (FONOPS) in the region. According to a knowledgeable source in the Japanese government, Japan possesses the capability to conduct FONOPS with its Maritime Self-Defense Forces (MSDF) and the Abe government in principle supports such an action, yet no concrete plan for executing FONOPS exists.^{xxvi} Moreover, according to one Japanese strategic thinker, Japan continues to have constraints regarding the South China Sea due to the expected reaction from China if the MSDF carried out a FONOP.^{xxvii}

Furthermore, although the Abe administration has been increasing Japan’s defense budget, the extra spending on equipment is nowhere near the amounts that China is spending to enhance its maritime capabilities. According to Grant Newsham, retired U.S. Marine Corps Colonel and current Senior Research Fellow at the Japan Forum for Strategic Studies, China’s amphibious force far surpasses that of Japan.^{xxviii} Whereas China possesses “four modern Type 071 vessels, assault vehicles, and older ships,” coupled with “30,000-40,000 army troops trained for amphibious operations,” Japan is still struggling to develop its own amphibious force, which would be charged with defending Japan’s outer islands.^{xxix} One Japanese scholar, commenting on the state of the SDF’s strength, pointed out that even with Abe’s upticks in defense spending, the yen has depreciated which has reduced Japan’s purchasing power of acquiring military equipment from the U.S.^{xxx} Additionally, he stressed, Japan’s “naval forces already have too many missions and too few sailors, a history of lack of coordination with land forces, and a shortage of amphibious training areas in the country.”^{xxxi} Thus, although Japan has good

intentions to lend its hand to the U.S. should there be a need for such in the South China Sea, its reach remains limited. Most resources must be devoted to defending Japanese territory, waters, and air space in the East China Sea. The contribution remains limited to helping Vietnam and the Philippines build their own capacities, and to conducting joint drills with the U.S.

U.S. Response to the South China Sea Issue

Like its Japanese ally, the U.S. has not taken a position on the territorial claims in the South China Sea, but has stated that Chinese actions violate international norms and the rule of law, particularly freedom of navigation. On several occasions, then President Obama criticized Chinese aggression in the South China Sea, stating that the United States upholds freedom of navigation and will continue to conduct operations in the region in accordance with international law.^{xxxii}

Yet despite persistent U.S. presence in the region through routine FONOPS – though now halted, the operations had little or no effect on China’s military buildup in the South China Sea. According to a U.S. Naval officer deployed to the region, each time the United States conducts FONOPS in the South China Sea it faces hostile encounters with the Chinese Navy.^{xxxiii} As of March 2017, the U.S. Navy regarded the South China Sea as one of its top five most dangerous deployments due to regular shadowing by Chinese vessels and persistent harassment by the Chinese “paramilitary maritime forces.”^{xxxiv} According to *Navy Times*, Chinese militarization of the region puts U.S. ships and sailors at risk; with its increasing capabilities on the Subi, Fiery, and Mischief reefs as well as Woody Island, China could potentially launch attacks against U.S. ships through air power but also long-range missiles.^{xxxv}

In the run-up to his summit meeting in April with China’s President Xi Jinping, President Trump ordered the U.S. Navy to relax its operations in the South China Sea in order to avoid diplomatic complications. But this has not prevented U.S. officials from making strong statements, such as on China’s militarization of its man-made isles in claimed waters. Newly appointed Secretary of State Rex Tillerson early on declared that China should be denied access to its seven artificially constructed islands in the South China Sea. China retorted that should the U.S. make an attempt to follow through on this action, it would cause a “devastating confrontation” and both sides should therefore “prepare for a military clash.”^{xxxvi} The U.S. Administration has not moved forward with Tillerson’s statement, and Navy requests to conduct FONOPS in the region have been deferred. The emphasis instead has been on the Korean Peninsula, as seen in joint drills between the U.S. Navy’s Carl Vinson with two Japanese destroyers – the JS Ashigara and Samidare – in April 2017.^{xxxvii} Thus, North Korea now appears to dominate the U.S. and Japanese agendas in comparison to the East and South China Seas.

North Korea: Recent Provocations

Over the past year or so, Washington and Tokyo have had to divert their security attention away from Chinese maritime expansion in the East and South China seas and place priority on responding to North Korean provocations. While missile tests by the North Korean regime are not new, the increasing number of test launches and quality improvements in equipment have raised the level of response rhetoric and sanctions from the U.S. and Japan as well as the United Nations Security Council. China has even promised to cease purchases of North Korean coal, a remarkable first step from a country that usually sides with North Korea.

President Trump has indicated in his statements that he expects Beijing to work harder to convince Pyongyang to back away from its threats. As for Japan, with the exception of a show of force alongside U.S. Navy vessels, there is little that it can do in the face of an existential threat from a future nuclear-armed North Korean missile; Japan's own missile intercepting capability remains an open question.

Since North Korea's fifth nuclear test in September 2016, Washington and Tokyo have been encouraging Seoul to cooperate trilaterally. This has resulted in trilateral meetings in early 2017 and joint statements, but the specifics of such cooperation have yet to be revealed. All three governments have increased sanctions against the DPRK regime and have condemned North Korea's tests and missile launches.^{xxxviii} However, with the new government in South Korea headed by President Moon Jae-in, who favors the return to a "Sunshine Policy" (diplomacy, not confrontation) toward the DPRK, it is uncertain whether the policies of the ROK can be matched with those of the U.S. and Japan.

In the end, China's actions, including economic pressure, vis-à-vis the DPRK may prove more effective than the trilateral cooperation of the U.S., Japan and the ROK. The U.S. in particular believes that China's status as the North Korean regime's largest trading partner gives it an immense economic influence over that country. In addition, the UN Security Council has prevented China from exporting certain items to North Korea through its various sanctions against the regime.^{xxxix} Yet North Korea continues to defy the UN sanction resolutions – of which there have been seven in total – and trade with China for the most part continues, some of which may be unrecorded.^{xl} Footage of North Korea's military parade on April 15, 2017, showed that the trucks used to carry DPRK military equipment were Chinese; in response to inquiry, Chinese Foreign Ministry Spokesman Lu Kang stated that "China and North Korea maintain 'normal contacts,' including normal business contacts."^{xli}

China also continues to export vital items such as oil, although the Chinese media have suggested that China might suspend these particular shipments following its recent ban of coal imports from North Korea.^{xlii} Given persistent business ties between China

and North Korea, how to convince Beijing to go the extra mile in curbing North Korea's nuclear ambitions and missile programs may be the Trump administration's biggest challenge.

Japanese Position on North Korea

For Japan, North Korea poses an existential threat – a threat which only the U.S., with its extended deterrence, can counter. According to a source in the Japanese government, North Korea is considered much more of a threat than China could ever be because the country has demonstrated an open intention to attack Japan.^{xliii} In response to the DRPK threat, even the civilian sector in Japan is beginning to conduct air-raid drills and the government is issuing guidance on how to prepare for a ballistic missile attack. In March 2017, an elementary school in Oga, Japan performed a drill in order to prepare students for a North Korean missile attack.^{xliv}

Japan's Cabinet Secretariat has also launched a "Civil Protection Portal Site," which provides the public with information on how they "will be notified of an impending missile attack and what actions they should take."^{xlv} According to *The Japan Times*, the site had a record of 2.6 million views in April, a surge from 450,000 in March, demonstrating that a nightmare scenario of sorts is brewing in Japan.^{xlvi}

The U.S. Response to North Korea

The United States continues to regard North Korea's missile tests and ongoing nuclear program as a threat not only to the Asia-Pacific region but also international security. During his terms in office, President Obama stressed the need for greater sanctions against North Korea to limit the country's capabilities, and advocated the necessity of a three-pronged approach with Japan and South Korea to restore peace and stability to the region. Like his predecessor, President Trump has condemned North Korea's tests, supports a trilateral response to the issue, and has stressed that even a military response is on the table.

While President Obama's rhetoric toward North Korea and the Asia-Pacific represented a concept that became known as "strategic patience," or waiting for the sanctions to bring Pyongyang to the negotiating table, President Trump's rhetoric is far more direct. President Trump has stressed in numerous press conferences that "all options are on the table" in regard to countering North Korea, and has not ruled out the possibility that the U.S. might even go to war with North Korea in the near future. He has backed his rhetoric up with shows of force. His decision to re-route the USS Carl Vinson toward the Korean Peninsula sparked condemnation from the DPRK, which threatened the United States with nuclear war should it attempt an attack.^{xlvii} Vice President Mike Pence responded to domestic and international concern regarding the issue by confirming that Obama's "era of strategic patience is over" but added that although "all options are

on the table,” the President remains committed to working with Japan, South Korea as well as China to achieve a peaceful resolution to the situation.^{xlvi} However, Trump’s faith in a China solution to the problem has yet to be tested.

On April 6, 2017 before President Xi Jinping’s visit to Mar-a-Lago, Secretary of State Rex Tillerson expressed the hope that China would utilize its influence with North Korea to help dismantle “their nuclear weapons and their missile technology programs.”^{xli} Yet, President Xi Jinping made no such promise during his visit. While many including Tillerson expected the two leaders to negotiate a coordinated approach toward North Korea, the topic was not discussed at length. President Xi Jinping recognized that the situation with the DPRK had reached “a very serious stage,” but did not agree to exert greater economic pressure on the smaller country.¹ President Trump responded to questions following the Chinese President’s visit, stating that both he and Xi Jinping had “made tremendous progress” yet had not made any particular breakthroughs.^{li} U.S.–China cooperation on the issue is still uncertain, as evidenced by each leader’s reactions to the follow-up phone call several days after Xi Jinping’s visit. The White House released a statement which affirmed the call between Trump and Xi Jinping occurred, while the Chinese government published a statement which declared that China supports denuclearization of the Korean peninsula and agrees to work with the United States on the issue.^{lii}

Given Trump’s criticism of China during his Presidential campaign and the resonating yet unspoken tensions between the two leaders, it is possible that China may not be willing to do Trump any favors. Furthermore, even the Trump administration appears divided on how far to go in urging China to help denuclearize the Korean peninsula. Tillerson stated that “the U.S. may take its own measure in dealing with Pyongyang,” citing that the U.S. understands the difficult circumstances China faces in this situation with North Korea.^{liii} More recently, however, President Trump tweeted that if China “want[s] to solve the North Korean problem, they will,” thereby suggesting the issue still hinges on Chinese cooperation.^{liv}

U.S. – Japan Coordination on North Korea vis-à-vis China

Despite internal division within the Trump Administration on North Korea and numerous press inquiries about China’s willingness to respond, it is evident that Trump and Abe have formed stronger ties over the North Korea threat. Trump has met the Japanese leader a total of two times since taking office, and called the Prime Minister after Xi Jinping’s departure from Mar-a-Lago. According to *The Japan Times*, the call lasted forty-five minutes and both leaders agreed to coordinate closely with South Korea on the DPRK situation; Abe also told Trump “that Tokyo is watching closely how Beijing responds to the issues.”^{lv} Furthermore, Japanese officials expressed skepticism regarding whether China would increase economic pressure on North Korea.^{lvi} Indeed, at

present it appears unlikely that China will respond to urges from the U.S. and Japan on the issue.

Assessing Future Priorities: North Korea vs. the East and South China Seas

By mid-2017, North Korea had launched nine ballistic missiles, the most recent of which (May 29) fell into Japan's EEZ. In the G7 summit held in late May in Italy, the leaders of the G7 issued a statement which declared that North Korea "poses new levels of threat of a grave nature to international peace and stability." The G7 nations also called on North Korea to abandon its nuclear and missile programs. Furthermore, the UNSC imposed new sanctions on the DPRK, targeting 14 individuals and four companies for the UN blacklist. It is unlikely that such actions of the international community will have any effect on the Kim regime, which uses its missile and nuclear weapons programs as a guarantee that its survival will be ensured.

There is no doubt that the Trump administration will continue to place the North Korea threat as a top priority on its security agenda for East Asia. Thus, it is likely the U.S. and Japan will continue to increase cooperation and strategic dialogue on possible responses to the North Korean problem. In the meantime, it appears likely that U.S. and Japanese joint responses to Chinese activities in the East and South China Seas will be put on hold. Many scholars and officials – both American and Japanese – recognize that the situations in both areas still pose a challenge to the Asia-Pacific region and have the potential to escalate, yet the leaders of both countries remain focused on what is deemed to be the greater threat at hand: North Korea. According to Greg Poling, Director of the Asia Maritime Transparency Initiative (AMTI) at the Center for Strategic and International Studies (CSIS), the White House is not concerned with the East and South China Seas.^{lvii} Furthermore, given Trump's business background and transactional policy style, it is very likely that he will attempt to make a deal with China regarding North Korea – a deal which could even entail the U.S. putting on the backburner Chinese claims in the South China Sea and enabling military establishments on the artificial islands to remain, in exchange for Chinese cooperation on North Korea.

The Way Forward: The United States and the Asia-Pacific

The situations in the East and South China seas, coupled with the increasingly threatening nature of the Kim Jong-Un regime in North Korea have served to bring the Trump and Abe administrations together in a way that could not have been envisioned in 2016, when then Presidential Candidate Trump was attacking Japan on trade and alliance support issues. Trump's rhetoric toward North Korea, however, may prove to be an Achilles heel to future U.S. – Japan security cooperation. Should he go beyond verbally attacking the North Korean regime and give the order to route more U.S. Navy vessels toward the Korean peninsula, setting off a possible confrontation between Washington

and Pyongyang, there is a risk of setting off a war with North Korea that could devastate the Korean Peninsula, as well as parts of Japan that host U.S. bases. Such a scenario is unwelcome in both Japan and South Korea, and most likely in Beijing, as well. At present it is unclear where the policy positions in Washington and Pyongyang will lead, since there seems to be a lack of coherent strategy in Washington.

Given these risks, and the possibility of escalating tensions over the South and East China Seas, it is essential for the U.S. to pursue a well-thought out policy that has a coherent end-game solution. Here are the policy recommendations of this researcher:

Clear, unified policy toward the Asia-Pacific. In order to reassure its allies and partners in the Asia-Pacific, the U.S. administration must develop a unified policy for the region. Conflicting statements from President Trump and various cabinet members have decreased U.S. credibility in the Asia-Pacific and generated an image of the United States as an uncertain power. If the U.S. is to protect its allies and interests, uphold international law and counter growing threats, the President must consult with his cabinet to ensure that the U.S. projects a clear message in all of its press conferences, official visits and actions going forward.

Support of international law and norms. The U.S. administration must continue to support core principles such as freedom of navigation and overflight in the region in accordance with U.S. values. Most statements regarding these principles have come from one more U.S. cabinet members in the past few months, while little has been said by the President himself. If President Trump continues to refrain from supporting such key U.S. values in the region, it will convey the message that the United States is willing to overlook Chinese actions in the East and South China Seas, which will enable China to take a greater leadership role in the region.

Greater U.S. presence in the Asia-Pacific. The United States must continue to exercise leadership in the Asia-Pacific in order to ensure the stability of the region. With President Trump's decision to withdraw from the Trans-Pacific Partnership (TPP), the U.S. now possesses less economic influence and engagement in the region than it would have had under the TPP. Furthermore, there is the chance that China may decide to fill the void that the U.S. has left. It is vital that the U.S. maintain a leadership role in the region to avoid dominance by China, which has already shown that it has no regard for international law. The U.S. may do this by conducting more at-sea deployments in the region and working to strengthen its relationships with allies and partner nations.

Continued dialogue with China, but stronger rhetoric. While tensions still persist between the U.S. and China as well as China and Japan, Chinese cooperation is vital to deterring North Korea. The United States cannot condone Chinese aggression in the East and South China Seas – it will only enable Chinese

growth and military capability, and may eventually result in an armed conflict over which the United States may have to respond due to treaty obligations. However, the United States can continue to engage in dialogue with China and develop a stronger rhetoric to persuade the Chinese government to utilize its influence with North Korea for the purpose of deterrence.

The above recommendations may not be the end-all solutions, but in the view of this researcher, they should make a good start in resolving one of the most challenging sets of security threats that the Asia-Pacific region now faces.

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Japan Inc. 2.0 – Is Japan Back?

Mr. Tyler Kellermann

Introduction

For Americans who lived through the 1980s, Japan was inescapable. Ezra Vogel's 1979 book, *Japan as Number One*, trumpeted claims of Japanese industrial superiority and captured the uncertainty of Americans after the dual oil shocks and economic slowdown of the 1970s. Moreover, the U.S.' growing trade deficit with Japan and the closed nature of Japan's markets to U.S. goods became a politicized issue and created anti-Japanese sentiment in the United States. This ushered in an era of "Japan Bashing" in media and political circles, as trade disputes threatened to develop into a trade war during the 1980s. The corporations of "Japan Inc.," complete with their armies of dedicated salarymen, seemed poised to roll over their global competitors. It was almost as if the "Yellow Peril" of the pre-World War II era had been resurrected.

Nowhere was this perceived dominance more evident than Mitsubishi's 1989 majority purchase of Rockefeller Group – owners of the iconic Rockefeller Center – prompting the *New York Times* to run the headline, "Japan Buys the Center of New York." The symbolism at the time was unmistakable: Japan had solidified its foundation of global economic dominance. The business "invasion" of the United States became the obsession of segments of the popular media.

In hindsight, it is evident that this foundation was built on sand. The double disasters of the Japanese housing and stock market collapses in 1990-91 brought an abrupt end to unchecked growth and irresponsible acquisitions. The period of what became known as the "Two Lost Decades" (*ushinawareta nijūnen*) from 1991-2010 saw nominal GDP decline, real wages fall, and price levels remain stagnant. Japanese banks were left saddled with enormous debt – non-performing loans – that took a decade and eventually significant government intervention to finally resolve.

Financial sector reforms saw the demise of the main bank system and an end to the cheap credit that had funded Japan's explosive industrial rise. Today, although Japan remains the third largest economy in the world, the Japan "brand" in America has largely faded from memory. With the exception of its autos, machinery, and cultural exports of media and fashion, Japan has receded in the minds of most Americans. There is hardly any Japanese presence in the cell-phone industry in the U.S. Many of the old Japan Inc. power players, far from the titans they once were, have retrenched and hunkered down in Japan. In 1996, Japanese companies held six of the top 10 spots on the Fortune Global 500 – including the top three.¹ In 2016, only Toyota remained on the list at number eight. As former FT Tokyo Bureau chief David Pilling pointed out in 2014, "While thirty years

ago the country inspired awe as an economic trailblazer, today it is more likely to elicit a sorrowful shaking of the head."²

For many observers, Japan Inc. has lost its magic charm and cannot seem to get it back. However, does the image of fumbling corporate has-beens bleeding money and surrendering markets they once held with an iron grip represent the true state of Japanese business today? Evidence suggests it does not. The financial crisis of 2008 forced many firms to get leaner and more competitive. Japan's share of total world foreign direct investment (FDI) shrunk by half to 5% after the collapse of the asset price bubble in the early 1990s, but it is now gaining ground again.³ Successive years of a strong yen – particularly after 2010 – spurred an array of foreign acquisitions that have continued into 2017. Abenomics, the policy mix of the administration of Prime Minister Shinzo Abe, has brought some positive changes to corporate governance and renewed focus on improving the professional status of women. Japan remains one of the world's largest automobile manufacturing countries, still has the largest electronics goods industry, and is a leading country in innovative patent filings. Japan has moved from consumer goods to developing high-tech and precision products, including optical instruments and robotics.

This study on the relative health of the Japanese industrial sector, researched in the U.S. and Japan, examines recent business trends, with a focus on the state of Japanese direct investment activities within the United States. It finds that, despite new and remaining challenges, Japanese businesses are increasing foreign acquisitions at a rapid rate in an aim to globally diversify, remain competitive, and ensure future success. The study factors in such challenges affecting the business world as corporate decay, as seen in scandal-ridden Toshiba's attempt to avoid death throes; the impact of demographics on Japan's labor force; and "Galapagos Syndrome" – companies forsaking the global market to focus on a shrinking domestic market. How can Japanese industries avoid such slow economic death? There are rays of hope, such as a strong trend in business-to-business transactions in intermediate goods and components through production networks, and international investment trends, such as high value M&A deals in the United States. The study concludes with a reflection on Japan, Inc. 2, provides policy recommendations, and offers some thoughts on the future of Japan's business relations with the United States in the context of the new Trump presidency.

In addition to citing from source literature, this paper draws upon a series of interviews conducted with experts during February and March 2017 in Washington DC and Tokyo. It is broadly broken into four sections:

- I. Concerns about Japan's overall business direction
- II. Trends in Japanese outward foreign direct investment and company case studies
- III. Policy proposals for remaining performance challenges
- IV. The future of the U.S.-Japan business relationship

I. Is Japan Inc. Headed in the Right Direction?

The two decades following the post-bubble collapse were not kind to the Japanese economy. Years of low growth combined with repeated deflationary cycles battered its business sector. Japan's economy grew just 0.2 percent in the entire 20-year period from 1991 to 2012.⁴ Elected in late 2012, Prime Minister Shinzo Abe came into office with a breath of economic fresh air, announcing an ambitious flagship economic program labeled "Abenomics." The program's initial three policy "arrows" included monetary easing, fiscal stimulus, and structural reform to help restart Japan's economic engine. He later added other "arrows" to stimulate the labor market.

Despite the prime minister's determination to reenergize Japan, many observers are worried about disturbing trends that could negatively affect long-term Japanese growth including the decline of postwar corporate giants like Toshiba, a shrinking population reducing the labor force, and the phenomenon of corporate retreat into the domestic sphere, dubbed "Galapagos Syndrome." While these developments are troubling, and actually are being addressed by policy and corporate measures in Japan, my analysis suggests that they do not need to be long-term threats to Japanese business. The solution is for the healthy parts of Japan's business sector to continue to globalize, pursuing outward foreign direct investment to capture new markets in advanced and developing economies, and for the government to continue structural reforms at home while increasing diplomatic outreach efforts abroad.

The Curious Case of Toshiba – Representative Example or Incompetent Outlier?

It is impossible to discuss the state of Japanese business today without examining the case of Toshiba and its significance. The company attracted global headlines in 2015 when it announced news that it had overstated its profits by more than \$1 billion. Toshiba's accounting irregularities originated after the 2008 recession when managers began to pressure their subordinates to meet difficult sales targets under the company's so-called "Challenge Initiative."⁵ An investigation into the malfeasance found that employees inflated profits across the board in an attempt to meet these aggressive quotas.

The ensuing scandal saw the resignation of Toshiba's CEO Hisao Tanaka and more than half the company's board of directors. Two former CEOs, Atsutoshi Nishida and Norio Sasaki, received harsh criticism for creating the institutional culture that lay at the root of the scandal. They resigned their posts, but the company was still riddled with internal problems. Many have pointed to Japan's conformist business culture as exacerbating the issue. Japanese society prizes teamwork and self-sacrifice. Subordinates rarely challenge their superiors and legal protections for whistleblowers lag behind the west.⁶

However, Toshiba's problems did not end with the reshuffling of its board. As the *Wall Street Journal* reported in January 2017, "In October 2015, as Toshiba faced a very public accounting scandal centered on its computer business, it was quietly dealing with another crisis in nuclear power-plant construction."⁷ This crisis came to a head in December 2016. In one of the worst share declines for a Japanese company in history, Toshiba's stock value plunged over 40%. This drop erased \$6 billion off the company's market value in just three days. Ratings agency Moody's subsequently downgraded Toshiba from investment grade to junk.

Fallout

Toshiba's share price
¥500



Source: WSJ Market Data Group

Investor confidence was shaken by reports that costs connected to Westinghouse, a company Toshiba acquired in 2006 to advance its nuclear power plant business, would possibly result in billions of dollars of charges. Toshiba had made a bold gamble that year, betting that Westinghouse's AP1000 reactor design would solidify it as a major player in the nuclear power plant construction business. At the time, many thought the AP1000 design was easier to build and deliver on schedule. Analysts originally worried that Toshiba had overbid for Westinghouse, but investors were reassured when it won new project orders from Scana and Southern Company to build new plants.

Problems arose in 2012 shortly following the 2011 Fukushima disaster. Although the U.S. government had initially approved the reactor design, Toshiba became involved in a dispute with its construction partner Stone & Webster over which company would pay for unexpected cost overruns caused when more stringent safety standards were put in place after the catastrophe. Instead of reevaluating the projects and limiting its exposure, Toshiba stuck with the deals and took on additional risk – acquiring Stone & Webster to end the dispute and renegotiating contracts with Southern Co. and Scana. The *Wall Street Journal* noted that this “put Toshiba overwhelmingly on the hook if the two construction projects continued to run over budget.”⁸

After the December 2016 drop in its share price, Toshiba's stock value continued to tumble, and reports surfaced that it was considering selling off its memory branch – the most profitable division in the company – to help cover losses incurred in the nuclear business.⁹ By March 2017, the situation had gotten much worse. Westinghouse filed for chapter 11 bankruptcy with \$9.8 billion in liabilities at the end of the previous December. Toshiba reported that its own net loss may reach \$9 billion for the current fiscal year.¹⁰ In an earnings report published April 11, the company stated, “there are material events and conditions that raise the substantial doubt about the Company's ability to continue as a going concern.”¹¹

As of June 2017 the company's situation had improved somewhat. It reached a deal with Southern Company that caps Toshiba's liability at \$3.68 billion for remaining costs at the Vogtle nuclear plant in Waynesboro, GA. The announcement resulted in an 8% jump for Toshiba's stock.¹² However, there is still reason for concern. Japanese *keiretsu*, large business groups created by cross-shareholdings, have historically bailed out floundering corporations in the past to keep Japanese businesses from being sold off or snapped up by foreign private equity firms. However, so far these groups have refused to come to Toshiba's aid, signaling a broad shift away from the old corporate alliance structure.¹³

It is reasonable to assume that the double debacles at Toshiba might be part of a larger trend of poor management in Japan's technology industry. If so, then one should look at Toshiba's competitors for signs of similar incompetence. Hitachi, one of Toshiba's major rivals, is considered to be one of Japan's most conservative, traditional firms. As *The Economist* reported, “In 2008 [Hitachi] notched up the largest loss on record by a Japanese manufacturer. Since then, it has spun off its consumer-related businesses in flat-panel TVs, mobile phones and computer parts to refocus on selling infrastructure such as power plants and railway systems.”¹⁴ In 2014, Hitachi went so far as to scrap the traditional seniority-based wage system where pay is based on length of service in the company rather than performance. This system, once a defining cornerstone of the Japanese business model, long ago became a curse, and the Abe administration has been urging companies to embrace pay structure changes to boost labor efficiency.¹⁵

Hitachi's reforms have brought outstanding results, boosting operating profit by several billion dollars in 2015. Hitachi's quick turnaround suggests Toshiba's problems lie with individual management decisions and do not represent Japanese business as a whole.

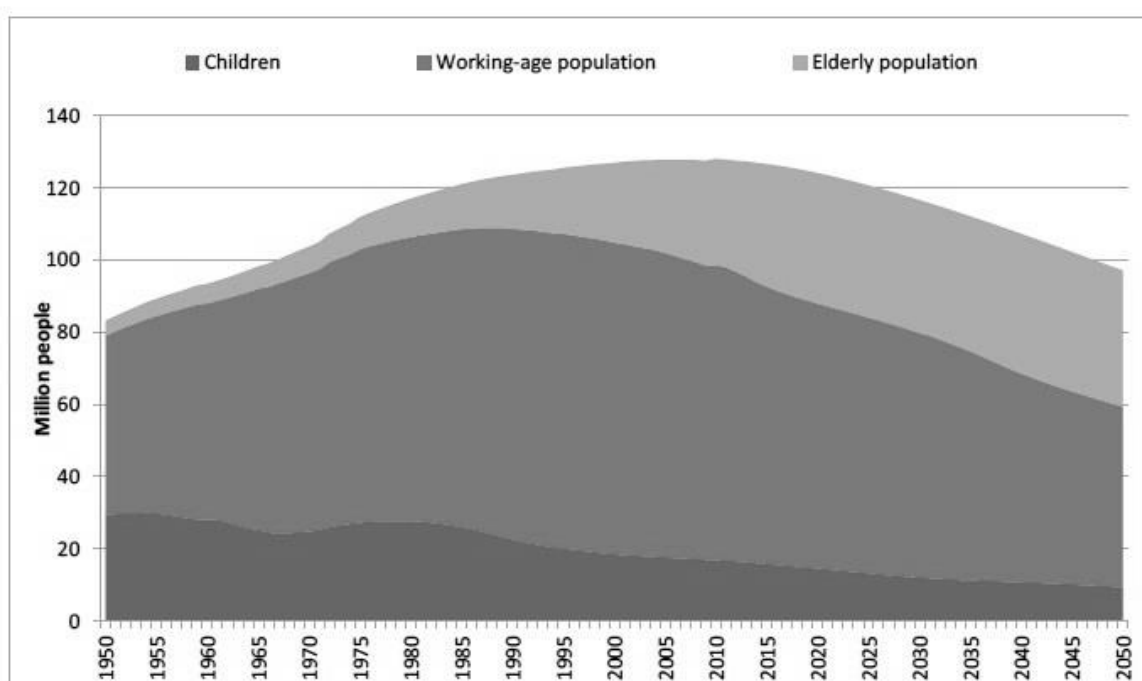
The “Incredible Shrinking Country”

Regardless of Toshiba's fall and Hitachi's resurgence, Japan is facing a seemingly intractable demographic crisis that will have far-reaching effects on the Japanese economy and Japanese corporations in the decades to come.

Data suggest Japan's population peaked around 2008-2010 and has been steadily falling since. If current trends continue, the Japanese population will decline from the current 127 million to 87 million by 2060. At that point, people aged 65 and older will make up 40% of the population.¹⁶ The Cabinet Office has announced a goal of stabilizing the population at 100 million, but this would mean accepting population loss of over 20%, a catastrophe borne only by countries visited by pandemics or devastating wars.¹⁷

The number of young Japanese people aged 20-29 has plummeted from 18.3 million to 12.8 million since 2000. Experts warn that that by 2040 there may be only 10.5 million in this age bracket. Anecdotes can bring some color to the statistics. In the Okutama administrative area in Tokyo prefecture, the large elementary school is now only at about one quarter capacity, and local residents over age 70 now outnumber children under age 10 by more than 10 to one.¹⁸ This is having a startling effect on projections of Japan's future working age population.

Figure 1.1. Japanese population and age structure, 1950-2050



Source: OECD Historical Population Data and Projections (1950-2050).

Beyond just a decline in workers and consumers, higher future pension burdens are likely to squeeze disposable incomes, further reducing consumption. One of the experts I interviewed mentioned that while current demographic trends in Japan do not favor a revived domestic economy, Japan will remain a major global economic player, “playing a huge role in the global supply chain,” as evidenced by the chaos in the global automotive industry after the Tohoku earthquake knocked out parts factories and cut off

supply chains.¹⁹ Although outside the scope of this paper, debate in Japan about heading off the demographic crisis is rife with proposals, including introducing family-friendly policies designed to raise the birthrate and relaxing stringent immigration rules. In the meantime, Japanese companies must look elsewhere for growth.

Galapagos Syndrome

Many companies of old Japan Inc. continue to live up to their traditional image as innovators in personal electronics and manufacturing but struggle to commercialize these innovations globally. As David Pilling noted, “Sharp was the first company to attach a camera to a mobile phone. But producers failed to market their innovations abroad or radically rethink their designs.”²⁰ Sony created an e-reader years before Amazon, but, partly due to strong resistance from Japan’s hard-copy publishers against the trend, did not commercialize it well. For the same reason, it took Amazon years of effort to successfully introduce its Kindle e-reader into the Japanese market.

Why do Japanese companies that have developed exciting, unique products for the domestic market fail to commercialize them globally? Is it a lack of drive or interest, complacency that accepts the status quo, or a failure of entrepreneurship? The answer may be a combination of many factors.

This insular approach mirrors the unique fauna on the Galapagos Islands documented after Charles Darwin’s voyage to the archipelago in the 1830s. Thus, the phenomenon has been dubbed “Galapagos Syndrome” by the business media. It has become such a buzzword in Japan that Sharp cheekily embraced it with its 2010 launch of the Galapagos e-reader series, which featured a unique trackball navigation feature, only to discontinue the line a year later.²¹

Japan was once famous for its sophisticated cell phones. During the feature phone era, Japanese companies consistently pumped out innovative designs. However, partially due to the monopoly that NTT DoCoMo had on the early domestic mobile phone market, these were often incompatible with global standards and unable to be used outside of Japan.²² Domestic competitors were reluctant to embrace smartphone development until Apple already had a commanding market share. Sony has tried to compete directly with Apple through its high-end Xperia line of smart phones. However, Sony CEO Kazuo Hirai said in February that the company would no longer look to grow its smartphone business. In addition to being unable to dislodge a dominant Apple, Sony suffered competition from lower cost phone manufacturers in Asia.²³ Industry analysts have interpreted Mr. Hirai’s statement to mean that Sony will soon completely exit the smartphone market.

Due to the demographic crisis facing the country, staying focused on a shrinking consumer products market makes little sense. Unfortunately, Japan’s consumer

electronics manufacturers keep falling into this trap. Many are left wondering why they cannot break the habit.

Part of the problem may be due to an established culture of risk-aversion and the ease of living that can be found in Japan. An NHK Special documentary on children in Japan, aired on Sunday, June 4, released the findings of a government survey comparing youth in seven countries, including Japan, the U.S., Britain and South Korea. The survey found that only 62% of Japanese youth felt they had a bright future lying ahead, compared to over 80% of young people in the other countries. Such bleak attitudes toward the future from an early age can affect the entire trajectory of a society as those children mature.

Despite the rapid progress of globalization elsewhere, staying in the home country is increasingly the norm for young Japanese. The number of Japanese students studying abroad peaked in 2004 and has declined since.²⁴ Only about 19,000 young Japanese come to the U.S. to study now, compared to over 50,000 a decade or so ago.

This insular (*uchi-muki*) attitude infects companies as well. Robert Gilpin, a political economy professor at Princeton's Wilson School has suggested that this may be a natural phenomenon, writing that, "In response to rising foreign competition and relative decline, the tendency of corporations is to seek protection of their home market or new markets abroad for old products."²⁵

A bigger factor could be the way that technology has changed. There is a growing consensus among experts that Japan's technology industry was not able to successfully transition from analog to digital. Sony dominated music for decades with its Walkman and Discman lines of portable cassette and CD players until Apple soundly dethroned them with the iPod and iTunes. Waichi Sekiguchi, an editorial writer for the *Nihon Keizai Shimbun* pointed out in 2011 that, "Above all, the Galapagos-ization of Japan's IT industry is traceable to a fundamental shift in the nature of technology, in which networks – especially the internet – began to dominate individual products in importance." David Pilling supported this assessment noting that Sony's market value diminished to one-thirtieth of Apple's by mid-2012 largely because it could not make the jump from analog to digital well.²⁶

Another point of consensus among the experts I spoke with is that corporate hubris plays a role. Many of the experts I interviewed, including a Japanese government official, remarked that Japanese companies are often poor at gauging client needs and identifying ways to increase their products' value. Japanese companies historically do not communicate well among themselves or with their customer base, preferring to design the products they like rather than determining what their customers want and revising their offerings based on feedback. One expert said, "Large Japanese companies tend to be very inward looking. The idea is that if you have to ask someone else, you're not as good as you thought."

Although Galapagos Syndrome is a troubling trend among some companies, my research suggests it is mostly limited to Japan's sagging consumer electronics industry and does not represent a general tendency among the broader Japanese corporate world. Nevertheless, it is clear that Japanese companies that stay focused on a declining consumer base will see their revenues decline and their bottom line stressed. However, investment trends indicate that many Japanese companies in other industries see the coming crisis and are aggressively expanding their foreign operations to avoid it.

II. Japanese Foreign Direct Investment

As noted in the previous section, population decline resulting in fewer consumers and a tighter labor market means that Japanese businesses must put energy into internationalization to survive. As Toshiba's problems largely resulted from corporate mismanagement, and Galapagos Syndrome has not infected Japanese business as a whole, we should expect to see large outward flows of Japanese FDI to capture new markets. Investment trends and several case studies detailed below suggest Japanese business leaders have grasped the necessity for foreign expansion and are executing ambitious strategies to achieve growth.

General Investment Trends

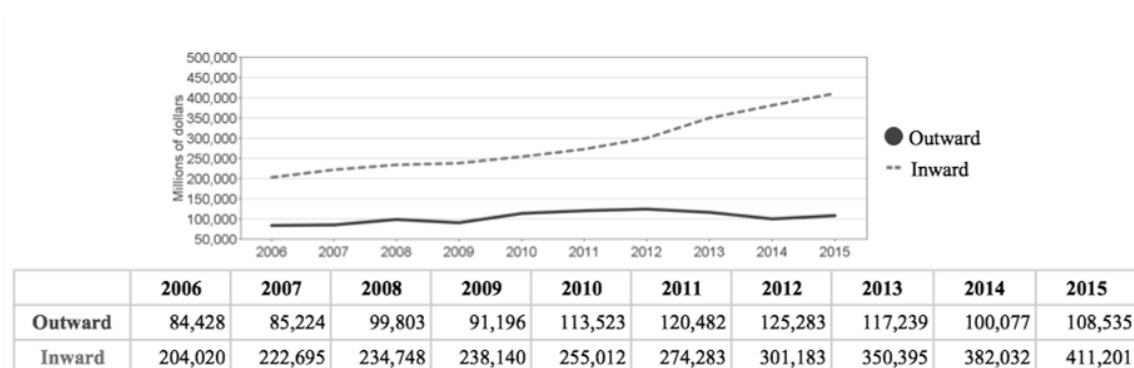
For several years now, Japanese corporations have been on an investment and acquisition binge. From 1996 to 2015, Japan's outward FDI balance increased by nearly 600% to over 1.2 trillion dollars.²⁷ Investment in Southeast Asian economies doubled from 2013-14.²⁸

In the most recent fiscal year (2016), Japanese overseas investment boomed by nearly 30% to \$97.9 billion, due partially to extremely low interest rates in Japan encouraging companies to pursue large deals.²⁹ SoftBank's \$24 billion acquisition of ARM Holdings, a British chip designer, stood out as the largest deal. The beverage company, Asahi, closed a \$7.8 billion deal for beer brewing operations in Eastern Europe in a bid to acquire more name recognition and extend its sales networks. Japanese beer and sake are readily available in supermarkets and liquor stores across the U.S.

U.S.-directed Investment

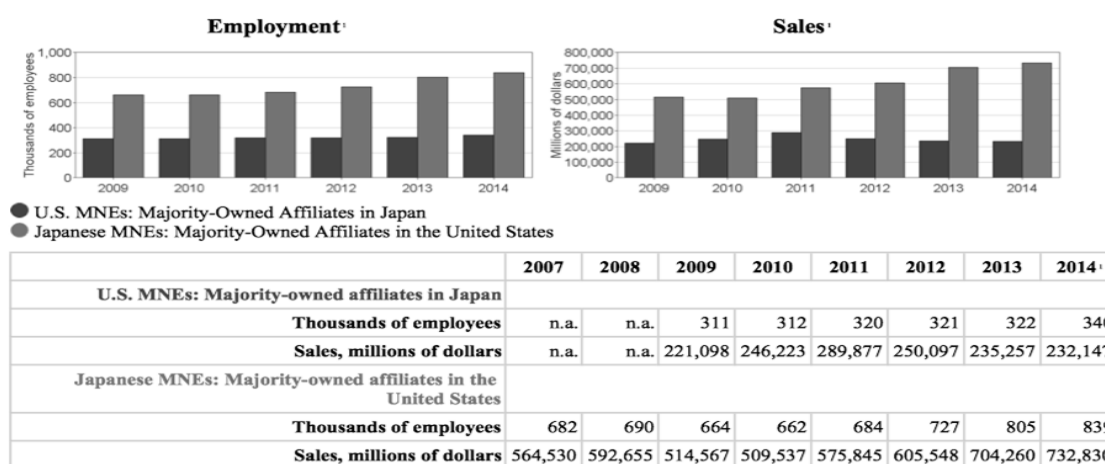
The United States is Japan's top export partner and number two producer of imports, accounting for 20.2% of all Japanese exports and 11.1% of Japanese imports.³⁰ Japan also occupies an important role in U.S. trade. After the NAFTA signatories and China, Japan is the United States' most significant trading partner for both exports and imports. Given the reciprocal importance of both nations, we should expect to see high levels of Japanese outward FDI within the U.S.

As of 2015, Japan is second only to the United Kingdom in terms of FDI position in the United States. The U.S. is the top destination for Japanese outward FDI, accounting for 31.9% of the total as well as 31% of Japanese portfolio investment.³¹ The U.S. has been the top destination for Japanese FDI from 2010 to 2015, the most recent year for which data is available.³²



Source: U.S. Bureau of Economic Analysis (accessed April 8, 2017)

Bureau of Economic Analysis data shows that in 2014 U.S.-based majority-owned affiliates of Japanese multinational enterprises (MNEs) employed well over 800,000 workers with \$732.8 billion in sales, increases of 4.2% and 4.1% respectively from 2013. These numbers dwarf the activities of U.S.-based MNEs in Japan. Overall, foreign direct investment in the U.S. from Japan jumped 8.5% in 2015. This investment pattern is characterized by high levels of mergers and acquisitions or the expansion of current operations rather than green fielding.



¹ Data users should be aware that the increase in most U.S. MNE activities from 2013 to 2014 appears to largely reflect the improved coverage of these activities in the 2014 Benchmark Survey of U.S. Direct Investment Abroad. For more information see [Improvements in Coverage](#).

Source: U.S. Bureau of Economic Analysis (accessed April 8, 2017)

Some of this investment is coming from the traditional power players of old Japan Inc. In January 2016, Japanese composites giant Toray broke ground on a \$1.4 billion carbon fiber plant in Spartanburg, SC.³³ Panasonic recently announced the launch of a new sales division in Newark, NJ intending to serve the sports and entertainment industries.³⁴ In January 2017, Toyota announced its intention to invest \$600 million in Indiana and create 400 jobs as part of an overall \$10 billion U.S. expansion plan to take place over the next five years.³⁵ Honda and General Motors are pursuing a joint venture to produce power systems for fuel cell cars starting in 2020. The two companies will invest \$85 million and add a production line and 100 jobs at a GM battery plant in Brownstown Township, MI.³⁶

Japan has become a major market for liquefied natural gas (LNG) imports. In 2013, Mitsui and Mitsubishi announced that they were taking a joint one-third stake in the \$10 billion LNG liquefaction facilities being built at the Cameron LNG terminal in Hackberry, LA.³⁷ Construction started in 2014 and is set to be completed next year. Cameron promotional materials indicate a significant economic impact for the southern U.S., adding 6500 jobs during peak construction and 220 more full-time positions split between the Hackberry depot and Cameron's Houston, TX headquarters.

New Japanese corporate players are investing in the U.S. as well. Construction and heavy equipment manufacturer Komatsu recently acquired Joy Global, a U.S.-based producer of mining equipment for \$2.89 billion. This represents the company's largest acquisition to date.³⁸ In March 2017, Omron Healthcare Co., a well-known medical device manufacturer known especially in Japan for its lineup of dental products, invested \$25 million in series D funding into AliveCor, a California-based startup that sells smartphone-connected electrocardiogram devices.³⁹ Omron's press release stated that this partnership will result in enhanced distribution opportunities for AliveCor's products, and the two companies will jointly produce a new device for cardiovascular disease prevention.⁴⁰

Many Japanese companies with a U.S. presence are not household names, but employ large numbers of American workers and have significant American business interests. As of 2013, Japan was the first or second largest international employer of Americans in 19 states, including Alabama, California, and Georgia. A representative from the Japanese Ministry of Economy, Trade and Industry (METI) with whom I spoke in Tokyo, provided me with an extensive state-by-state breakdown of Japanese business activity in the U.S. Many of the businesses are automotive manufacturers or suppliers, but there are numerous other companies across a wide variety of industries present in the United States as well. Below is a cross-section that illustrates this diversity.

Company	Industry	Num. of Employees	Capital
JTEKT Automotive	Automotive Steering Products	1,200	\$52 mn
Astellas	Pharmaceuticals	2,957	N/A
Beam Suntory	Beverages	3,200	\$16 bn
MUFJ Americas Holdings	Financial Services	14,000	\$7.4bn
Swany America	Ski Gloves	15	\$3.1 mn
House Foods America	Food Products	700	\$2.34 mn
Pilot Corporation of America	Writing Instruments	260	\$23.5 mn

Investment Case Studies

The following section provides three case studies of specific investments and acquisitions by Japanese companies within the United States. Each analysis includes a brief discussion of the buyer's strategy and rationale.

SoftBank

Softbank CEO Masayoshi Son has a long history of aggressive investment. In the late 1990s, he put \$1 billion into Silicon Valley startups and has been credited for single-handedly transforming Japan “from the world’s most expensive and comparatively backward to the world’s cheapest and most advanced broadband market.”⁴¹ Son is also an anomaly in a country noted for its fear and relative intolerance of failure; he lost \$70 billion in the dot-com crash, widely speculated to be the largest individual loss in history, but quickly bounced back.⁴² Son made headlines shortly after the 2016 U.S. presidential election when he assured then President-elect Trump that SoftBank would invest \$50 billion and create 50,000 new jobs in the U.S. So far, he seems to be following through with that promise.

In 2013, SoftBank purchased American mobile phone carrier Sprint for \$40 billion, Japan’s largest cross-border deal ever.⁴³ Over the last 12 months, the company has been on an aggressive buying spree, snapping up huge dollar acquisitions around the world. In the United States, SoftBank recently agreed to pay \$3.3 billion to acquire Fortress Investment Group – hoping to leverage its specialty investment pools and private equity expertise to grab more deals in the future.⁴⁴ SoftBank has also invested hundreds of millions in online lender Social Finance Inc. in multiple rounds of fundraising. Most recently, it put \$300 million into the shared workspace company WeWork.⁴⁵

Son has an interesting strategy around these investments. Rather than looking to acquisitions to reduce costs or provide economies of scale, as many investors do, Son is

using acquisitions to redefine the nature of SoftBank. Around 2010, SoftBank's strategy team conducted a survey looking into why the U.K. abruptly stopped winning at horseracing.⁴⁶ Son concluded from this study that too much of a focus on pure breeding led to the decline of British racing stock. His ambition is to expand SoftBank's scope from a technology company into an investment giant to rival Berkshire Hathaway – acquiring new corporate DNA to keep his business strong. Son's strategy has not been met with universal approval. Many investors worry that SoftBank overpaid for its 2016 acquisition of ARM. This has raised some comparisons to the bubble era when Japanese companies went on a buying spree but were unable to gauge value well.

Rakuten

SoftBank's on-and-off rival, e-commerce giant Rakuten, often appears alongside it as a prime example of a new Japan Inc. success story. Rakuten's CEO Hiroshi Mikitani, is often compared with SoftBank's Son. Both are moguls who recognized the power of the internet early and capitalized on it to make billions in personal fortunes. Both are fluent in English and are pushing to make corporate Japan more English-friendly. Their companies own rival baseball teams that compete in the Nippon Professional Baseball league (the Fukuoka SoftBank Hawks and the Tohoku Rakuten Golden Eagles). Both CEO's are opponents of traditional Japanese business interests – notably the Keidanren – a powerful conservative business association. Originally admitted to the Keidanren in 2004, Mikitani pulled Rakuten out in 2011 due to the organization's continued support of nuclear power after the Fukushima disaster. The following year, he launched a rival organization: the *Shin Keizai Renmei* (shortened to *Shinkeiren*) aimed at promoting policy recommendations to encourage innovation and globalization in Japanese business.⁴⁷

Rakuten's major U.S. investments include a 2015 \$410 million acquisition of e-book and audiobook platform OverDrive and a 2014 \$1 billion acquisition of shopping site Ebates.^{48 49} However, in contrast to SoftBank's optimistic investment blitz, Rakuten's success has been mixed. In early 2016 Rakuten announced a \$340 million write down from losses incurred over a range of its businesses.⁵⁰ It also announced a withdrawal from some Southeast Asian markets to focus more on Taiwan and Japan.⁵¹

One of the experts I met with in Tokyo, speaking on background, expressed concern about the company's performance. "Rakuten has a dismal, dismal, track record for M&A. It's a cultural problem." In many business acquisitions, it's common for management teams of acquired companies to remain and continue to oversee operations after the change in ownership. However, according to the expert I spoke with, every management team of a Rakuten-acquired company has departed shortly after the purchase. Rakuten has one business model, and they want every new acquisition to adhere to it rigidly. Mikitani also has a reputation as a micromanager.⁵² My source noted

that Mr. Son, by contrast, “is extremely demanding, but not a control freak like Mikitani is. Son is an internationalist. He’s a survivor.” Cultural issues and recent retrenchment aside, Rakuten’s current price-to-earnings ratio of 44.96 (as of April, 17, 2017) indicates that investors have a positive outlook about its future performance.⁵³

Son and Mikitani represent a new approach to corporate leadership that departs from Japan Inc.’s longstanding model. Both are savvy business leaders who appear determined to reshape their companies and corporate Japan along with them. If their ambition inspires other corporate leaders to follow their example, the U.S. is likely to see further innovation and resulting increases in FDI from Japan.

TEPCO

While majority stakes and big deals grab headlines, other Japanese companies are moving quietly with small, strategic investments through in-house venture capital funds. One such example is Tokyo Electric Power Company (TEPCO). In Tokyo, I spoke with a source familiar with TEPCO’s investment portfolio and discussed the company’s overall strategic vision.

TEPCO’s in-house VC recently put \$500,000 into a distributed wind platform with a business model similar to that of SolarCity.⁵⁴ They also put another \$500,000 into a data analytics firm similar to Palantir. My source explained to me that the Federal Energy Regulatory Commission (FERC) is using the latter company’s technology to sift through market transactions and flag anything suspicious. TEPCO wants to use the technology to analyze their vast collections of data to understand how to improve on their preventative maintenance and run the company’s internal operations more smoothly.

The TEPCO representative I spoke with emphasized that the division is interested in technology acquisitions, not corporate buyouts. He described the U.S. as a, “basket case for energy policy,” explaining that, “there are 50 states with 50 different energy policies. Of those 50 about 14 could be called ‘progressive’ and four are ‘really progressive.’” From TEPCO’s perspective, Europe is a better market for business acquisitions as, “the strange regulatory environments in the U.S. allow many companies to exist that otherwise wouldn’t.”

When I asked him about TEPCO’s strategic vision, he said it depends on who you ask, but admitted that his personal preference is for the company to shut down its nuclear plants. He was critical of the Japanese government’s cost-benefit analysis of nuclear power, saying that their numbers assume plants are running 100% of the time for their entire lifespans and exclude externalities such as spent fuel disposal and disaster clean-up costs. He admitted that the TEPCO board does not share his personal views on nuclear energy, but he emphasized that large energy companies are capable of transforming, pointing to the Norwegian oil giant Statoil. In recent years, Statoil has aggressively

diversified into alternative energy with huge investments in offshore wind projects and carbon capture. Based on Statoil's success, he is optimistic that TEPCO and other energy companies can evolve as well.

Positive Changes

Although Galapagos Syndrome and insularity should worry investors in companies that display these characteristics, the recent boom in Japanese FDI is an encouraging trend. Experts have speculated that after the bubble burst in the early 1990s, corporate Japan went into a deleveraging phase, paying down debt and restoring their balance sheets.⁵⁵ For this reason, the boom in Japanese acquisitions shows many Japanese companies have recovered enough to think about expansion and developing new markets.

Another positive change is an increased focus on corporate performance measures. A persistent problem with Japanese companies in the past has been their low performance in terms of return on equity (ROE) and profitability when compared to companies in the United States and the European Union.



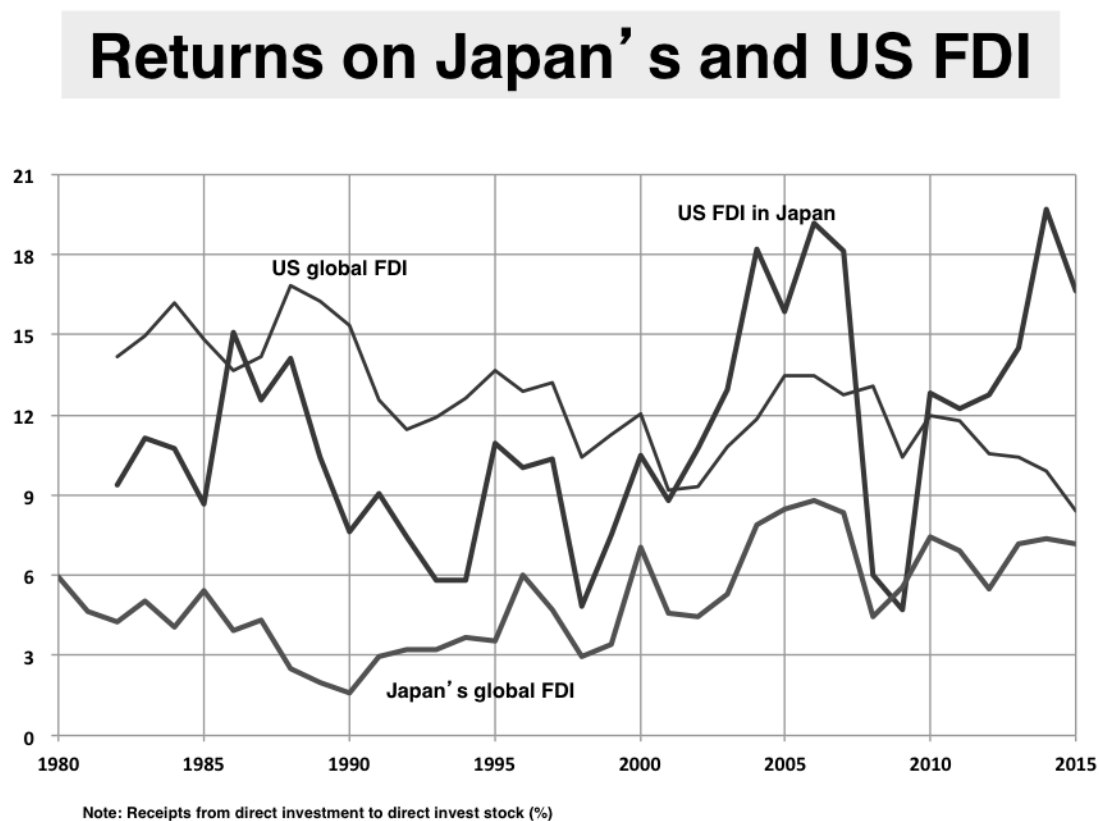
Source: *The Economist* (accessed April 17, 2017)

In 2014 the Nikkei stock index launched the JPX-Nikkei 400. To be listed on the index, a company must be in the top 400 according to ROE, operating profit, and market capitalization. The ROE ranking alone counts for 40% of the total rank. The hope is that, by creating such a public ranking, companies will focus more on performance to gain or retain a spot on the list. The *Wall Street Journal* has reported that the creation of this index has already affected corporate behavior, pointing out that the president of manufacturing company Amada “didn’t like being left off the new JPX-Nikkei 400. So

the company announced that it would pay out all of its net income in dividends and share buybacks to improve its ROE to 7% and earn a spot in the index.”⁵⁶

III. Policy Proposals for Remaining Challenges

While the Japanese investment boom in the United States is encouraging, there is reason for caution. Returns on all U.S. FDI have outperformed Japan’s outward FDI almost every year from 1980 to 2015. Economist Arthur Alexander has noted, “It seems clear that companies earn low returns, not countries. Japanese firms have done badly wherever they are.”⁵⁷



Source: Prof. Arthur Alexander, Johns Hopkins School of Advanced International Studies

Another concern arises from the data on foreign mergers and acquisitions. Studies put the failure rate for foreign M&A at between 70 and 90 percent.⁵⁸ While the reasons for this are open to interpretation, a group of Harvard Business School professors and strategic consultants have proposed that, “So many acquisitions fall short of expectations because executives incorrectly match candidates to the strategic purpose of the deal, failing to distinguish between deals that might improve current operations and those that could dramatically transform the company’s growth prospects. As a result, companies too

often pay the wrong price and integrate the acquisition in the wrong way.”⁵⁹ As Toshiba’s debacle with Westinghouse shows, smart acquisition strategy and integration are essential.

Japanese businesses have made great strides in recent years to increase competitiveness and globalize more effectively, but challenges remain. Solving these issues should dramatically increase the performance and competitiveness of Japanese corporations as well as increase the likelihood of success of their future outward FDI projects.

Corporate Governance

One of the sources I spoke with in Washington DC, an expert on corporate governance and the Japanese financial sector, elaborated on the numerous problems stemming from bad management practices at Japanese companies. She mentioned that Japanese corporations often have high cash balances, which creates a drag on investment and aggregate demand.⁶⁰ As seen in the case of Toshiba, it also creates chances for fraud and inhibits dynamism, innovation, and risk-taking. A strong case can be made that poor corporate governance is the main cause of low Japanese business performance in the post-bubble era.

The Abe administration has made some progress on this issue. New regulations that took effect in June, 2015 now recommend that Japanese companies appoint at least two outside directors to their boards. Regulations require them to explain the reasons for the lack of appointments if they do not. Such “comply or explain” laws are more effective in countries like Japan that place a high value on avoiding public shame, but the measures are still insufficient to ensure universal compliance. More stringent enforcement is necessary. New regulations that allow institutional investors to attend shareholder meetings and exercise voting rights would also be beneficial. Currently, Japanese companies can and often do arbitrarily restrict institutional investor access to shareholder meetings.⁶¹

Assertive shareholder participation and activist investors could help drive higher management performance and better project prioritization. Japanese companies have been criticized in the past for focusing too much on empire building and expanding market share with less priority placed on profitability and performance measures. Expanding shareholder rights could ensure continued positive change in Japanese corporate strategy and improve investment performance.

English Language Proficiency

Speaking a common language dramatically accelerates the flow of information and ideas between people, companies, and cultures. Although English is the de facto language of global business, Japan consistently ranks poorly on English proficiency

indices. As of 2016, Japan ranked 35th out of 72 countries on the Education First English Proficiency Index.⁶² English language ability will become even more critical as Japanese companies continue to globalize and acquire foreign businesses whose employees do not speak Japanese. Low English proficiency calls into question the ability of Japanese corporations to successfully integrate these acquisitions and ensure that they generate sufficient returns.

Japan's English deficiency is well documented and the Japanese government is taking language education seriously. Although it has announced ambitious new English proficiency targets – aiming to have 50% of high school students achieve a grade 3 or higher on the Eiken proficiency test – the latest government numbers show the performance of Japanese high schoolers actually fell by 0.5% in 2016 to 36.1% - far below the goal threshold.

The Japanese Government's English targets are helpful, but companies are helping bring up Japan's English level as well. Some companies such as SoftBank have started to offer generous bonuses to employees who score high marks on the TOEIC (Test of English for International Communication) proficiency exam. SoftBank pays out ¥1,000,000 (around \$9000) to those who receive a score of 900 or more (out of a possible 990 total). Rakuten has made English its corporate language and requires that all internal meetings be conducted in it.

While these are steps in the right direction, both policies are insufficient to produce far-reaching results. The TOEIC is a multiple-choice exam with no speaking section and stresses only certain aspects of business language. Former Rakuten employees that I spoke with told me that the forced English communication results in gross internal inefficiencies. Meetings stretch many times longer than they should because many employees do not possess an adequate speaking level to communicate their ideas. Flagship Japanese companies could get better results by publicly prioritizing the hiring of bi-or trilingual graduates who have studied at foreign universities or demonstrate significant English speaking proficiency on more rigorous exams such as the American TOEFL or British IELTS (International English Language Testing System). Doing so would help encourage a new generation of young Japanese to get international experience and reverse the decline of Japanese representation at leading foreign universities. This would ensure that Japanese businesses develop talent with the language skills necessary to manage growing foreign empires.

Gender Equality and Labor Market Structure

The structure of the Japanese labor market and the poor status of women in Japan are persistent drags on corporate performance. They will continue to undermine progress until meaningful action is taken. Unlike the U.S. labor market where employees switch companies (and even industries) several times over the course of a career, the Japanese

labor market is characterized by rigid hierarchical distinctions between “regular” and “non-regular” employees. The regular *seishain* receive extreme job protection, higher salaries, and opportunities for advancement up the company ranks. *Seishain* are almost impossible to fire short of gross, documented malfeasance or criminality. To remain flexible, companies have become reluctant to hire them, preferring to boost their staff with *keiyaku-shain* who are taken on under limited-term contracts. Unfortunately, these “non-regular” employees receive a fraction of the salary and benefits of their regular counterparts, little or no professional development, and have almost zero job security. Moreover, many of these low-paid non-regular workers are women.

In addition to inequality in employment outcomes, Japan is also characterized by extreme levels of gender inequality. The 2016 Global Gender Gap index published by the World Economic Forum ranked Japan at 111 out of 144 countries – a fall of 10 places since 2015.⁶³ Although Japan’s female labor participation rate stands at 66%, which is among the highest in the world, the status of women in the labor force remains low.⁶⁴ Women are overrepresented as contract employees. Those who achieve *seishain* status often find their career advancement frozen as soon as they become pregnant – a major contributor to Japan’s plummeting birthrate. Foreign investment aside, research by Goldman Sachs estimates that by eliminating the gender employment gap, Japan could boost its GDP by close to 13%.⁶⁵ Gender equality is not a new issue in Japan, but it has received renewed focus from the Abe administration. Although the administration announced an ambitious target of having women occupy 30% of corporate management positions by 2020, it revised down this goal in late 2015 to 7% by 2021.

Overall, Japan has a relatively egalitarian economic system with fewer losers than many other developed countries. However, this has come at the expense of having fewer winners as well. Economist Richard Katz has pointed out, “The fact is that many of today’s institutions, including the labor market institutions, are deliberate creations of governmental and private policymakers during the 20th century. They are not reflections of age-old Japanese culture, but adaptations to a particular situation that have, in some regards, outlived their usefulness.”⁶⁶ Reducing the iron-clad protection of regular workers is critical to moving to a successful 21st century economic model. For example, adopting a Nordic “flexicurity” system of protecting people not jobs could mitigate worker insecurity and facilitate needed reforms in the Japanese labor market.

Creating further opportunities for merit-based advancement and dismantling the dualistic labor market should have highly positive effects on competitiveness. It would force Japanese companies to compete for top talent and pay higher wages. Erasing the distinction between regular and non-regular would boost the participation of women in Japanese companies and allow more of them to advance to senior leadership roles. This would create more growth and lead to more outward foreign investment in the United States and elsewhere.

U.S. Consumer Perception Gap

A final challenge that exists is Japan's relationship with American consumers. Americans who grew up in the 50s equated "Made in Japan" with cheap trinkets and low quality. This was swiftly supplanted in the 80s and 90s with the dominant image that Japanese technology and vehicles ranked among the best in the world. Despite the recent explosion of Japanese investment in the United States, Japanese companies have, as one expert I spoke with put it, "receded in the mind space of global consumers." Why is there such a gap between image and reality?

A large reason for the perception gap may be due to the relative anonymity of critical Japanese businesses. In previous decades, huge consumer electronics companies such as Panasonic, Sharp and Sony occupied the minds of Americans. Although these household brands have declined in market share and influence, many medium-sized Japanese firms have developed commanding market positions across many areas of technology – supplying key, high-tech components of finished products. As *The Economist* reported in 2009, "Whereas big Japanese electronics companies such as Panasonic, Sharp and Sony have been losing market share to rivals from China, South Korea and Taiwan, these smaller, less well known Japanese firms continue to dominate niches upon which the global technology industry depends."⁶⁷ It's a well-known fact that Apple uses cheap Chinese labor to produce iPhones, but few know that a far larger share of the product's price comes from the high-value Japanese components used inside it. Samsung still cannot match the quality of Japanese manufactured inputs and continues to import them.⁶⁸

Another expert I spoke with suggested that the perception gap may be the result of a conscious move to avoid negative attention. Many Americans viewed Japan's economic success and high-volume purchases in the 80s as a corporate invasion of the United States. He said, "New kids want to pound their chests, but Japan got hammered in the 80s when they did that. They're trying to avoid drawing attention to themselves by advertising their acquisitions like they did then." However, not all those with whom I spoke agreed that this perception gap exists everywhere. One pointed out that Japanese auto manufacturers have spent billions in the U.S. They still dominate consumer awareness through creating a huge brand presence and building plants that employ thousands of Americans. However, the same expert admitted that consumer electronics has become a brutally tough field. As a result, Japanese electronics companies may not be able to recapture the dominant position they enjoyed in previous decades.

While both of these explanations go a long way in accounting for the reasons this perception gap exists, Japanese companies can take action to reduce it. If America continues to turn inward, consumer outreach will become more important. If Japanese companies can successfully connect with American consumers and political leaders and communicate the level of investment they are bringing to the U.S., they will be better

able to weather any reactionary impulses from part of America's isolationist tilt against foreign trade.

IV. The U.S.-Japan Political Relationship – Business Not As Usual

Global business is inseparable from politics. The unexpected victory of Donald Trump in the 2016 U.S. presidential election has been met with uncertainty in many sectors. President Trump's "America First" calls to buy American and hire American have raised eyebrows among many in the global business community who worry that this may signal a shift in America's friendliness toward foreign trade.

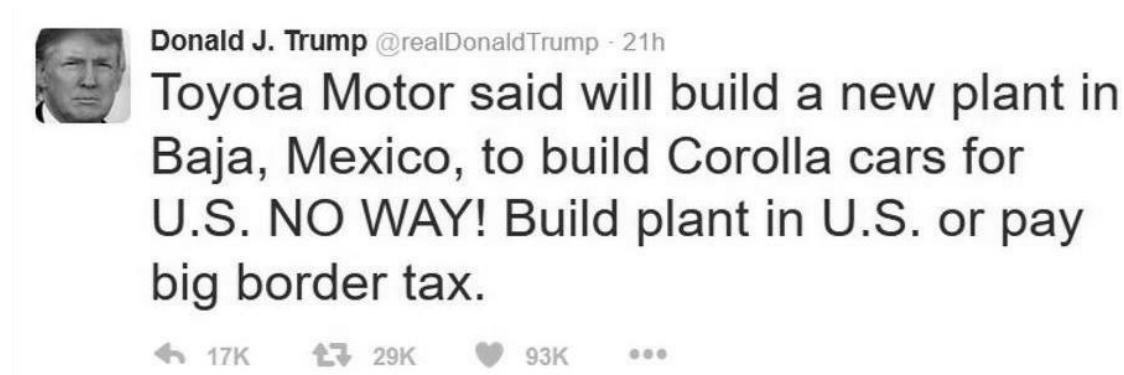
This change in the American political climate underscores the need for heightened diplomatic and public engagement on the part of Japanese businesses and the Japanese government. An expert I spoke with in Tokyo pointed out that, "there are confusing signals being transmitted [from the U.S.]." This same expert mentioned to me that Japan is trying to be friendlier and open lines of communication, but, "Japan is not known for being a good diplomat."⁶⁹

While Japan lacks the same diplomatic outreach skills that a country like Israel has historically employed, Tokyo has not been blind to these recent political developments. Before Prime Minister Abe's February 2017 summit with President Trump, Japanese officials had been hard at work creating a new program entitled "U.S.-Japan Growth and Employment Initiative." While the draft is reportedly short on specifics, it claims the two nations could cooperate over the next 10 years to create 700,000 new jobs in the U.S. and new markets worth \$450 billion."⁷⁰ Private organizations are focused on outreach as well. A U.S.-based expert who works for a Japanese industry lobbying group told me that his organization is keenly aware of the importance of engagement and has focused its mission on raising the presence level of Japan with congressional staffers who have had less of a reason to study up on the country in recent decades.⁷¹

Japanese officials are hopeful that some of the persistent U.S. trade gap with Japan can be mitigated by increased imports of U.S. natural gas to Japan instead of creating barriers against Japanese domestic goods coming to the U.S.⁷² President Trump has called for a huge \$1 trillion infrastructure stimulus plan. Japan, which is looking to become involved with high-speed rail projects in Texas and California, is well positioned to use any future stimulus package as an avenue for further investment increases and job creation within the U.S. Some businesses are already cooperating with the Japanese government on outreach efforts. Reuters reported in January this year that, "Central Japan Railway Company, or JR Tokai, has given the government estimates of how many jobs would be created by proposed high-speed *shinkansen* railways in California and Texas and a high-tech "maglev" railway along the U.S. east coast."⁷³

One of the experts that I spoke with raised concerns about the Trump administration's calls to renegotiate NAFTA and make country of origin rules more stringent. Any renegotiation, he pointed out, would throw a wrench into the complex supply chains that multinational corporations have constructed around NAFTA as it currently exists. Right now, much of the policy focus for business lobbying groups is organized around defending NAFTA and managing the fallout from the U.S.'s withdrawal from TPP.

President Trump has taken an aggressive stance on the Japanese auto industry, and has called for Japanese car manufacturers to do more to create American Jobs. On January 5th 2017 the president made headlines when he threatened Toyota with a border tax if the company went through with its plan to build a new auto plant in Baja, Mexico.



Some of the focus on autos seems well-founded on the surface. Data from the U.S. Bureau of Economic analysis shows the U.S. ran a \$56.3 billion trade deficit with Japan in 2016, and 32.9% of American imports from Japan came in the form of automotive vehicles, parts, and engines – amounting to \$54.2 billion in total.⁷⁴ In fact, in 2016, Japan's trade surplus with the United States was its largest with any other nation.⁷⁵

However, much of the Trump administration's trade rhetoric seems stuck in time – a relic of trade wars dialogue between Japan and the U.S. in the 1980s and 90s. President Trump said in January that, "We sell a car into Japan and they do things to us that make it impossible to sell cars in Japan." However, a Japanese government official I spoke with in Tokyo pointed out that non-tariff barriers are not the reason for Detroit's low performance in Japan. U.S. cars sell poorly, he said, because they are too large for Japanese roads and U.S. companies do not have the same kind of support networks for their vehicles in Japan that Japanese and European competitors have developed – a death sentence in a country where after-sales support is considered critical.

President Trump is reportedly considering a 20% import tax on products from countries with which the U.S. has a trade deficit.⁷⁶ However, with the expansion of global supply chains, a product made today by a Japanese company may not be Japanese at all. In 2016, the most made-in-the USA car was the Toyota Camry. In fact, Toyota and

Honda produced the top five most made-in-USA cars that year.⁷⁷ Detroit only managed to enter in 6th place with the Chevrolet Traverse. Country of origin labels have become increasingly meaningless in a globalized trade structure where companies source labor, components and materials for products from all over the world. Toyota has said that new tariffs would upend its current business model as it is close to full capacity with its U.S. plants and adding new ones would take years.⁷⁸

Reuters pointed out that, “The renewed focus on the automotive trade has some Japanese officials and media reminiscing – and not happily – about heated U.S.-Japan auto talks more than 20 years ago.”⁷⁹ In 1995, Japanese auto manufacturers narrowly avoided a U.S. tariff on imported luxury vehicles when they created voluntary plans to increase purchases of U.S. auto parts and boost U.S. production. However, there is some evidence that the Trump Administration may be softening on Japan’s trade relationship with the United States. Vice President Pence did not mention America’s trade deficit with Japan during his April 2017 visit to Tokyo, and instead referenced Japanese companies that had constructed factories in his home state of Indiana, affirming a strong business relationship between Japan and the U.S.⁸⁰ Japanese domestic media has recently reported that there is an investment slowdown due to uncertainty over U.S. policy, but, “there is a distinct possibility that Japanese companies will bank on the Trump administration’s policies and U.S. domestic market growth and increase their American investments.”⁸¹

However, the Japanese government official I spoke with offered a word of caution. He said that should President Trump’s talk of taxing cross-border transactions and protecting domestic employment at the expense of trade become a reality, Japan will need to reevaluate whether America continues to represent a good investment in the mid-to-long term.

Conclusion

The challenges created by a shrinking domestic market mean that Japanese businesses will have to continue to look elsewhere for customers and profits. The investment patterns outlined in this paper suggest that, despite the insularity exhibited by consumer electronics firms, Japanese corporations keenly understand the need for continued global expansion. Although the current U.S. political climate on trade is the tensest it has been for decades, the U.S. remains a critical trading partner and the top destination for Japanese FDI. The boom in U.S. investment is extremely encouraging as it shows that Japanese companies have exited the long deleveraging phase that followed the economic collapse of the early 1990s and brought on two decades of stagnation.

The key is for the Japanese business world to resolve the problems that threaten to negatively impact its future performance. It is critical to continue the push for better corporate governance and English language proficiency, and to dismantle the labor market dualism that inhibits the advancement of women. If Japan can make these

improvements and Japanese businesses can better connect with consumers, continued investment and commerce between the U.S. and Japan should keep the two countries' business relationship strong. Yoshihiro Sakamoto, the top diplomat representing Japan during the 1995 auto negotiations was recently quoted as saying, "What America wants is investment."⁸² If recent trends examined in this paper continue, the U.S. is likely to see significantly more of it in the coming years.

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The Future of U.S. Japan Farm Trade without TPP

Ms. Laura Kuang

Introduction

With only 12% of its land usable for agricultural production and the agricultural sector accounting for a mere 1.4% of GDP, Japan is only 40% agriculture self-sufficient and must import food in order to survive. As a result, Japan is the world's fourth-largest agricultural importer, after the United States, China, and the European Union (EU). As a key U.S. trading partner, Japan ranked 4th for total goods trade in 2016, and is the 4th largest export destination of U.S. agricultural products, totaled an estimated \$11 billion in 2016. Major products are corn, pork & pork products, beef & beef products, soybeans, and wheat. On the other hand, Japan exports around \$641 million agricultural products to the U.S. The leading categories are snack foods, wine and beer, tea, and vegetable oils.ⁱ

Japan has concluded various free trade agreements (FTAs) with a number of countries, such as Chile, India, Mexico, major ASEAN member states, and Australia. In addition to the Trans-Pacific Partnership (TPP), which has now been gutted due to the U.S.' pulling out of the agreement, Japan has been negotiating agreements with the European Union, Canada, and China that touch on agricultural trade. In these negotiations, Japan has agreed to reduce tariffs on many agricultural products. Thanks to practical, political, and diplomatic reasons, the Japanese government considers that East Asia is the region with the most promising counterparties for negotiations. However, Japan insists its top priority is to keep many agricultural products exempt from substantial reductions or elimination of tariffs. Japan has largely, although not completely, protected its most sensitive products, such as rice, pork, dairy, beef, wheat, and sugar.

Reducing agriculture tariffs and other barriers to American farm products in Japan has been a long-held U.S. trade policy objective. Japan's trade policy objective has been to resist such liberalization pressure. Japan's average tariff on agricultural products is 14 percent, while the average U.S. agriculture tariff is 5 percent. Japan's average hides significant tariff peaks: for example, many Japanese tariffs on imports exceed 100 percent and significantly restrict trade. The breakthrough in this stalemate came with the 12-country TPP negotiations that concluded in 2015. The TPP 12, including the U.S. and Japan, announced a successful conclusion of their years of negotiations, and agreements were signed. The other 11 countries accounted for around 42 percent of all U.S. agricultural exports, totaling \$63 billion.ⁱⁱ TPP countries agreed to promote agricultural policy reforms, including by eliminating agricultural export subsidies, working together with the World Trade Organization (WTO) to develop disciplines on export state trading enterprises, export credits, and limiting the timeframes allowed for restrictions on food exports so as to provide greater food security in the region. Member countries were

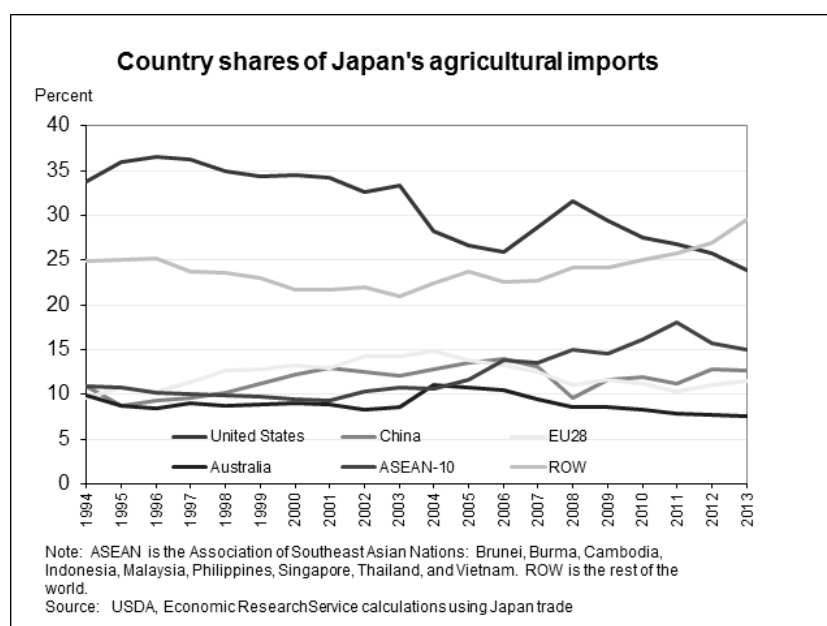
supposed to eliminate or reduce tariffs and other restrictive policies on agricultural products, promoting a blossoming of agricultural trade in the region. Alas, with the TPP now in jeopardy, the U.S. having pulled out, the bright future for farm trade the pact envisioned has been greatly dimmed.

This paper is a detailed look at the current state of farm trade between Japan and the U.S. and an assessment of what that trade will look like in the future, assuming that the TPP agreement (now TPP-11) will continue to be missing its key GDP component, the U.S. The paper first reviews the background of the agriculture sectors and relevant policies in Japan and the U.S., and then explores expected outcomes of TPP for both sides, specifically for the five most sensitive farm products. It concludes by providing possible policy recommendations for enhancing agriculture trade between Japan and the U.S. in a post-TPP era.

Outlook for the Agriculture Sectors in Japan and the U.S.

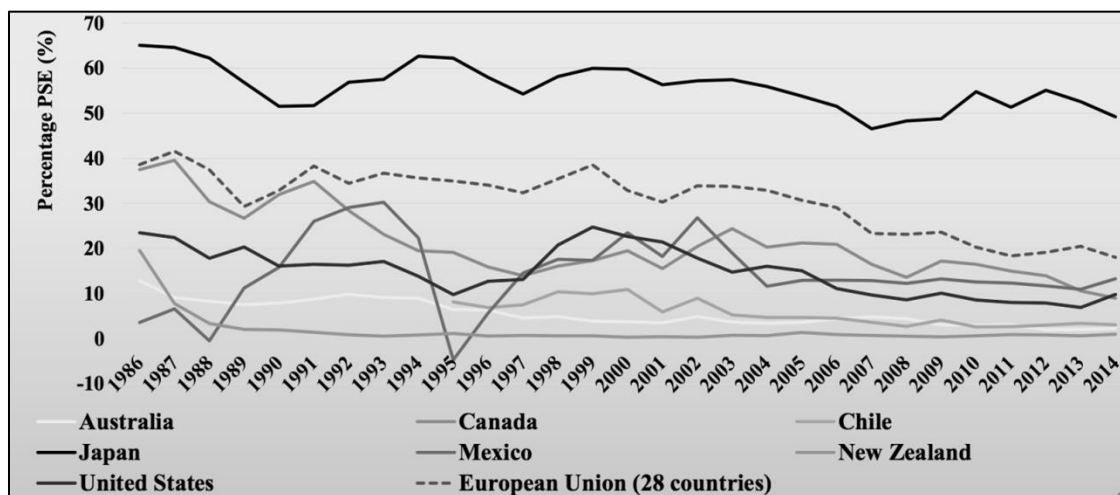
Japan's Agricultural Trade

Japan has been one of the world's top net importers of agricultural products since 1984, and most of that food comes from the United States. It only exports a small amount of specialized food products to the U.S. As a result, Japan's agricultural trade balance with the U.S. has been in significant deficit for decades. According to the U.S. Department of Agriculture (USDA), imports from the U.S. (\$13.8 billion) represent about a quarter of Japan's total agricultural imports (Figure 1). Meats are the largest imported component – around 20 percent of Japan's agricultural imports in recent years – large quantities of pork, beef, and poultry meat. Based on the value of imports, Japan is the largest meat-importing country in the world. (USDA, 2016)



After decades of intense and sometimes acrimonious negotiations with its trading partners, Japan's markets are generally regarded as open and competitive, signs of a liberal economy. There are still a few protected areas of the economy, mostly in the agricultural sector, which ironically the now moribund TPP would have greatly opened. Until now, Japan has concluded or signed FTAs and EPAs (economic partnership agreements) with 16 countries and one region and is negotiating with six other countries or regions as of June 2016. Negotiations are ongoing with ASEAN (services, investment), Colombia, Turkey, the European Union, China and Republic of Korea (trilateral), and the Regional Comprehensive Economic Partnership (RCEP). In addition, the Japan-Australia and Japan-Mongolia EPAs both entered into force in 2015. (MAFF 2014) However, the percentage of trade liberalization is not as high — around 86% — with the non-liberalized items basically being in its most protected sector – agricultural products.ⁱⁱⁱ

Quotas on some products were removed in previous trade agreements, such as oranges and beef – as a result of bilateral negotiations with the U.S. However, Japan still keeps Tariff-Rate Quotas (TRQs) for some sensitive products, such as rice and rice flour, wheat and wheat flour, and dairy products. Import tariffs are lower before imports reach a certain volume/quota of products, however, imports outside the TRQs face significantly higher tariffs. In addition, within some of the quotas, government-owned corporations, i.e. Agriculture & Livestock Industries Corporation (ALIC), have the sole right to import, and the imported commodities are resold into Japan's market with a high markup in price.



Clearly, import barriers protect and benefit Japanese farmers because the imported products are expensive or very limited, especially for those producing rice, milk for manufacturing, sugar, etc. Japan's level of agricultural protection has been one of the highest in the world in recent years. For instance, according to the Organization for Economic Co-operation and Development (OECD), farmers in Japan have been the most highly protected, compared with six of the other TPP countries (the U.S. is included here

since this report was in 2016) and the EU by the Percentage Producer Support Estimate (%PSE) (Figure 2). PSEs calculated by the OECD (2012) show that over 45 percent of the value of Japan's farm production comes from trade barriers or domestic subsidies. PSE represents policy transfers to agricultural producers, measured at the farm gate and expressed as a share of gross farm receipts. It is composed of market price supports, budgetary payments and the cost of revenue foregone by the government and other economic agents.

Japan's Domestic Agriculture Sector

In addition to the above import policies, the Japanese government has been increasing policy emphasis on agricultural exports in recent years, largely due to the shrinking of the domestic market but also because of the attractiveness of Japanese high-quality farm products. However, farm production has hit a wall due to the serious demographic problem of aging farmers with not successors to take over the business. Young people tend to leave the rural areas to work in the cities, leaving areas in the countryside full of elderly people or depopulated. There has been a markedly declined in full-time farmers over the decades.

Japan has a high number of small-scale farms in relatively compact areas. Arable land is limited, and urbanization has been eating away at farmland in the outskirts of cities. In 2010, Japan counted 1.63 million commercial farms (defined as farming more than three-quarters of an acre or with annual sales of more than 500,000 yen or \$5,695). Commercial farms managed an average of only 1.96 hectares, or 4.8 acres. Land ownership is even more fragmented than land management. About 6 million people live on these farms, and among them, 1.8 million are engaged more in farming than in other activities. Among these 1.8 million individuals, more than 45 percent are over age 70 and 75 percent are over age 60.^{iv}

Apart from the farmers' problem, gradual changes in Japanese people's eating habits also affect the domestic market. Young people eat more bread and other Western table foods than traditional rice-based meals. People generally eat less rice and more meat now than ten years ago. The small-scale and thus inefficient system of family farming, the declining number of full-time farmers and the aging population in rural areas: all contribute to entrenched policies to maintain heavy protection of the most vulnerable areas or products in the agricultural sector.

Farmers are also protected by a powerful lobby group. Internal resistance to agricultural trade liberalization largely comes from the JA (Japan Agricultural Cooperatives), which has enormous political clout and financial resources. By law, JA has a virtual monopoly on farm-related businesses, including sales of farm inputs and products, insurance, and banking. If one travels in rural Japan, there are JA supermarkets and gas stations everywhere. As a lobby group, JA enjoys close ties to the political world

– delivering votes to the LDP – and to the agriculture ministry, which supplies the subsidies that keep many farmers in business. The millions of farmers who belong to the cooperatives not only use JA's services, they deposit savings from their earned income or pension in JA's bank, Norin Chukin.^v As a result, JA owns the second largest bank in Japan.

The Agricultural Land Law was amended in 2009 to state that any entity intending to enter into agricultural business is entitled to lease farmland without any limitation on the lessee's non-farmer investment ratio.^{vi} The sale of farmland is uncommon due to three major reasons: 1) it is cheap to own agricultural lands, as long as the land owner manages to claim agricultural use of the land, even to a very limited extent, such land can enjoy very low landholding tax; 2) JA is both economically and politically powerful, and its services make it relatively easier to manage the land and related tasks, and exert political pressure on politicians; 3) most farming lands are inherited from generation to generation, and it is hard to convince farmers to sell their family legacies. Nonetheless, farmland is being abandoned all over Japan in depopulated areas, and in urbanizing areas, such land is being grabbed up for development into housing and shopping areas.

About 85 percent of farmers in Japan are part-timers with only a small plot of land and another job, perhaps at a factory, office, or public works construction. The men do most the work during the spring planting and autumn harvesting, and spend the rest of the time in their second job, which could take them away from the family for long periods. In such cases women are stuck with backbreaking farm work while the men work at other jobs. Some farmers just raise crops just to get subsidies or tax breaks.

The Abe administration has stressed the importance of increasing part-time farmers' income which may be below the poverty line. However, the Ministry of Agriculture, Forestry and Fisheries (MAFF) data show that household income coming outside farming for many farmers has been much higher than agriculture income since 1965. Largely because of the low landholding tax, only about 15% of the farmland owners are full-time or self-sufficient farming households. Additionally, incomes from farming are rather marginal for semi full-time or part-time farming households (Figure 3, though the latest data only cover 2005). The large number of part-time farmers and the agricultural cooperatives discourage the agricultural sector to achieve and take advantage of economies of scale.

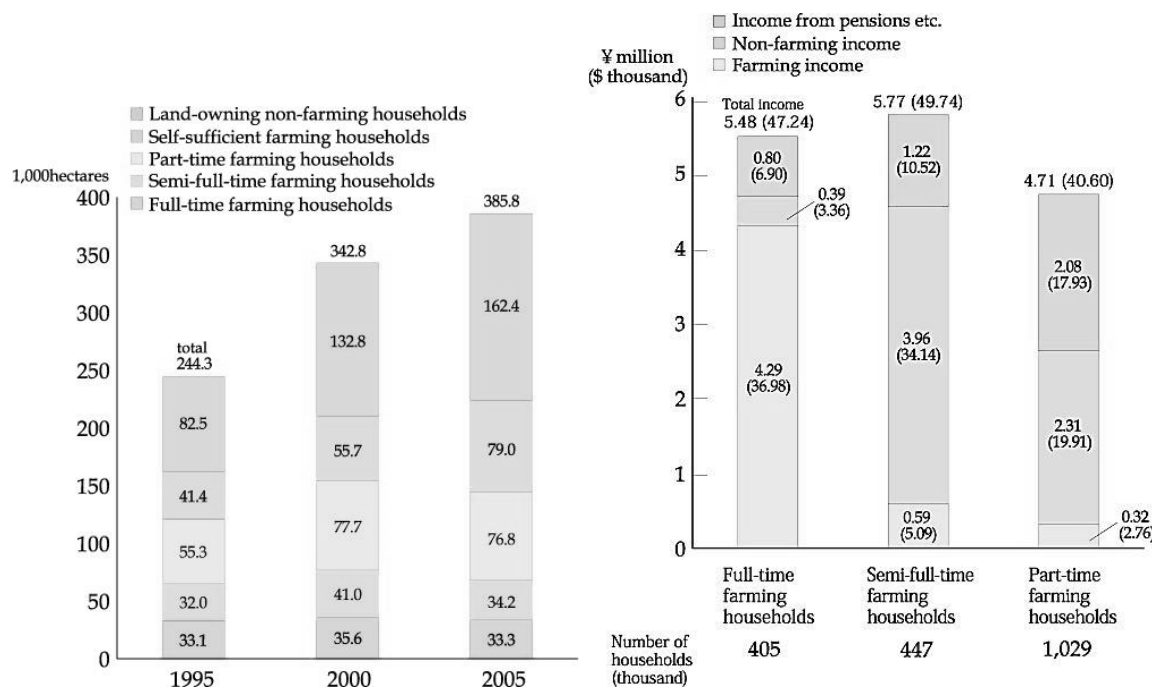


Figure 3a

Source: Japan's MAFF, 2015

Figure 3b

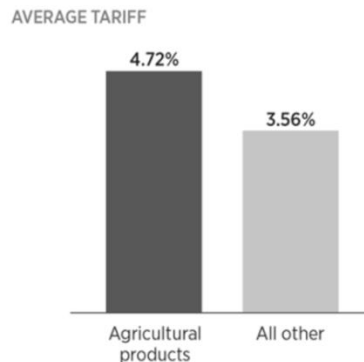
In addition, a strong sense of protectionism toward the agricultural sector is partly due to insecurity among the Japanese people about the future supply of food. There has been a drive among nationalists, too, to raise the food self-sufficiency rate above the current 40 percent. One of the key arguments emphasized JA and the nationalists was that by increasing reliance on imported food, Japan would face an even lower rate of food self-sufficiency. The argument is purely emotional, for there is no evidence about any correlation in current times between a country's low rate of food self-sufficiency and food security, and it is highly unlikely to happen in such an advanced globalized economy like Japan. In fact, with the TPP, Japan has a wide pick of reliable suppliers of agricultural products to choose from. It is conceivable that with the U.S. now out of TPP, Japan might increase food imports from other countries among the remaining TPP 11.

The United States Agricultural Sector

In the United States, the agricultural sector is considered a major industry, producing so much food to allow the U.S. to become the world's largest exporter of agricultural products. There are 2.2 million farmers in the U.S., and the agricultural industry ranges from the family farm to large-scale agro-businesses relying on sophisticated farm machinery and hired labor. In 2015, agriculture and its related industries had a 4.5 percent value-added share of nominal GDP.^{vii} Trade is essential to the U.S. agricultural sector, with agricultural exports accounting for more than 20 percent of the volume of U.S. agricultural production. Top U.S. exports of high-value products

include feeds and fodder, beef and veal (fresh or frozen), and almonds. U.S. agriculture enjoys a trade surplus and in the fiscal year 2016, the value of agricultural exports reached \$129.7 billion compared to \$113.1 billion worth of imports, resulting in a trade surplus of \$16.6 billion.

U.S. Maintains High Barriers to Agricultural Trade



SOURCE: World Trade Organization, Tariff Analysis Online, <https://tao.wto.org/> (accessed April 6, 2016).

Historically, Japan was the leading destination for U.S. farm exports from 1973 to 2010, when Canada took the top spot. China is now the top destination with U.S. agricultural shipments reaching \$21.4 billion in 2016. Japan, purchasing around \$12 billion worth of U.S. agricultural products in 2015, ranks as the fifth largest destination for U.S. farm exports now (USDA, 2016). Soybeans are the U.S. largest food export, with growing markets in Southeast Asia and Latin America (USTR, 2016). TPP would have allowed the U.S.’s farm exports to grow even faster, but that opportunity has now been lost.

Although U.S. tariffs and non-tariff barriers are low on average, the United States still maintains high barriers to trade in many agricultural products (Figure 4), which the TPP agreement would have eased somewhat. The U.S. maintains basic “most favored nation” (MFN) tariffs (i.e., not affected by free trade agreements or preference programs) of 5 percent or more on about 1500 different “agricultural” products. Of those, around 300 products are cotton, wool, and other textiles and fabrics, and circa 600 cover basic food products. Outside the ordinary tariffs, the U.S. also maintains TRQs and non-tariff trade barriers, such as subsidies, regulatory and trade remedies. Such barriers can depress prices of domestic products and make imported goods uncompetitive in the U.S. market, and also allow U.S. exports to undercut global competition. Expert assessments done by USDA found that the agreement’s impact on U.S. agricultural trade was biggest in the commodity sectors that experienced the most significant reductions in tariff and non-tariff barriers.^{viii} Therefore, it is believed that if the TPP accord went through, among all sectors, farmers and other agricultural industry providers would be the biggest winners for the U.S.

Trade agreements, such as the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA) are vitally important to the U.S. agricultural sector. According to the USDA, export gains were strong for countries with which the United States has an FTA. For instance, a survey conducted by the USDA (2015) found that, compared to what would have occurred without the agreement, NAFTA produced significant gains in U.S. agricultural exports and imports. For NAFTA alone, the USDA found that “between 1993 and 2000, U.S. agricultural exports to Canada and Mexico expanded by 59 percent, while corresponding exports to the rest of the world grew only 10 percent.”^{ix} The U.S. under President Trump is reviewing NAFTA, but it is unlikely that any “fixes” will make the market situations for food exports to those two countries much better.

Terms of Agricultural Trade in the TPP and Expected Outcomes

The ambitious goal of the now derailed TPP was to achieve around 96% trade liberalization in member countries. Under the TPP agreement, most agricultural tariffs in Japan and the U.S. would have gradually been eliminated. Tariff phase-outs vary by product: some tariffs would be eliminated immediately upon the agreement coming into force, while others would have been phased out over a longer period of time. Unfortunately, this is no longer likely to happen with the U.S. having pulled out of what would have been a win-win deal.

Japan decided to join the TPP negotiations in March 2013, after a long internal debate that started in 2012 with the Democratic Party of Japan administration of Prime Minister Noda and ended with LDP Prime Minister Abe’s decision. For Japan, the liberation target rate of 96% was higher than any FTA or EPA it had signed to that date, but the TPP rate was seen as set too high to reach, primarily because of the protected areas in the agricultural sector. Not surprisingly, negotiations seemed to grind to a halt when farm products were brought up. Indeed, it was only at the final phase of the talks in 2015 that agriculture was finally resolved.

In the TPP talks, Japan planned to open up 81% of 2328 agricultural, forestry and fishery products, and only 30% of the “sacred five” (i.e. rice, wheat, beef, sugar, and dairy). Japan retains import tariffs on the sacred five in the various EPA pacts it has already signed.^x For instance, the TPP agreement would substantially lower the tariff that Japan applies to U.S. fresh, chilled and frozen beef cuts—from 38.5% currently to 27.5%—when the agreement enters into force, with further reductions down to 9% over 15 years. Significantly, this would place U.S. beef on par with the tariff treatment for Australian beef, which is the major competitor of U.S. beef in Japan and which currently enjoys a tariff preference under an FTA with Japan. (The “sacred five products” will be covered in more detail below.) On the other hand, most of the higher tariffs in the U.S. that would be eliminated immediately are in agriculture (such as vegetables and beans),

chemicals and apparel. The U.S. was supposed to abolish some tariffs on agricultural products immediately, while maintaining long phase-in periods for tariffs on, for example, beef (15 years); processed fruit (15 years); and rice (15 years).^{xi}

Apparently, consumers in both countries would benefit the most due to increased competition in an open market. Farm product prices would drop, and the ensuing market competition would lead to improved product quality and food variety. As a result, it would force Japanese farmers to improve their competitiveness and innovation, too. The Japanese government planned to help the farm sector reform itself to become more efficient and competitive.

In addition, TPP was expected to help Japan and the U.S. expand their trade with developing countries and enhance their sustainable development. For example, Japanese agriculture could benefit from exporting highly value-added agricultural products such as Koshihikari rice, a high-quality variety, while importing cheaper rice from Vietnam or Thailand. Tariff elimination would put U.S. exports on a level playing field in Japan with respect to Japanese and other countries' products, and well ahead of non-TPP competitors. The TPP would also significantly improve access opportunities for the most sensitive products in Japan through a mixture of tariff cuts and expansion of access under tariff-rate quotas.

The TPP would usher in a U.S.-led regional architecture in the Asia Pacific, making it a critical part of the Obama administration's strategy to improve market access while enhancing U.S. economic influence in the region. Farm groups estimated the TPP-12 would have added \$4.4 billion annually to the U.S. agricultural sector, offering some relief to farmers during a multiyear slump in crop prices and farm profits.^{xii} On the other hand, the Abe Administration intended to use the TPP as external pressure to force reform in the declining agricultural sector. Structural reform is the third arrow of Abenomics^{xiii} – Abe's growth strategy – and bold structural changes that focus on the farm sector was expected to promote Japanese growth in the future. Various elements, including regulatory and tax reform are required to make Japan more competitive and innovative. TPP was supposed to play a crucial role in Japan's growth strategy.^{xiv}

As mentioned earlier, the largest obstacle to structural change in Japan's agricultural sector is the Japan Agricultural Cooperatives (JA). Originally designed as a preventative measure to tackle a potential black market for rice during the immediate postwar period of food shortages and rationing, the JA was backed by the government as a regulatory body. The JA group is a powerful lobby group that makes sure government policy suits its clients, including subsidies and tax breaks. It also is an enormous business enterprise that includes insurance, banking, retail marketing, and the welfare of the 710 regional co-ops. As of 2012, it had a voting bloc of 9.7 million members who usually vote straight LDP.^{xv} However, JA is not in the business of modernizing the farm sector

either through technological aid or structural reform. It has been a de facto disincentive to the introduction of efficient farming practices and the means to improving crop yields.

The Abe administration has introduced legal measures to weaken JA's hold over the sector, and it was counting on TPP-driven structural reforms that would make farmers more independent and strong. The agenda, particularly without TPP, will be extremely difficult to implement, but work has been started nonetheless. The government has loosened regulations governing the establishment of new coops, farmland consolidation, the incorporation of family farms, and the entry of private-sector firms into the business of farming. The Abe administration has devoted two of the country's "national strategic special zones" to agriculture.

The Five "Sacred" Farm Products

Japan hunkered down during the lengthy TPP negotiations on five politically sensitive farm products in order to get the best deals for the farmers who produced them. The "sacred" five that were exempted from tariff elimination are rice, wheat, beef and pork, sugar and dairy products. The U.S. demanded significant reductions in the tariffs or quotas, but in the end, only partial liberalization of the five was achieved. Current Japanese import tariffs on these products are summarized in the table below:^{xvi}

Products	Major Border Measures
Rice	TRQ; mark-up; 341 yen/kg for out-of-quota imports (778% simple tariff)
Wheat	TRQ; mark-up; 55 yen/kg for out-of-quota imports (252% simple tariff)
Sugar	TRQ; mark-up; prohibitive out-of-quota tariff (680% for cane sugar, 220% for beet sugar)
Beef	38.5% ad valorem tariff; safeguard mechanism
Pork	4.3% ad valorem tariff; "Gate Price", safeguard
Butter	35% ad valorem tariff; 29.8+985 yen/kg for out-of-quota imports

Rice

Rice is by far the most controversial of the protected farm products, even in the domestic market, and it has the highest tariff of them all. In Japan, 40 percent of paddy fields are set aside from rice production under the acreage reduction (*gentan*) or set-aside program in order to support the price of rice. The government introduced the program in 1970 by giving farmers subsidies for reducing rice production. JA strongly backs the acreage reduction program for rice. Japan has lost 1 million hectares out of 3.4 million hectares of paddy fields due to this program, and as a result has lost most of the associated environmental and social benefits. While paying out subsidies of around 400 billion yen to entice rice farmers to join the program, the government forces consumers to pay an additional 600 billion yen for rice whose price is artificially inflated by limiting supply through the program. The Japanese people bear not only the costs of subsidies allowing farmers to join the program but also the high price resulting from it. The system of rice subsidies also has kept many inefficient small-scale part-time farmers in business. It has made it hard for full-time farmers to acquire land and expand the size of their farms, therefore achieving economy of scale. The rice production sector in Japan is worth two trillion yen, but half of that in essence are subsidies that the Japanese people have to bear as taxpayers.^{xvii}

Japan allows imports of 770,000 metric tons of rice, about 9% of annual consumption. Californian farmers account for the lion's share of that amount, and of course, they expect more demand from Japan than the government provided.^{xviii} Let alone that Japanese domestic rice consumption is dropping, and domestic supply has outstripped consumption. The Japanese government gave away most of foreign rice as food aid or sold it domestically as animal feed and an ingredient for rice crackers instead of selling to sushi restaurants or households. Californian rice farmers expressed strong willingness to make their rice quality and brand be recognized.

Under TPP, they were going to establish a new duty free, country-specific quota (CSQ) for the U.S. – 50,000 tons initially, rising to 70,000 tons in 13 years, and immediately eliminate tariff on rice products and "other animal feeds, containing rice". Some researchers predict that if the tariff were eliminated, the increase of rice for feed would substantially replace corn imported from the U.S. which amounts to 10 million tons.^{xix}

Beef and Beef Products

Japan is the largest export destination for U.S. beef, reaching a high of 2.8 billion pounds in 2011 (in carcass weight equivalents), surpassing the previous historic high of 2003. Since import quantity restrictions were lifted in 1991, tariffs have decreased from 70% to 38.5%. But the production of Wagyu beef has increased in spite of the increase of

imports. Transplant of fertilized Wagyu eggs in milking cows has become common. The markets for ordinary beef and Wagyu beef are considered separate in Japan due to the differences in taste and texture and because Wagyu beef is preferred for Japanese cuisine. Japanese beef production has shifted to Wagyu, so the domestic beef market is seen as less affected by imported beef, which was expected to increase by TPP.^{xx}

One factor that recently put the U.S. beef in Japan on a significant disadvantaged position was its largest competitor in Japan, Australian beef. The Japan-Australia Economic Partnership Agreement was implemented in early 2015, lowering import tariffs to 28.5% for frozen Australian beef and 31.5% for chilled beef, while tariff rate on imports from suppliers without trade agreements, including the U.S., is still 38.5%.^{xxi} It will remain so because the U.S. dropped out of TPP. U.S. beef exports to Japan in 2015 fell from the previous year, the first time in 11 years, losing market share to Australian beef. Beef exports from the United States dropped 19 percent to nearly \$1.3 billion, according to the U.S. Meat Export Federation. The last such decline in beef exports to Japan occurred in 2004, when they plunged due to an outbreak of bovine spongiform encephalopathy, or BSE in the U.S.

Under TPP, Japan's tariffs for chilled-frozen beef would have been cut from 38.5% to 9% over 16 years. Imports would then be subject to an annual TPP-wide volume safeguard, but the safeguard was not expected to be trade-restrictive unless there were unexpected surges in imports. Additionally, Japan would eliminate tariffs on processed beef products, including beef jerky and meat extracts, in six to 16 years. These tariffs are currently as high as 50%. Duties on beef variety meat, including tongues and skirts (now 12.8%) would be phased to zero. The USDA estimates that without the TPP, exports of beef to Japan would drop by 8%. On the other hand, for the U.S., current import tariffs on beef and beef products are as high as 26.4%, and most of them would be eliminated within 10 years, at most 15 years.^{xxii}

In addition, beef production is not independent. Cattle in Japan are heavily fed by grains, and beef exported to Japan from the United States are largely grain-fed. Japan relies on imports of feed grains and oilseed meals, therefore with increased imported beef and beef products, imports of feedstuffs may decrease. The United States has been the largest supply source of these feedstuffs. The value added to the feed inputs by cattle raising and beef production would shift to the exporter – the U.S.

Pork and Pork Products

TPP was supposed to strengthen and provide new market access to expand Japan and U.S. pork and pork product exports. As of 2014, U.S. pork and pork products were \$4.7 billion to TPP countries and accounted for 70 percent of the \$6.7 billion pork and pork products to the world.^{xxiii} Despite Japan's highly protective pork industry and "Gate

Price” system, similarly to beef and beef products, Japan has been the leading export destination for U.S. pork and pork products by value.

Under TPP, Japan would immediately cut its tariff of 4.3% on fresh, chilled, and frozen pork cuts to 2.2%, phasing out the residual over 9 years. Duties on more than 65% of tariff lines would be eliminated within 11 years and on nearly 80% within 16 years. A separate duty on pork cuts under Japan’s “gate price system,” which acts as a minimum import price, would be lowered immediately to 125 yen/kg, from 482 yen/kg now, further to 50 yen/kg in 11 years.^{xxiv} On the other side, the U.S. import tariffs which are as high as 6.4% now would be eliminated within 10 years.^{xxv}

Dairy Products

Japan is the sixth-largest market for U.S. dairy exports, with shipments valued at \$409 million in 2014. With the exception of its recent trade agreement with Australia, Japan has excluded dairy products from its previous bilateral trade agreements.^{xxvi}

Instead of being afraid of removing tariffs, Japan may expand dairy products exports. Milk can be exported to neighboring countries, seeing that nearly a million tons of milk is shipped from Hokkaido to other prefectures every year and that Chinese labor costs will increase. Japanese dairy products are high quality and have a good reputation. Comparing with New Zealand, the most efficient milk producer in the world, cannot ship raw milk to China, Japan is close enough to China to ship raw milk there. With proper direct payments and removing the monopolistic behavior of JAs, Japanese milk can be price competitive in worldwide markets.

The U.S. cheese sector is subject to high tariffs and restrictive TRQs (131 of the dairy sector’s 157 cheese products are subject to a TRQ) that limit U.S. cheese prices and inflate consumer costs. Studies show that removal of these trade barriers would increase U.S. consumer welfare by \$50 million per year and lower domestic prices relative to world prices.

In TPP, Japan would eliminate many tariffs it imposes on cheese imports within 16 years and whey in 21 years, and create quotas for whey, butter, milk powder, evaporated and condensed milk. The United States would gradually phase out tariffs and establish TRQs for dairy products from Australia and New Zealand that would be increased annually. U.S. Tariffs for Malaysia, Vietnam, and Japan eliminated within 20 years.^{xxvii}

Wheat

Japan is the largest importer of U.S. wheat, and currently around 90% of its imports are subject to TRQs. Under the TPP agreement, a government-imposed markup on in-quota wheat to domestic buyers of 17 yen/kg would be lowered over 9 years to

between 8.5 and 9.4 yen, depending on the wheat variety imported. Japan also would establish a new duty-free, country-specific quota (CSQ) exclusively for U.S. wheat, just like for U.S. rice, of 114,000 metric tons (approximately accounts for 0.5% of U.S. wheat exports in the 2014/2015 marketing year), which would be increased to 150,000 tons in 7 years but which also would be subject to the same progressively lower markup price. Japan also would provide new CSQs for U.S. processed wheat products, such as mixes, dough, and cake mix. The initial CSQ for these products of 10,500 tons would be increased to 12,000 tons over 6 years, as well as new TPP-wide TRQs for wheat products and wheat-based food preparations. For the U.S., current import tariffs are as high as 6.8%, and they were supposed to be eliminated within 5 years.^{xxviii}

Sugar and Sugar Products

The United States imports sugar under TRQs. The United States establishes separate tariff-rate quotas (TRQs) for imports of raw cane sugar and refined sugar. Almost all raw cane sugar, refined sugars and sugar syrups, and sugar-containing products are imported under TRQs.

The raw cane sugar TRQ is currently allocated by the Office of the U.S. Trade Representative (USTR) to 40 countries based on a representative period (1975-81) when trade was relatively unrestricted. The in-quota tariff for sugar is equal to 0.625 cent/pound. Most countries have the low-tier tariff waived under either the Generalized System of Preferences, the Caribbean Basin Initiative, or under U.S. free trade agreements. The over-quota tariff is 15.36 cent/pound for raw sugar and 16.21 cent/pound for refined sugar. In addition to the over-quota tariffs, there are safeguard duties based on the value or quantity of the imported sugar.

Through the TPP, the United States would expand access to its market for sugar incrementally by establishing new TRQs for sugar and sugar-containing products totaling 86,300 tons annually, which is around 2.4% of U.S. sugar imports in the 2014/2015 crop year. The U.S. had hoped to increase new sugar access through tariff-rate quotas and increased access for wide array of sugar-containing products. As for Japan, Japan would provide new TRQs that would expand access to its market for sugar and sweetener-related processed products on a duty-free, or preferential-tariff-rate basis, including chewing gum, chocolates and products containing chocolate, confectionery goods and other such products, and would eliminate tariffs on various sweetener products over time. Japan would remove the 9% tariff on chemically pure fructose immediately, and create new quotas for 6 sugar-containing products.

Policy Discussion and Recommendations

According to Honma (1993), as an economy reaches an advanced stage of development, the political environment favors protecting the agricultural sector because the relative contraction of agriculture in the total economy, in other words the decrease of the proportion of agriculture in total GDP, reduces consumers' resistance to agricultural protection. Moreover, political lobbying by farmers and fishermen becomes more efficient, especially for a country like Japan who has been particularly concerned about food security. Thus, agricultural protectionism tends to be accepted in the process of economic development, and protectionist policies for agriculture are commonly observed in most industrial countries.^{xxix}

Many U.S. agricultural products are currently at a competitive disadvantage in certain TPP markets due to tariff preferences provided through agreements already in force, such as the Japan-Australia EPA. While in some limited cases a tariff advantage currently enjoyed by the United States through FTAs would be eliminated, most in the U.S. agriculture sector have viewed TPP as a critical advantage, because it would eliminate numerous tariff advantages enjoyed by other TPP partners and, in the judgment of many observers, would level the playing field for U.S. exporters. That hope is now gone.

The Trump Administration has expressed interest in forging bilateral trade deals with each trade partner though details are still vague. That completely flies against the logic in the world of moving toward multilateral FTAs or mega-FTAs. According to Peterson Institute for International Economics, it typically takes 1.5 years for the U.S. to negotiate a free trade deal and 3.5 years to implement it.^{xxx} It is predicted that the Trump Administration may want to use the terms agreed on the TPP as starting point for bilateral trade agreements. However, it is widely acknowledged that the terms in the TPP are the best deals Japan could offer and Japan will probably not accept other offerings. Japanese officials have made it well known already that renegotiating for a better deal for the U.S. than before is a non-starter. Tokyo is not going to give in to pressure from Washington to open the agriculture sector any more than already promised under TPP.

During the first round of the bilateral economic dialogue in Tokyo on April 18th, Japan and the U.S. never got into the details on key trade issues including farm products. As Deputy Prime Minister and Finance Minister Aso emphasized, Japan “will not be able to offer similar deals to the United States”, even if they “talk with the U.S. government in various trade matters such as agriculture”^{xxxi}. Therefore, it is likely that Japan will push to leave agriculture out of its economic talks with the Trump administration. Masayoshi Honma, a professor of agricultural economics at the University of Tokyo, said, “If bilateral negotiations are held, the U.S. will demand the total lifting of tariffs on pork and beef with the TPP basic agreement as the standard. In the agricultural sector, the effects will be much larger than those from the TPP.”^{xxxii}

Japan's agricultural sector is under heavy pressure to gain better market access to large economies due to the aging and declining population at home. It wants to expand food exports to such potential markets as China and the U.S. As mentioned above, structural reform in the Japanese agricultural sector is necessary and urgent regardless of TPP. The Abe Administration planned to restructure the non-competitive agricultural sector via two forces – domestic structural reform as an internal force and open up the market as an external force. For instance, in order to increase productivity and encourage full-time farmers, the government has been discussing to abolish acreage reduction program and create massive farmland consolidation reform.

The Council of Regulatory Reform (CRR) has done an excellent job by advocating the proposal for the JA reform and limiting Zenchū, JA's control tower's, political power. In May 2014, the CRR issued a report that among other things recommended the withdrawal of coop status for Zennō, the JA organization that oversees the provision of non-financial services to farmers, and the virtual abolition of Zenchū.^{xxxiii} Nevertheless, previous structural reforms have by far failed. More importantly, rural areas are the power base, or popularity support, for the LDP, therefore, the current Japanese government tried to keep farmers in those areas and to continue farming, even if the farms were on a small scale. Trade concession inevitably undermine the economic welfare of farmers in JA-Zenchū, the Abe Administration devoted lots of resources to resolve the opposition from them. JA's political clout has weakened as people, including the JAs, started to realize that the agricultural sector reform was inevitable in order to survive, and it became a question of when and how, instead of whether or not.^{xxxiv}

In addition to the farmland reform, scholars suggest that the Japanese government should develop and reinforce institutions to mitigate transaction costs, such as such as regulations on land rents, public investment in infrastructure projects, farmland zoning, and strengthening regulations on farmland conversion. Providing aid to rural community activities would also help to mitigate transaction costs in order to support structural reform. The use of farmland through market mechanisms is efficient when governance systems linked to market transactions are developed adequately.^{xxxv}

In order to scale up current production and improve productivity, both governments should promote scientific and technological cooperation. Advancement of more efficient large-scale farming and exchange of researchers would be helpful. The average size of U.S. farms is 176 hectares, 70 times larger than those in Japan. The cost of producing 60 kilograms of rice in Japan is 15,400 yen (about \$136), while producing the same amount in the United States costs only 2,200 yen, or about one-seventh.^{xxxvi} Of course, the difference comes from both the size of the farmland and large-scale farming technologies. TPP was the first regional trade agreement that addressed the need to coordinate international policy on trade in the products of agricultural biotechnology. A more forward-looking, pro-active agriculture policy, for instance on rice policy, can be

considered by providing subsidies to full-time farmers with large cultivated land, and full-time farmers would be encouraged to acquire more land.

In addition, there is a niche export market for Japanese high-end agricultural products. Those Japanese products are competitive not in terms of price, but quality, while the U.S. has abundant land and resources to produce relatively cheaper products. Leveraging comparative advantages on both countries should be highlighted. Japanese agriculture could survive by exporting highly value-added agricultural products such as Koshihikari, a Japanese high-quality variety of rice, while importing rice from Vietnam or Thailand. Japan can open its market to developing countries and enhance their sustainable development. It is noticeable that the growth of sales of many unprotected agricultural products far exceeds the protected ones.

Japan has decided to pursue the TPP-11 with the rest of the countries. Japan is rather interested in the region – especially trade with neighboring East-Asian and Asia-Pacific countries, in terms of factors beyond products, such as labors. Liberalizing the agricultural sector has been a very tough decision for Japanese farmers and JA. It took lots of efforts to reach the concluded agreement. Some argue that the removal of protection on agriculture will not only promote FTAs but also to contribute to Japan's economic growth. Additionally, allowing more agricultural imports was supposed to be the price Japan paid for cheaper access to the large United States market for automobiles and other manufactured goods. With the United States pulling out from the TPP, Mr. Abe could be accused of selling out farmers for little gain.^{xxxvii}

The Second China-Japan-Korea Trilateral Agricultural Ministers' Meeting (TAMM) was held in Tokyo, Japan on September 13th in 2015.^{xxxviii} Such specific sectoral meetings helps enhance the understanding of each side and foster better trade relationship. The U.S. and Japan may create similar bilateral agriculture ministers meeting in addition to the G7 and OECD meetings. Leaders from both countries should meet in person or via tele-conference twice a year to exchange opinions and increase mutual interests.

Conclusion

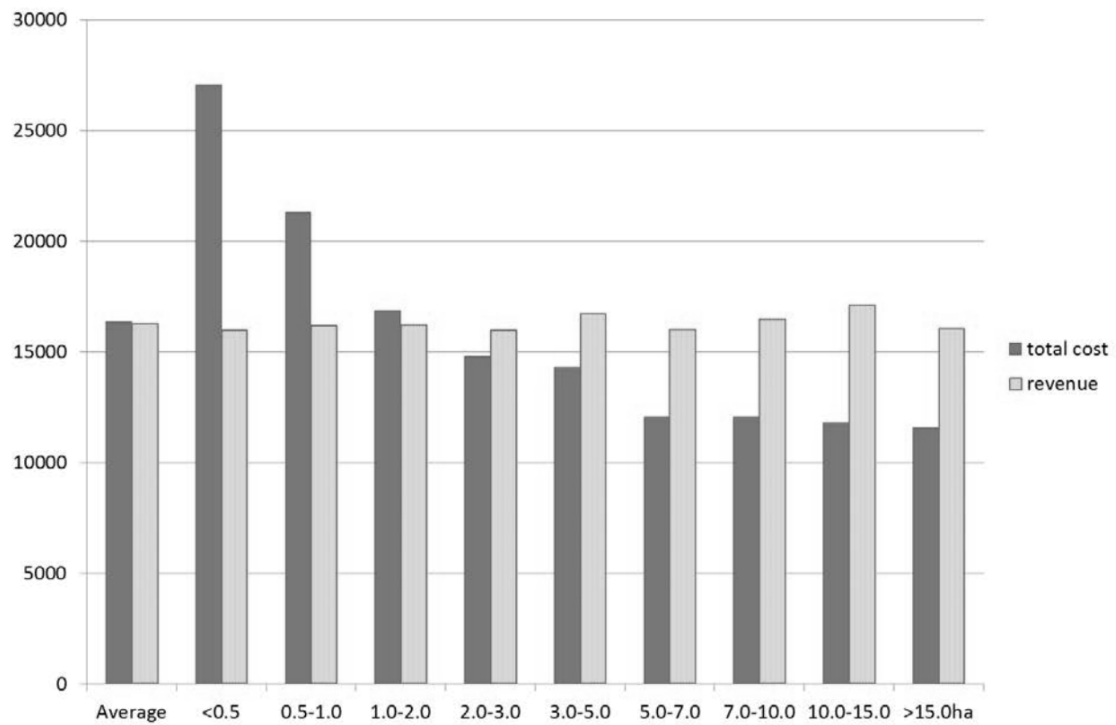
Agriculture has been standing in the way of Japan's efforts to sign trade agreements, including the TPP. Despite the U.S.'s decision to quit the TPP, Japan realized the importance of that multilateral trade agreement, in order to promote structural reform in agriculture, not to mention the overall objective of sustaining the country's growth. Japan should look for high-end exports and allow competition in the domestic market. Therefore, Japan will continue domestic agriculture reform and implementation of the TPP-11, although the absence of the U.S. remains a major hurdle. Increasing strategic and economic benefits of the emerging markets will force the agricultural sector to restructure. The TPP was a handy excuse to convince powerful

lobbyists like JA, and it will be hard for Japan to offer any better deals on agriculture than the TPP.

As a leader in globalization, the U.S., instead of blaming trade agreements for being “job-killers” (even though they are not), should realize the importance of foreign markets to U.S. farmers and the food industry, since significant amount of U.S. agricultural products’ revenues come from agricultural exports. Providing new and commercially beneficial market access and advancing regulations will support stronger commodity price and increase farmers’ incomes, and eventually help to support rural communities across the country. Bilateral trade agreements are complex and time consuming – and in the current world trend toward regionalism and globalism via mega-FTAs -- the U.S. government has herculean work ahead if it wants to negotiated bilateral agreements with every trading partner starting with Japan. Eventually, the U.S. may need to reconsider whether abandoning the TPP was a wise choice or not. Mr. Abe told the press:, “We will thoroughly protect what we should protect... I want to carry out bilateral negotiations properly, based on the thinking that agriculture is the foundation of this country.”^{xxxix} The two countries have entered an economic dialogue, but as the old Japanese saying goes, they may be in the same bed but dreaming different dreams.

Appendix I

Total Cost and Revenue Per 60 Kg of Rice Production (Yen) by Farm Size

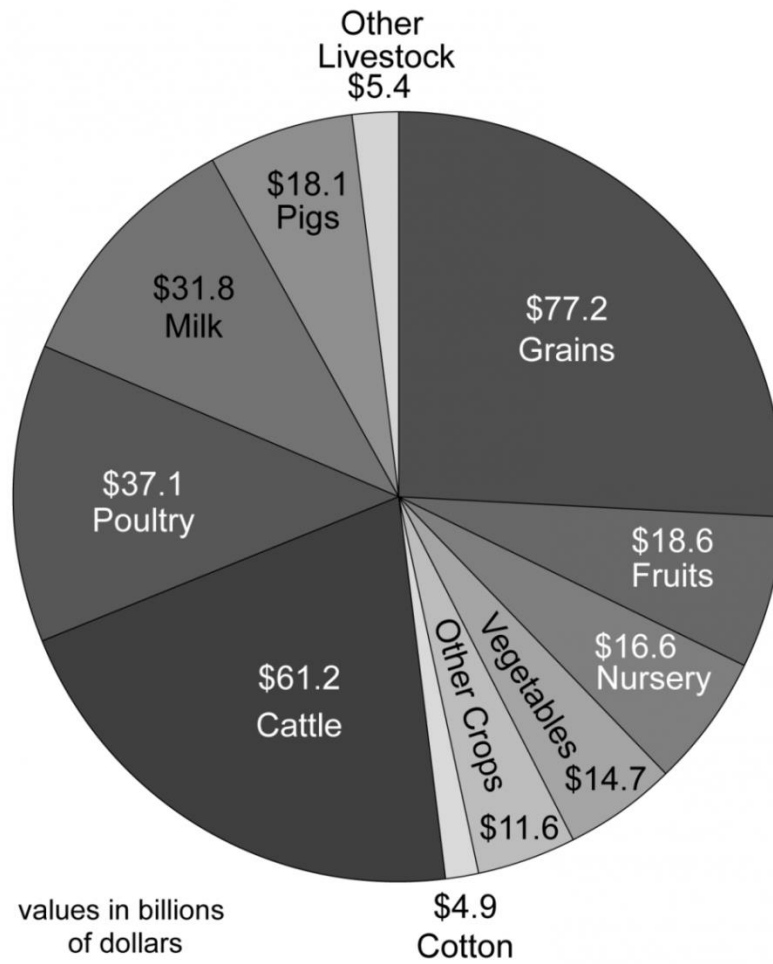


Source: Daisuke Takahashi and Masayoshi Honma, *A Reexamination of the Agricultural Adjustment Problem in Japan*, Waseda Institute of Political Economy (WINPEC), 2015

Appendix II

U.S. Agriculture Production by Value

U.S. Agriculture



Endnotes:

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- ⁱ U.S.-Japan Trade Facts, USTR, 2016
- ⁱⁱ Statement from Agriculture Secretary Tom Vilsack Regarding the Agreement on the Trans-Pacific Partnership, USDA, 2015
- ⁱⁱⁱ The average applied tariff rate in Japan is one of the lowest in the world. Japan: Simple applied MFN tariff: Simple average applied MFN tariff -- 4.2%; Agriculture products -- 14.3%; Non-agriculture -- 2.5%, WTO, 2015
- ^{iv} Japan Ministry of Agriculture, Forestry and Fisheries (MAFF)
- ^v Kazuhito Yamashita, TPP and Japan's Agricultural Policy Change, Brookings, 2016
- ^{vi} Daisuke Takahashi, and Masayoshi Honma, A Reexamination of the Agricultural Adjustment Problem in Japan, Waseda Institute of Political Economy, Waseda University, 2015
- ^{vii} Consisting of a 0.8% share for farms; a 1.4% share for food, beverage, and tobacco products; a 1.9% share for food service and drinking establishments; a 0.2% share of textiles and leather apparel; and a 0.2% share for forestry, fishing, and related activities. (USDA, 2015)
- ^{viii} M. Angeles Villarreal, and Ian F. Fergusson, The North American Free Trade Agreement (NAFTA), 2017
- ^{ix} Zahniser and Link, eds., "Effects of North American Free Trade Agreement", 2002
- ^x James Brady, Japanese agriculture: towards a sustainable, trade-oriented future, Asia Pacific Institute of Research, 2015
- ^{xi} TPP Agreement: Likely Impact on the U.S. Economy and on Specific Industry Sectors, Chapter 3 Food and Agricultural Products, United States International Trade Commission, 2016
- ^{xii} Jesse Norman and Jacob Bunge, Farmers dismayed at Trump withdrawal of U.S. from TPP trade pact, MarketWatch, January, 2017
- ^{xiii} The first arrow of Abenomics is monetary policy via monetary easing, and the second arrow is fiscal stimulus combined with deficit control
- ^{xiv} Speech by Ambassador Kenichiro Sasae at The Governor's Conference on Agricultural Trade, Embassy of Japan, March 6 2014
- ^{xv} Exposing the Mystery Behind Japanese Agricultural Exports, GroIntelligence, March 2017
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Assessing the 2015 U.S.-Japan Defense Guidelines: “Normal Country”?

Ms. Sanittawan Tan¹

Introduction

The evolution of the security relationship between the United States and Japan can be gauged accurately by examining the series of bilateral defense cooperation guidelines issued at major turning points in the postwar history of the Alliance. From 1978 when the first Guidelines for Japan-U.S. Defense Cooperation were introduced to 2015 when the second revision was completed, Japan and the United States have redefined their alliance relationship in response to the changing security environment around Japan and in the world, as well as substantively deepening and broadening bilateral cooperation.

The 2015 Guidelines for Japan-U.S. Defense Cooperation (hereafter “the 2015 Guidelines”), the most ambitious set yet, expand areas of cooperation to new contingency situations, cooperation in space and cyberspace, peacekeeping operations, and bilateral enterprises such as defense equipment and technology, intelligence and information sharing, and education and research exchange. The Guidelines give a broad understanding of what Japan and U.S. aim to do and achieve, but as guidelines, they are not intended to provide insights into the actual mechanisms that will be implemented. Unraveling that mystery requires more than a reading of the guidelines or other official statement. My research for this paper aims to fill this gap by exploring and explaining the mechanisms behind the Guidelines, assessing the effectiveness of the Guidelines since 2015, and identifying remaining challenges in bilateral defense cooperation that need to be tackled.

This paper is divided into five sections. The first section explains the history and function of the Guidelines for U.S.-Japan Defense Cooperation and places them in the context of the latest developments in Japan's defense and security policies. The second section explains why the 1997 Guidelines were revised starting in 2013 and reissued as the 2015 Guidelines. In section three I trace the relationship of the 2015 Guidelines with other defense-related documents. Section four assesses the strengths of the Guidelines. Section five identifies remaining challenges for Japan-U.S. defense cooperation. I conclude by summarizing key ideas of the research paper. To further illustrate the comparison, please refer to my Appendix 2. I created a table which compares the 2015 Guidelines and the 1997 Guidelines side by side. It can be found at the end of the paper.

What are the Guidelines?

The three versions of the defense cooperation guidelines to date are iterations of a technical document which provides a “general framework and policy direction for the roles and missions of Japan and the United States, as well as ways of cooperation and coordination, with a view to improving the effectiveness of bilateral security and defense cooperation.”² In other words, they provide general directions and assign responsibilities to Japan and the United States for handling situations ranging from peacetime to contingencies. The Guidelines are directly related to the Article V of the Treaty of Mutual Cooperation and Security between Japan and the United States of America 1960 (hereafter “U.S.-Japan Security Treaty 1960”) which states that,

“Each Party recognizes that an armed attack against either Party in the territories under the administration of Japan would be dangerous to its own peace and safety and declares that it would act to meet the common danger in accordance with its constitutional provisions and processes.”³

Since the Guidelines build upon the Article V, they constitute the core of U.S.-Japan defense cooperation.⁴ However, each Guidelines document specifies that they entail no obligation on the part of the American or Japanese governments to take legislative, budgetary, administrative or other measures in addition to agreeing upon the Guidelines. Nor do they have legal standing for either government. Although the Guidelines do not legally bind either party, they are seen as a political commitment that the United States and Japan must implement in a concrete manner because the Guidelines received a political endorsement from both governments.

After the revision process, the 2015 Guidelines were adopted at the April 27, 2015 meeting of the Japan-U.S. Security Consultative Committee (“2+2”) attended by current Japanese Minister of Foreign Affairs Fumio Kishida, then Japanese Minister of Defense Gen Nakatani, then Secretary of State John Kerry and then Secretary of Defense Ash Carter.

The Guidelines were first formulated in 1978 (hereafter “the 1978 Guidelines”) during the evolving circumstances of the Cold War. The Vietnam War ended in 1975 and U.S. forces were withdrawing from the Asia-Pacific. Although the Article V of the security treaty was in place, Japan wanted a general framework that specified how Japan the United States would deter aggression and defend Japan when an armed attack against Japan is imminent or has taken place, and how they would cooperate in the case of situations in the Far East which could affect Japan's security. The first version of the Guidelines was drawn up to respond to Soviet contingencies. Compared with the two revised versions, the 1978 Guidelines are much narrower in terms of the scope of defense activities.

The East Asian security environment changed significantly in the twenty years after these first Guidelines were agreed. Three changes in particular triggered their revision. First, the reduced geopolitical tensions that came with the end of the Cold War argued for a reappraisal of the U.S.-Japan alliance. Second, despite the relaxation of global tensions, the nuclear missile technology of North Korea emerged as a major threat to Japan in 1993 and 1994. The crisis started when North Korea refused an inspection request from the International Atomic Energy Agency (“IAEA”) after the agency discovered discrepancies in North Korea’s nuclear program disclosure reports. North Korea had ratified the safeguards agreement with the IAEA in 1992 and had an obligation to submit a report and be inspected by the agency. Instead, North Korea threatened to withdraw from the nuclear Nonproliferation Treaty (“NPT”) and announced its withdrawal from the IAEA in 1994.⁵ It is believed that the United States considered a limited military campaign against North Korean nuclear facilities at the peak of the crisis. However, according to the 1978 Guidelines, Japan would not have been able to use the Self-Defense Forces (“SDF”) to assist the United States in this situation.⁶ Third, the Taiwan Strait Crisis of 1996 also influenced Japan to revise the Guidelines so as to expand their role in responding to contingencies in East Asia.⁷ The revision process started in 1996 at America’s request when Prime Minister Ryutaro Hashimoto and President Bill Clinton announced the U.S.-Japan joint Declaration on Security.⁸ The revised Guidelines were adopted in 1997 (hereafter “the 1997 Guidelines”).

The 1997 Guidelines expanded the scope of Japan-U.S. defense cooperation to cover the stability of the security environment of the Asia-Pacific region (under Part 5) and established a Bilateral Coordination Mechanism (“BCM”) to formalize bilateral cooperation and guide the division of labor within the alliance. The Guidelines also listed key areas of bilateral work to be done including bilateral defense planning and mutual cooperation planning, establishing common standards for preparations, and establishing common procedures.⁹ The 1997 Guidelines responded to the changing regional security environment not only by improving interoperability and planning, but they also expanded the geographic scope of U.S. – Japan cooperation, especially in the case of contingencies on the Korean Peninsula. However, the 1997 Guidelines are seen as a passive, rather than proactive response. In retrospect, the role of Self-Defense Forces remained highly limited. Japanese national sentiment was still distrustful of the military -- the SDF -- a negative legacy of the Pacific War. Moreover, the BCM can only be activated in the case of an armed attack against Japan and in situations in areas surrounding Japan that affect Japan’s peace and security. These shortfalls played a part in the second revision which resulted in the 2015 Guidelines.

Why were the Guidelines revised in 2013?

When Shinzo Abe returned to the Prime Minister's office in 2012, he directed then Minister of Defense Itsunori Onodera to prepare for a revision of the 1997 Guidelines. Soon after, Japan engaged the U.S. in discussions on triggering the Guideline revision process at the October 23, 2013, meeting of the U.S.-Japan Security Consultative Committee (“SCC”), also known as the “2+2” meeting. Although the U.S. was reluctant to revise the Guidelines because it felt that the 1997 Guidelines were not fully implemented, the Subcommittee for Defense Cooperation (“SDC”) then began drawing up revised guidelines and released an interim report in 2014.¹⁰ Finally, the new 2015 Guidelines were established in the 2+2 meeting on April 27, 2015. Both governments are pleased with the revisions. The strongest response came from the Chinese government, which views the U.S.-Japan alliance as an obsolete product of the Cold War. They claim strengthening the alliance will further destabilize the region.¹¹

Three factors influenced the revision of the 1997 Guidelines. First, Japan perceives that the security environment surrounding Japan and in the Asia-Pacific region has worsened. One of the immediate threats to Japan is North Korea’s nuclear and missile capabilities. Although Japan has been in the range of North Korea’s Nodong (also known as Rodong) missiles since the 1990s, recent technical developments and the frequency of testing have raised concerns in Tokyo.¹² In order to develop ability to deter North Korea, the Japanese government introduced a ballistic missile defense (“BMD”) system in 2003 following a joint U.S.-Japan BMD research program which began in 1998.¹³ The introduction of the BMD enabled Japan to expand the scope of cooperation with the U.S., but this area was not listed in the 1997 Guidelines. In addition, North Korea's 2011 leadership change in which Kim Jong-un succeeded his father, Kim Jong Il, raised concerns about his leadership style and spurred uncertainty about his policy towards East Asia. Kim Jong-un has recently adopted a policy of provocation, as seen by his testing of a ballistic missile during a meeting between President Trump and Prime Minister Abe in Mar-A-Lago in February 2017. Yet, there is a silver lining. On the one hand, North Korea’s recent missile tests worsen the security situation. On the other hand, they serve as a strong argument for strengthened Japan-U.S. defense cooperation and drive two allies even closer.

China’s rapid military modernization and especially its improved naval capabilities also contribute to Japan’s perception of a worsening security situation. China’s air and maritime activities in the South China Sea and around the Senkaku/Diaoyu islands in the East China Sea are a major cause of concern for Japan. This is because Japan realizes that its resources are limited compared with China’s.

Post-1997 changes in the global security environment also helped bring about a Guideline revision. The terrorist attacks of 2001 presented a new kind of threat to the international system and Japan responded by dispatching the SDF to provide rear area

support and assist in reconstruction work in the Global War on Terror.¹⁴ Technological advancements, especially in space and cyberspace, came with new opportunities and vulnerabilities. In the sixteen years after the 1997 Guidelines, a joint recognition emerged that enhanced Japan-U.S. cooperation on information sharing and intelligence gathering would enable both sides to operate more effectively in outer space. The 1997 Guidelines were simply being made obsolete by technological progress.

Second, the 1997 Guidelines addressed only a limited variety of contingencies. The 1978 and 1997 Guidelines were mostly limited to defense cooperation in the case of an armed attack on Japan. As briefly mentioned, although a Bilateral Coordination Mechanism (“BCM”) was established under the 1997 Guidelines, it could only be activated in situations in areas surrounding Japan or an armed attack against Japan. When the Great East Japan Earthquake and the Fukushima nuclear incident occurred in 2011, the BCM could not be activated because the situation could not be classified as any of the contingencies stipulated in the 1997 Guidelines. As a result, the Japanese government and the U.S. government had to set up an *ad hoc* operation known as “Operation Tomodachi.”

One of the criticisms made later was that there was no well-synchronized coordination among U.S. authorities and between the authorities of Japan and the U.S. For example, there was no unified U.S. plan for the evacuation of U.S. citizens while Japanese government was slow in establishing a crisis center to coordinate between Japan and the U.S.¹⁵ Drawing upon this lesson, the Japanese and the U.S. governments agreed that the BCM had to be improved so that it could be activated in contingencies as well as in peacetime, including large-scale disasters in Japan.

Third, the revision of the Guidelines was needed to provide consistency with Japan's new security legislation and other updated defense documents such as the National Security Strategy (“NSS”), the National Defense Program Guidelines (“NDPG”) and the Medium Term Defense Program (“MTDP”). Although the Guidelines came out before the security legislation came into force, they were prepared during the same time period. Thus, every document is interrelated. I will discuss the relationship between these documents in details in the next section.

All these factors prompted Japan and the U.S. to revise the Guidelines in order to expand the scope and areas of cooperation as well as enhancing the planning, training and exercises which are the foundation of successful operations in real contingencies. The revision of the Guidelines reflect Japan’s changing perception of the requirements of its national security as well as Prime Minister Abe’s vision of a Japan ready to make a “proactive contribution to peace.” Abe’s coined phrase indicates that he strives for Japan to be more active in maintaining peace and security – an attempt to change Japan’s image in the past decades as a passive country. It also reflects a latent and longer-term trend in the U.S.-Japan alliance. According to security expert James Przystup, recent changes in Japan’s defense policy show that Japan aspires to become a more attractive U.S. ally by

contributing more to regional and international peace while increasing its capability to defend Japan's territory and the disputed Senkaku Islands. Second, they show how the American alliance system in the Asia Pacific has evolved from the hub-and-spoke system – with the U.S. at the center – to a spider-web like system in which we have seen Japan cooperate more closely with India and Australia. Dr. Przystup's perspective is congruous with Dr. William Brooks' view that one of the reasons why U.S.- Japan alliance still survives today is because the Cold War-era alliance structure has constantly reinvented itself as the security environment has significantly changed.

Ultimately, the alliance is moving in the direction of more symmetrical roles for Japan and the United States. As of now, one could argue that the U.S.-Japan alliance should not be considered a full military alliance yet due to Japan's legal limitations under Article 9 of the Japanese Constitution. Participants in a full military alliance must be able to fight side by side in contingencies beyond front line defense. In the case of Japan, the 2015 Guidelines have expanded the scope of cooperation to include the use of force in the case of an armed attack against a foreign country that is in a close relationship with Japan, but the use of force needs to satisfy three conditions which were put in place by the Abe government which I will discuss in more detail later in this paper. Additionally, Japan is not able to possess strategic offensive weapons such as Intercontinental Ballistic Missiles ("ICBM") or strategic bombers due to the current interpretation of the Article 9 of the constitution. Despite the restrictions of the current legislation, Japan is taking steps to become a more symmetrical partner of the U.S. and to strengthen the alliance as its security situation worsens.

How are the Guidelines related to other defense documents?

The 2015 Guidelines should be considered in the context of other defense and security documents, especially those that were completed in the same period. The chart below shows the relationship between key documents in the Japan's defense framework and their legal bases. Note that the Guidelines for U.S.-Japan Defense Cooperation flow from the Security Treaty of 1960, the written commitment under which the U.S. will foster cooperation with Japan and defend the country in the case of an armed attack. The treaty was written in broad language to provide a general framework for that commitment while the Guidelines were created to specify how and where the two countries would cooperate in order to deter an armed attack or respond to an armed attack. The key point here is how each document in the chart is interrelated and how they interact with each other.

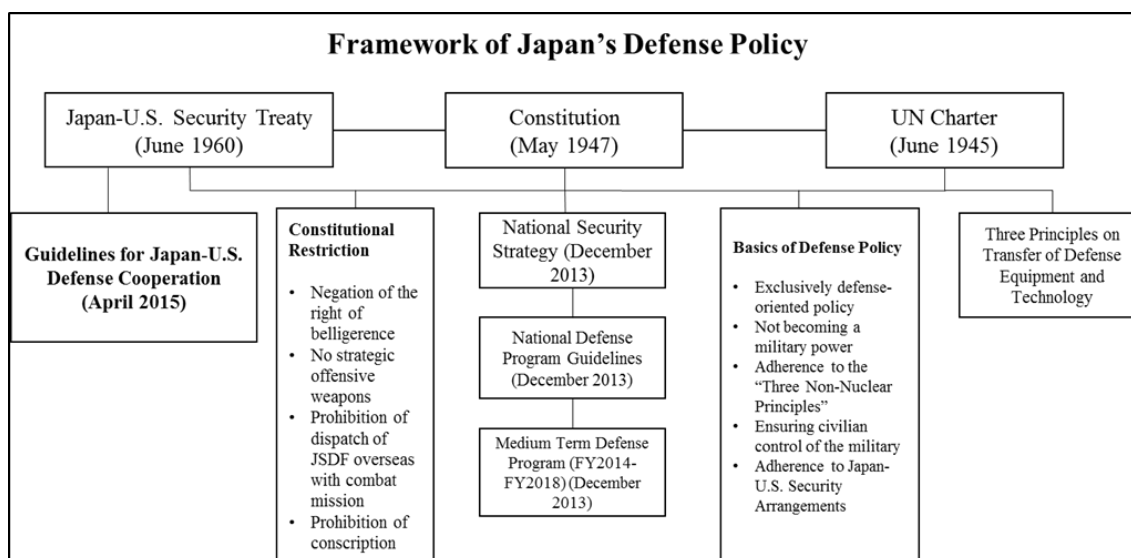


Chart 1, source: Ministry of Defense, Japan

The four documents highlighted here are the National Security Strategy (2013), the National Defense Program Guidelines for FY2014 and beyond (2013), the Medium Term Defense Program (FY2014-FY2018) (2013), and the (new) Three Principles on Transfer of Defense Equipment and Technology (2014). Each varies in their nature and aims. The reinterpretation of Article 9 of the constitution recognizing the right of collective self-defense also permits Japan to expand cooperation with the U.S. under the 2015 Guidelines in a situation where there is an armed attack against a country other than Japan. Japan's use of force in the context of collective self- defense is permitted if the circumstances satisfy three conditions which I will discuss in the next section.

The National Security Strategy ("NSS") of 2013 provides "a comprehensive outline of the security challenges that should be considered in Japan's present situation...indicate[s] the basic thinking of the policy responses to each of these challenges."¹⁶ The NSS provides an overall picture of Japan's national interests and describes a strategy to protect those interests. It does not determine resource allocations or investments in the future force posture. The National Defense Program Guidelines ("NDPG") and the Medium Term Defense Program ("MTDP") predate the NSS. The statement of basic security principles now embodied in the NSS was originally a component of the 2004 NDPG. Since the promulgation of the NSS, however, the NDPG has focused on describing the future forces necessary to implement the NSS.

The NDPG and MTDP are forward-looking documents meant to explain how Japanese forces will look in the future. According to the Ministry of Defense ("MOD"), the NDPG identifies the target levels of the defense forces for Japan to achieve in a ten-year time frame.¹⁷ The objective of the MTDP is similar to the NDPG, but the main difference is that the MTDP provides more details on the purchase of major equipment within the five-year planning limit on total expenditures. The relationship between NSS,

NDPG, and MTDP are top down. The NSS identifies strategy. The NDPG determines how Japan's forces should look in the future to achieve that strategy. Because the NDPG has a long time frame, the MTDP is needed to focus on how to build the forces procure major equipment within a five-year time horizon. Then, annual budget is planned and created from the MTDP. Comparing the three documents, we can see that the NSS combines diplomacy and defense while the NDPG and the MTDP focus on priorities of investment to strengthen defense.

The 2015 Guidelines draw upon three key ideas found in the 2013 NDPG: gray-zone situations, the creation of a "Dynamic Joint Defense Force," and "seamless" cooperation with the United States. According to the National Security Strategy and the NDPG, "gray-zone" situations are defined as "situations that are neither pure peacetime nor contingencies over territory, sovereignty and maritime economic interest." They are, in other words, situations in which there is yet to be an armed attack against Japan (See examples of gray-zone situations in Appendix 1). These situations are not covered by the 1997 Guidelines.

In order to deal with gray-zone situations and a more severe security environment, the 2013 NDPG prioritizes maritime and air superiority based on the joint operations of a "Dynamic Joint Defense Force." It also recommends improved rapid deployment capabilities. Takahashi writes that the Dynamic Joint Defense Force's aim is to improve the effectiveness of defense forces to dynamically conduct a variety of activities.¹⁸ The force emphasizes readiness, sustainability, resiliency, and connectivity. This idea leads to the "seamless" cooperation with the U.S. at the heart and soul of the 2015 Guidelines. The Guidelines allow Japan to rely on the American capabilities that Japan lacks, while Japan improves its forces through exercising and training. In order to cooperate seamlessly with a new concept of Japanese forces, Japan and the U.S. must be able to train and exercise together to ensure high quality interoperability in real contingencies.

Recent exercises like Exercise Iron Fist 2017 between the U.S. Marine Corps and the Japan Ground Self Defense Force's Western Area Infantry Regiment have included joint amphibious operations meant to support the establishment of a Japanese "Amphibious Rapid Deployment Brigade" in fiscal year 2017.¹⁹ The brigade will have a ship-to-shore landing ability meant to defend or recapture the Southwest islands, a capacity Japan previously lacked. The effort has been boosted by the purchase of eleven new amphibious assault vehicles ("AAVs") from America at the cost of around 8.5 billion yen.²⁰ Recent news reports note that Japan is receiving training and assistance from the U.S. Marine Corps.²¹ Although the 2015 Guidelines do not create legal obligations for either government, they solidify a framework which ensures interoperability through planning, training and exercises.

Finally, the Legislation for Peace and Security, which was passed in 2015 and came into force in March 2016, provides a legal basis for the expanded activities of the

Self-Defense Force.²² The Legislation consists of (i) the Peace and Security Legislation Development Act – which consists of amendments to existing laws and (ii) the International Peace Support Act – which is new. For example, amendments to the Self-Defense Force Act enable Japan to rescue Japanese nationals overseas and protect weapons as well as other equipment of the U.S. and other country's armed forces. It also expands the situations in which Japan can provide supplies and services to U.S. forces. The legislation covers a wide range of areas including activities that Japan can conduct for International Peacekeeping Operations (“PKO”). The next section discusses the strengths of the 2015 Guidelines.

Strengths of the 2015 Guidelines

Many experts interviewed in Tokyo and Washington, D.C. agreed that the 2015 Guidelines are a remarkable improvement from the 1997 Guidelines. Compared with the 1997 Guidelines, the first section of the 2015 Guidelines which reads “Defense Cooperation and the Aim of the Guidelines” outlines a more concrete approach within the bilateral cooperation. The 2015 Guidelines emphasize five characteristics which are absent from the 1997 Guidelines: “seamless, robust, flexible, and effective bilateral responses”; “synergy across the two governments’ national security policies”; “a whole-of-government approach”; “cooperation with regional and other partners as well as international organizations”; and “the global nature of the Japan-U.S. alliance.”²³ Each section of the 2015 Guidelines is meant to be consistent with these aspirations. A whole-of-government approach provides some flexibility for agencies beyond the SDF and the U.S. forces Japan (“USFJ”) to cooperate if necessary. This will facilitate cooperation in new areas such as space and cyberspace, which involve a wider range of government agencies.

Most importantly, the first section of the 2015 Guidelines reiterates that America will continue to extend nuclear deterrence over Japan and retain forward deployed forces in Japan and in the region. Extended nuclear deterrence is deemed one of the most critical elements of the alliance since Japan, which does not possess nuclear weapons, is surrounded by nuclear-armed countries. With more frequent nuclear threats and advanced missile capabilities from North Korea, extended nuclear deterrence from the U.S. is even more relevant. This could be the reason why an issue that is not mentioned in the previous versions of the Guidelines is given such prominence in the 2015 revision although the U.S. and the Japanese governments have been holding an Extended Deterrence Dialogue, a forum for discussing alliance deterrence, on a regular basis since 2010.²⁴

The last section of the Guidelines improves the process of reviewing the Guidelines. It states that the Guidelines will be evaluated on a *regular* basis. This is

different from the 1997 Guidelines of which the review process will be done in a “timely and appropriate manner.”²⁵

The 2015 Guidelines have six important strengths. First, they extend cooperation across wider range of contingencies and mission types. The 1997 Guidelines only addressed three scenarios: (i) cooperation under normal circumstances; (ii) cooperation in situations in areas surrounding Japan that will have an important influence on Japan’s peace and security, which is also known as Situations in Areas Surrounding Japan (“SIASJ”) and (iii) responses to an armed attack against Japan. The 2015 Guidelines establish five scenarios under section IV – two of which are new. The contingencies are: (i) peacetime; (ii) emerging threats to Japan’s peace and security – which cannot be defined geographically; (iii) an armed attack against Japan; (iv) an armed attack against a country other than Japan (that is in a close relationship with Japan) and (v) a large-scale disaster in Japan. According to an MOD document, the last two scenarios are new.²⁶ In this sense, The SIASJ scenario from the 1997 Guidelines seems to have been modified and recategorized as an emerging threat scenario in the 2015 Guidelines.

The inclusion of the fourth contingency, the case of an armed attack against a country other than Japan, was enabled by a reinterpretation of the Japanese constitution recognizing the government’s rights to exercise “limited” collective self-defense. It is limited because, according to the cabinet decision released on July 1, 2014²⁷, Japan can use force under the principle of collective self-defense only when the situation satisfies the following three conditions:

- (1) When an armed attack against Japan has occurred, or when an armed attack against a foreign country that is in a close relationship with Japan occurs and as a result threatens Japan’s survival and poses a clear danger to fundamentally overturn people’s right to life, liberty and pursuit of happiness.
- (2) When there is no appropriate means available to repel the attack and ensure Japan’s survival and protect its people.
- (3) Use of force to the minimum extent necessary.²⁸

The government’s interpretation of “minimum extent necessary” lifts all geographic restrictions on exercising the right of collective self-defense, but does not permit the dispatch of armed forces to foreign countries with the objective of using force.²⁹ The reinterpretation and new conditions have opened up the opportunity for Japan to do more than merely provide logistics support. James L. Schoff, a senior fellow in the Asia Program at the Carnegie Endowment for International Peace and former defense official, believes that separation of forward area activities, which include the use of force taken by the U.S., from rear area support, including noncombat activities taken by Japan, should no longer apply to activities such as air and missile defense, antisubmarine warfare, and minesweeping under the 2015 Guidelines.³⁰ Examples of

joint U.S.-Japan operations enabled by the Guidelines include asset protection, search and rescue, maritime operations (which includes minesweeping and escorting ships), counter ballistic missile attack operations, and logistical support.

As mentioned previously, the fifth scenario, the case of a large-scale disaster in Japan, was added to the contingency list because of a failure to utilize the bilateral coordination mechanism from the 1997 Guidelines – during the Great East Japan Earthquake and nuclear disaster. The 2015 Guidelines ensure that a coordination mechanism (which I will discuss further) can be activated in order to support Japan in disaster relief. The U.S. and Japan have already utilized the coordination mechanism and America provided assistance to Japan during the Kumamoto earthquake disaster of April 14, 2016. According to the 2016 Defense of Japan white paper, the USFJ transported SDF personnel and vehicles to Kumamoto airport using C-130 and UC-35 aircraft and transported aid supplies to the disaster area using the MV-22 Osprey.³¹

Operationally, the 2015 Guidelines cite examples of the wider range of mission types that Japan and the U.S. could cooperate under each contingency. In peacetime, they can perform intelligence, surveillance, and reconnaissance (“ISR”), air and missile defense, maritime security, asset protection, training and exercises, logistic support, and permission of the use of facilities including civilian airports and seaports. The 2014 passage of the State Secrets Law paves the way for Japan to increase ISR cooperation with the U.S.³²

In May 2017 Japan demonstrated its ability to conduct asset protection by dispatching the JS *Izumo* helicopter carrier to escort a U.S. Navy supply ship from the Boso Peninsula to an area near Shikoku. News reports indicated that the supply ship was likely to refuel vessels currently deployed near Japan and with the Carl Vinson carrier strike group, which was dispatched to the Korean Peninsula due to growing tensions from North Korea’s missile launches.³³ The legal basis for these activities stems not from the Guidelines, but from a March 2016 amendment to the Self-Defense Forces Law passed as part of a package of new security measures called the “Legislation for Peace and Security.” The amendment came into force on March 29 in the same year. Provisions allowing for the protection of the weapons and equipment of the USFJ or of other foreign forces are restricted to the defense of assets engaged in activities that contribute to the defense of Japan. The law also permits Japan to use weapons if necessary.³⁴ Thus, one should keep in mind that the implementation of the Guidelines depends upon domestic laws.

The list of emerging threats is not substantially different from the list of activities under the SIASJ in the 1997 Guidelines. These activities include noncombatant evacuation operations, maritime security, measures to deal with refugees, search and rescue, protection of facilities and areas, logistic support, and the use of facilities.³⁵

It is notable that cooperative measures on counterterrorism are absent from the 2015 Guidelines. An MOD official explains that although the counterterrorism is not mentioned explicitly, it “goes without saying.” In other words, the scope of activities that Japan and the U.S. can cooperate on is not limited to the list of activities given in the Guidelines, but they are limited by Japanese law. Cooperation on counterterrorism therefore depends on whether Japan has domestic laws to support such cooperation and whether the situation is deemed to fit under one of the contingencies. If not, the situation might fall under section V which describes cooperation on regional and global security which I will discuss in the following point.

Second, the Guidelines signal Japan’s willingness to play greater role in supporting regional and global security through cooperation with its partners. Section V, “Cooperation for Regional and Global Peace and Security,” reflects that commitment. Even before the 2015 Guidelines, Japan successfully contributed to global peace and security in a number of instances. For example, Japan sent the SDF on UN peacekeeping missions. It dispatched Maritime Self-Defense Force minesweepers and personnel to clear mines after the Gulf War ended. The MSDF was dispatched to the Indian Ocean on a refueling mission in order to provide rear area support during the “war on terror” operations. The Koizumi government also sent the SDF to provide reconstruction and humanitarian assistance in Iraq.³⁶ Past successes improve the image of the SDF among the Japanese public and in turn make politicians and bureaucrats more confident in devoting a section of the Guidelines to boosting cooperation with the U.S. in international activities and fostering trilateral and multilateral cooperation.

Regarding international activities, areas of cooperation include peacekeeping operations, humanitarian assistance/disaster relief (“HA/DR”), maritime security, partner capacity building, noncombatant evacuation operations, ISR, training and exercises, and logistical support. Partner capacity building should be highlighted here because this is where Japan takes the advantage of the principles for the transfer of defense equipment and technologies which were promulgated in April 2014.³⁷ The new principles clarify cases where transfers are prohibited, enable Japan to transfer arms in support of peace and international cooperation or the case that the transfers contribute to the security of Japan, and put in place measures to control dual-use technologies and the transfer of defense equipment to third parties.³⁸ In other words, the three new principles provide Japan with more opportunities for arms transfers.

As part of a capacity building effort, the Japanese defense minister confirmed in May 2016 that Japan will transfer up to five MSDF TC-90 training aircrafts to the Philippine Navy to improve Philippines’ capabilities in disaster relief, transportation, and maritime situational awareness. They also agreed to strengthen cooperation in recognition of the situation in the South China Sea. What is interesting here is that although the Japanese government seems reluctant to conduct joint patrols with the U.S. or to take any

proactive measures in the South China Sea, it sees that it can play a role by narrowing the capability gap between claimant states through capacity building. Japan has also participated in several multilateral exercises and training such as Cobra Gold 16, the Global Peace Operations Initiative Capstone Exercise launched by America for U.N. peacekeeping operations, and KHAAN QUEST 16 led by the U.S. and Mongolia.³⁹

Japanese multilateral cooperation focuses on three key trilateral relationships. First, although the U.S.-Japan-South Korea trilateral relationship has long suffered dysfunction at the political level, according to an American former defense official and a current Japanese defense officer, it is relatively well-established at the working level. Since 2009 they have held Trilateral Defense Ministers Meetings and in December 2014 they signed an agreement to share intelligence on North Korean nuclear and missile activities. The relationship has deepened to the working level with the establishment of the Japan-U.S.-ROK Defense Trilateral Talks (“DTT”).⁴⁰ The three countries also conducted joint missile defense drill in June 2016 called Pacific Dragon.⁴¹ The Abe administration has taken steps toward reconciliation, especially on issue of wartime comfort women and many hope that the continuing improvement of the bilateral relationship will facilitate deeper trilateral cooperation. Second, the U.S.-Japan-Australia trilateral has made good progress in recent years, especially in terms of joint exercises. In 2015, Japan’s Ground Self-Defense Force participated for the first time in the Exercise Talisman Saber, a major biennial multi-domain joint military exercise between the U.S. and Australia.⁴² On the bilateral front, Japan and Australia recently signed an updated Acquisition and Cross-Servicing Agreement (“ACSA”) enabling Australia and Japan to supply each other with ammunition during peacekeeping and disaster relief activities.⁴³ The deepening relationship between Australia and Japan could contribute to smoother trilateral cooperation with the U.S. Third, U.S.-Japan-India trilateral cooperation continues to expand although more gradually compared with the other two relationships.⁴⁴ The Malabar Exercise between the Indian, Japanese and U.S. navies is the centerpiece of the trilateral relationship. On the bilateral front, India and Japan has been discussing arms and technological transfers for several years. Although Minister Inada and Minister Arun Jaitley recently reiterated that defense collaboration tops the priority list, a deal for India to purchase Japan’s ShinMaywa-built US-2i amphibious search and rescue aircraft has yet to be concluded.⁴⁵ Further cooperation remains to be seen.

Third, the means of alliance management established in previous versions of the Guidelines have been significantly improved. The 1997 Guidelines established two main mechanisms which are the Bilateral Coordination Mechanism (“BCM”) and bilateral planning mechanism (Bilateral Work for Planning and the Establishment of Common Standards and Procedures as appears in the Guidelines). However, the main criticism of the BCM is that it has never been officially utilized since the Guidelines were revised in 1997.⁴⁶ A major impetus for revising the Guidelines was that the BCM could not be activated during the Great East Japan Earthquake of 2011 because a natural disaster could

neither be considered an armed attack against Japan nor a situation in an area surrounding Japan.

The 2015 Guidelines, therefore, upgraded the BCM and renamed it to the Alliance Coordination Mechanism (“ACM”). The main difference is that the ACM can be activated in every contingency ranging from peacetime to large-scale disaster. The ACM has already been utilized in the Kumamoto Earthquake and North Korea’s missile launches in February and March of 2017.

Another important characteristic of the ACM is that it adopts whole-of-government approach and is flexible enough to expand or contract depending on the number and the level of agencies involved in a given situation. James L. Schoff observes that the ACM is smaller and focuses on the working level officers who manage the alliance on a day-to-day basis. The organizational structure can be seen in the chart below.

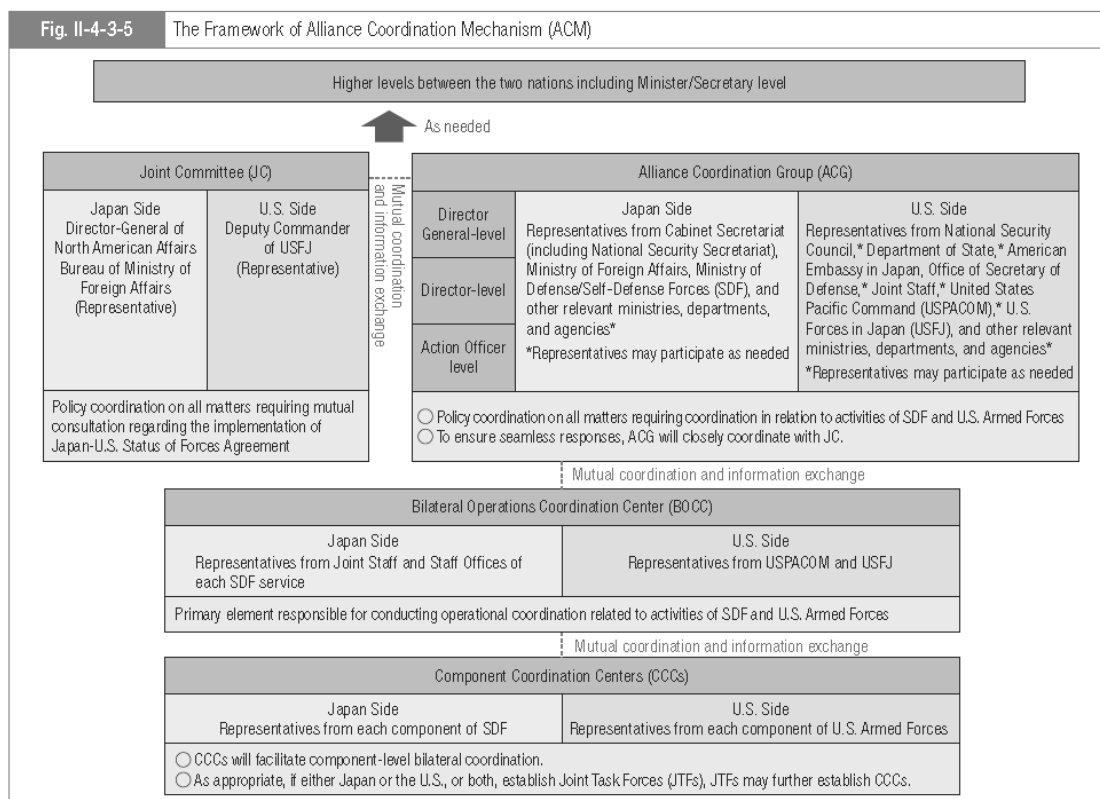


Chart 2, Source: Ministry of Defense

The ACM was designed to foster equal cooperation between Japan and the United States. It is not meant to replicate the Command and Control (“C2”) structure of NATO or the arrangement of U.S.-Republic of Korea alliance. Japan forces are under the prime minister’s command and the U.S. forces are under the president’s command. According to a Japanese defense policy expert interviewed in Tokyo, ACM contains no C2 structure

because the two governments want to avoid getting into arguments over command decisions.

In addition, the 2015 Guidelines improved the Bilateral Planning Mechanism (“BPM”) which was established by the 1997 Guidelines. This key body involves working level officers from both sides as well as the high-level “2+2” Security Consultative Committee of foreign and defense ministers, the “2+2.” This mechanism is crucial to the success of the alliance because operational success flows from close bilateral planning. As shown in the chart below, the BPM includes a bilateral planning committee which is responsible for planning for joint operations across different scenarios.

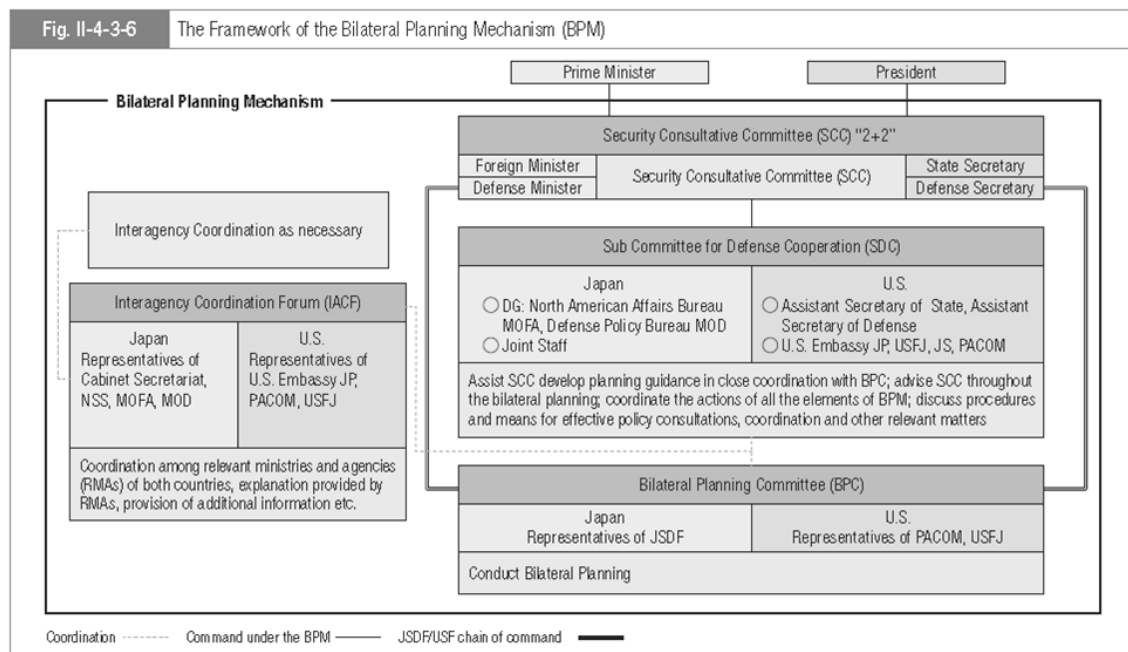


Chart 3, Source: Ministry of Defense

Fourth, the bilateral concept of operations in the case of an armed attack against Japan has been broadened and the operational division of labor has been more clearly defined. The 2015 Guidelines recategorized and added one new concept of operation: cross-domain operations, designed to be conducted across multiple domains simultaneously. The Guidelines also take into account a scenario of an attack against islands that is included under operations to counter ground attacks. There is no significant difference in terms of operational support activities between the 2015 Guidelines and the 1997 Guidelines.

Fifth, as already mentioned briefly, the Guidelines expand bilateral cooperation to new mission areas. Section VI describes cooperation in space-based intelligence gathering and the sharing of information on the growing problem of cyber attacks.

Regarding cooperation on space, the first U.S.-Japan Space Security Dialogue was held in September 2010 and the first whole-of-government U.S.-Japan Comprehensive Dialogue on Space was attended by relevant agencies in March 2013. A Space Cooperation Working Group (“SCWG”), established following the April 2015 Japan-U.S. Defense Ministerial Meeting, has met twice to discuss space policy reinforce information sharing, expertise development, and exercises. According to the MOD, the Japanese and the American governments have been sharing information and discussing plans for future cooperation.⁴⁷

Japanese domestic space policy has been the source for a number of interesting developments such as the establishment of the Office of National Space Policy in July 2012 and the creation of the Third Basic Plan on Space Policy in January 2015. Space Situational Awareness (“SSA”) -- the ability to see, understand, and predict the locations of orbiting manmade and natural objects and debris in order to avoid and minimize risk of collision – is a major focus. The Basic Plan calls for data sharing among foreign countries to improve SSA. It also emphasizes cooperation with the United States in, for example, ensuring coordination and compatibility between the U.S. Air Force Global Positioning System and the Japanese Quasi-Zenith Satellite System.⁴⁸ In cyberspace policy, the two governments established a Cyber Defense Policy Working Group in October 2013 to discuss technical cooperation and human resources development.⁴⁹ In 2015 the Japanese government passed a Cyber Security Basic Act, formulated Cyber Security Strategy, and established the Cyber Incident Mobile Assistant Team.⁵⁰ Japan and the United States have just begun to cooperate on the space and cyberspace, since the priority until now has been information sharing and intelligence gathering.

Sixth, the 2015 Guidelines solidify the foundation of U.S.-Japan defense cooperation, namely, defense production, information sharing, and training, through the incorporation of a new section called “Bilateral Enterprises.” The section consists of three key areas of cooperation which are: (i) defense equipment and technology cooperation; (ii) intelligence cooperation and information security and (iii) educational and research exchanges. Even before the new three principles on arms transfers were in place, Japan and the U.S. have been cooperating on joint defense production on several projects. U.S.-Japan cooperation on defense research and development projects precedes the new Japanese principles on arms transfer. One such project, which James L. Schoff regards as a true joint production, is the development from 2006 of the SM-3 Block IIA, a ballistic missile interceptor. Three other ongoing joint research projects are: (i) research on hybrid electronic propulsion which began in 2012; (ii) design work on a high-speed multi-hull vessel and (iii) research comparing jet fuel and noise exposure.⁵¹ Japan has established an Acquisition Technology and Logistic Agency (“ATLA”), a functional equivalent of the Department of Defense Office of Acquisition, Technology and Logistics.⁵² Although one of the best ways to improve interoperability between the two forces is to jointly develop defense equipment, there has not been much development

since the Guidelines came out. This is due to several hurdles which will be discussed in the next section.

The 2015 Guidelines are laudable since it demonstrates Japan's increasing willingness to contribute more to the alliance and to make the alliance more symmetrical. This is despite the fact that there are always gaps between what is written on a paper and actual implementation. The United States in the past found out to its dismay that requests for Japan to beef up its defenses or add roles and missions to the security arrangements often tended to be left in limbo, perhaps blocked by negative public opinion, the intrigues of domestic politics or constitutional limitation⁵³. The first real breakthrough seems to have come during the 2001-2006 tenure of Prime Minister Koizumi, who dispatched SDF troops to Iraq and the Indian Ocean for non-combat support of President Bush's post-9/11 "coalition of the willing." Still, there remains much to be done on the Japanese side before the alliance can be completely symmetrical – before Prime Minister Abe's goal of Japan moving to become a "normal country" can be fulfilled.

Over the course of years, the U.S. has learned not to put too much pressure (*gaiatsu*) on Japan, knowing that such attempt could backfire on it, and patiently waited for a change in domestic legislation and more favorable public opinion on these sensitive issues. Japan, a reactive state, would only make the necessary security changes in reaction to serious threats to its national interests. Even the proactive Abe tends to "react" to rising tensions in the region in order to push his security agenda.

James L. Schoff noted that it took almost twenty years for Japan to achieve the original objectives and ideas of the 1997 Guidelines. In fact, since 1997, the U.S. had been working on Japan to do what it finally can do now.

What are the remaining challenges?

Although the 2015 Guidelines have a number of strengths, challenges remains in terms of their implementation and in Japan-U.S. defense cooperation more broadly. Above all, the ultimate test of the Guidelines is obviously in the form of future events that will require cooperation and joint operations. As mentioned in the first part of this paper, the 2015 revision are considered more reactive than proactive. The Fukushima incident, for example, demonstrated key limitation of the 1997 Guidelines and served as an impetus for revision. In my research and interviews with defense policy experts and alliance managers, I discovered five remaining challenges yet to be adequately addressed.

First, public opinion still plays an important role which could support or restrain the Japanese government's future decisions on the role of the SDF, especially given the recent broadening of that role under the security legislation and the 2015 Guidelines. Although a poll on Japanese citizens' impressions of the SDF conducted by the Cabinet Office in 2015 shows that 92.2 percent of the respondents have positive views toward the

SDF, the government cannot assume public support for every conceivable SDF activity.⁵⁴ Public opinion support of the SDF depends largely on the nature of the activity in question. No one will complain if the SDF is engaged in disaster relief of pure humanitarian activities. According to James L. Schoff, the successful minesweeping mission after the Gulf War left a very good impression on the Japanese public. The public would not support minesweeping operations in a blockaded Strait of Hormuz situation, however. When Koizumi sent troops for humanitarian and reconstruction assistance in Iraq after the war, the public was extremely wary that they might be dispatched to a combat zone or get entrapped in one.⁵⁵ Hence, the popularity of the SDF in the polls is not enough in making a decision on the involvement of the SDF in future situations.

According to Dr. Haruo Tohmatsu, a professor of diplomatic history at the National Defense Academy, although national sentiment towards the SDF has become more positive in recent years, the Japanese society still has a low tolerance for any loss of life of SDF personnel.⁵⁶ Fortunately, there has not been any such case in any of the operations that the SDF has taken part in so far, including PKO missions. The murder of two Japanese civilians – including a civilian police officer – during the PKO missions in Cambodia in 1993 is an obvious example of how the death of Japanese citizens or officers could provoke a public backlash that could even politically threaten the government in power. Then Prime Minister Kiichi Miyazawa, sharply attacked in the Diet, took a step to withdraw the mission from Cambodia before there were more casualties that might force him to resign.⁵⁷

Public opinion, therefore, remains a crucial factor that pose challenges to future bilateral defense cooperation, especially if Japan should be asked to do more than providing rear area support in noncombatant environments. Placing troops in harm's way remains a strong psychological barrier in the minds of most Japanese. It is possible that the implementation of the 2015 Guidelines could be watered down and less impactful because Japanese politicians might refrain from ordering the SDF to conduct risky missions for fear of negative public opinion. For instance, the asset protection mission that the MSDF recently escorted the supply ship was conducted in safe international waters. In the future, the U.S. may need Japan to provide similar support in a more dangerous and life-threatening zone. In such a case, political reaction might block the dispatch, just when it is most needed.⁵⁸

Second, the shortage of manpower in the Japanese society will constrain SDF recruiting. This stems from the fact that Japan is facing a severe demographic challenge. Its population is growing at the rate of negative 0.2 percent per year. If this trend continues, the population could fall below 90 million by 2060.⁵⁹ The current labor force of 66.7 million could fall to 51.8 million by 2050.⁶⁰ The chart below, which accounts for both male and female population from the National Institute of Population and Social

Security Research, shows a projection of the population structure of Japan.⁶¹ The working age population is projected to shrink over the next thirty years.

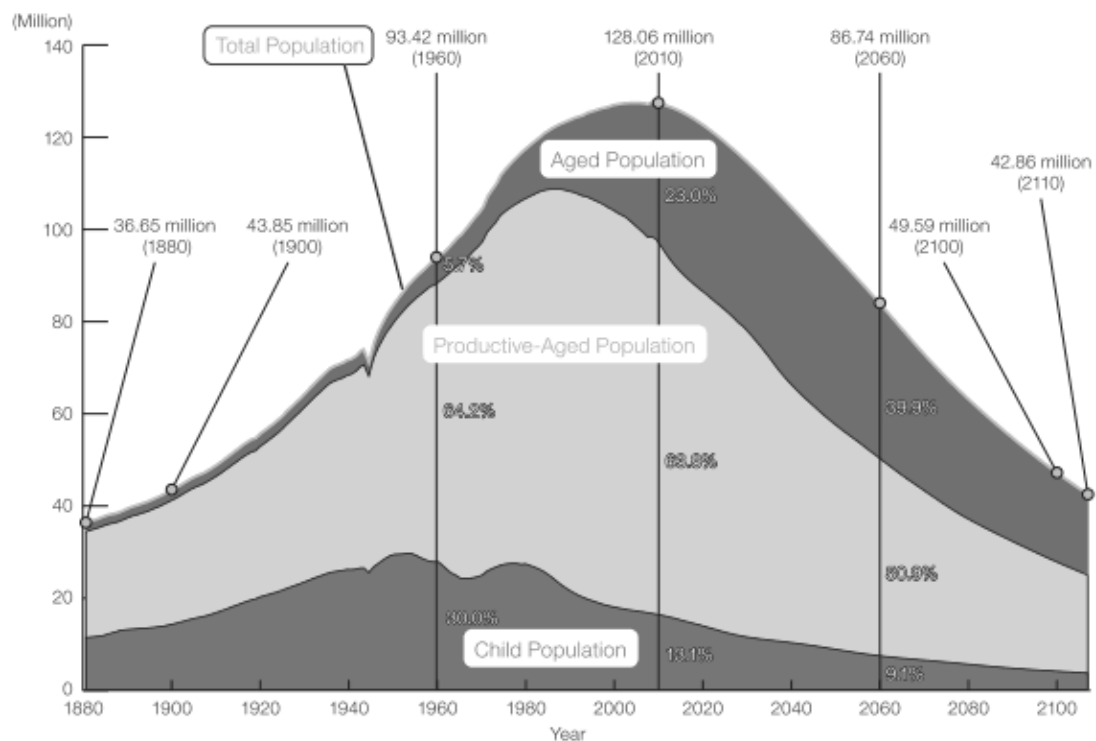


Chart 4, Source: National Institute of Population and Social Security Research

This demographic constraint is also exacerbated restrictive immigration policies. Various defense experts expressed concerns that although technological advances such as unmanned vehicles or swarm drones will help Japan reduce the burden on the troops, at the end of the day Japan still needs sufficient personnel with skills to operate the machinery.

Third, the current level of Japan's defense spending may not be sufficient to support increased capabilities and enhanced deterrence at a time when other Asian powers are boosting spending. Japanese officials seem to be in denial of that reality, viewing the current level of defense spending as adequate to satisfy the requirements of U.S.-Japan defense cooperation. However, Japanese and American defense experts disagree, stating their concern that current spending increases are too modest for the maintenance of forces and equipment acquisition in the future. In 2016, Japan's defense budget of 47.3 billion dollars was ranked 7th in the world. The U.S. spent 604.5 billion dollars while China allocated 145 billion dollars.⁶² Japan's large GDP keeps it among the top ten spenders even though it has kept defense spending level at around 1% of GDP. Like the U.S., a large proportion of Japan's defense budget (44.2%) devoted to personnel costs.⁶³ As Japan increases the size of the SDF and acquires new equipment, the budget

will prove to be too tight to satisfy Japan's military needs in the future. This could put pressure on the R&D budget, as well, which is an important part of defense spending.

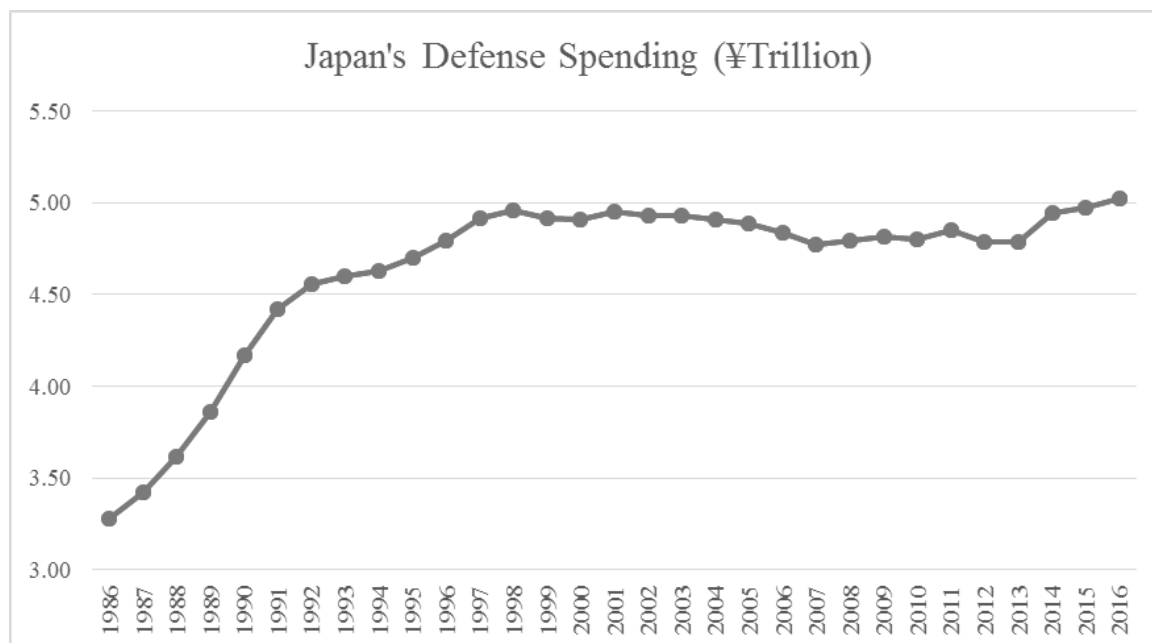


Chart 5, Source: SIPRI

The Abe administration's goal of making the alliance more symmetrical could be tripped up by the unwillingness of the ruling coalition to foot the bill for doing so. The U.S. would expect Japan to allocate more budget money, even to the point of breaking 1% of GDP cap. Japan must not only defend itself, it must under the Alliance be prepared to provide support to the U.S. when necessary in at least the Asia Pacific region in order to maintain deterrence. How much Abe during his remaining time in office can ratchet up defense spending remains an open question.

Fourth, the U.S. and Japanese forces still have not achieved a level of interoperability befitting the roles and missions of the Alliance. This is largely due to a lack of command and control structure for joint operation. According to an American defense policy analyst with Alliance experience, in order to achieve "seamless" cooperation, the Japanese and U.S. forces must be able integrate and operate jointly during a situation. The essential recipe for successful operation in a real situation is to conduct joint planning, training and exercising during peacetime. The expert noted that the level of cooperation between the U.S. Navy and the Maritime Self-Defense Force is exceptional. They are able to conduct true joint operations. However, the Air Self-Defense Force and Ground Self-Defense Force are not as well integrated with their American counterparts in part because they tend to operate separately in bilateral exercises. The level of cooperation between the ASDF and the USAF, as well as that

between the GSDF and the U.S. Army has remained inadequate. Additionally, the Japanese and American force structures are different.⁶⁴

As mentioned earlier, more cooperation on defense research and production could be one way to improve interoperability. However, those projects so far have encountered hurdles on both sides. Japanese defense firms are reluctant to move forward with joint defense research and production unless they receive strong support from the government or if the projects are backed by the government. The reason why the SM-3 Block IIA has been exceptionally successful is because the two governments fully support the project. Japanese firms remain unsure of the kinds of assurances that the government requires for third-party transfers, as they do not want to jeopardize their reputation in Japan. On the American side, the Congress places restrictions on international defense procurement, including on sales to Japan. Lastly, linkages between civilian-industry communities in the two countries are still weak.⁶⁵

Finally, both countries' domestic politics remain a challenge for U.S.-Japan defense cooperation. The management of alliance ultimately rests on the commitment of the top leaders. About a decade ago, significant progress occurred under the strong leadership of Prime Minister Koizumi. Prime Minister Abe, another strong leader, began his second time in office with a clear agenda to increase Japan's roles and missions in the Alliance. Having a planned strategy, Abe was able to implement his policy agenda, such as key security legislation and revision of the Guidelines, almost immediately.

The Prime Minister's adaptability to new circumstances, such as the surprising election of Donald Trump, has been remarkable. Abe was able to meet President Trump during the campaign and then again soon after he was elected. As a result of their good relationship, President Trump has been backing off from the criticism of Japan he made during the election campaign and now, the result is a solid American commitment to the U.S.-Japan alliance.

As Japan is going to have a general election in 2018, the Liberal Democratic Party has already amended a party rule to allow Abe to run for his third term. It remains to be seen whether Abe will win the election and continue his economic and foreign policy reforms. In the long run, the question is whether parties other than the LDP would have similar commitment on the alliance and how Japanese and American leaders can continue to increase cooperation. The 2015 Guidelines have opened up a broader range of cooperation and means of communication with the establishment of the ACM and an upgraded BPM. Although the Guidelines are not legally binding, Japan has broader policy choices to act based on the new security legislation. Now it is time to prove that it is willing to contribute more to the defense cooperation.

Conclusion

This paper, in explaining and assessing the 2015 Guidelines for U.S.-Japan Defense Cooperation, has described a Japan under the Abe administration, which is moving steadily toward Abe's goal of making Japan into a "normal country." Though not legally binding, the 2015 Guidelines, which is a basic framework for cooperation between the two countries, not only are a remarkable improvement from the earlier 1997 version, they ushered in a new period of alliance symmetry and Japanese willingness to take on more responsibilities in the bilateral security arrangements. The strengths of the current version are their flexibility and the expansion of the scope and areas of cooperation which are not limited by geography. However, public opinion, shortage of manpower, defense spending, and domestic politics remain as challenges which could undermine the successful implementation of the upgraded guidelines. Although the alliance will always be a work in progress, constantly adjusting itself to a changing security environment, Japan and America have clearly demonstrated a strong commitment to the security relationship and constant willingness to work closely together to overcome future obstacles as they surely will come along.

Appendix 1. Taken and adapted from Sadler's article.

Prime Minister Shinzo Abe's 15 scenarios

Gray zone situations:

1. A landing by an armed group on a remote island.
2. Response by JSDF units training IVO an attack on Japanese civilian shipping.
3. Prior to hostilities, response to a ballistic missile attack on a U.S. warship in waters surrounding Japan.
4. Collective Security: Response by JSDF forces participating in a UN PKO mission to defend/ rescue non-allocated PKO participating third parties. The so called 'kaketsuke-ikego'
5. Use of force by JSDF to attack hostile forces threatening PKO transport and NGO operations.
6. Rescue operations by JSDF in cases where Japanese nationals are taken captive in a third country.
7. Use of force in effecting/protecting the provision of assistance (materials) during UN mandated coalition operations.

Right of collective self-defense (in situations occurring around Japan):

1. Protection of U.S. vessels transporting Japanese nationals (example: during a noncombatant evacuation from Korean Peninsula)
2. Providing defense of U.S. support ships unable to protect themselves from attack.
3. Stopping and inspecting a non-cooperative vessel involved in supplying a belligerent.
4. Interception of a missile overflying Japanese defenses that is targeting the U.S.
5. Interception of ballistic missiles targeting U.S. warships that would compromise the defense of Japan.

6. Respond on request by U.S. to defend U.S. logistic and troop ships during Weapons of Mass Destruction attacks on the U.S. mainland.
7. When an attack occurs in sea lanes important to Japan, conduct minesweeping operations in international waters.
8. When an attack occurs in sea lanes important to Japan, participation in international efforts to protect commercial shipping.

Appendix 2.

Comparison of the 2015 Guidelines and 1997 Guidelines

Section I Aim of the Guidelines and Section II Basic Premises and Principles

2015 Guidelines	1997 Guidelines
Section I. Defense Cooperation and the Aim of the Guidelines In order to ensure Japan's peace and security under any circumstances, from peacetime to contingencies, and to promote a stable, peaceful, and prosperous Asia-Pacific region and beyond, bilateral security and defense cooperation will emphasize: • seamless, robust, flexible, and effective bilateral responses; • synergy across the two governments' national security policies; • a whole-of-government Alliance approach; • cooperation with regional and other partners, as well as international organizations; and • the global nature of the Japan-U.S. Alliance. The two governments will continuously enhance the Japan-U.S. Alliance. Each government will maintain its individual defense posture based on its national security policy. Japan will possess defense capability on the basis of the "National Security Strategy" and the "National Defense Program Guidelines". The United States will continue to extend deterrence to Japan through the full range of capabilities, including U.S. nuclear forces. The United States also will continue to forward deploy combat-ready forces in the Asia-Pacific region and maintain the ability to reinforce those forces rapidly. The Guidelines for Japan-U.S. Defense Cooperation ("the Guidelines") provide the general framework and policy direction for the roles and missions of Japan and the United States, as well as ways of cooperation and coordination, with a view to improving the effectiveness of bilateral security and defense cooperation. In this way, the Guidelines advance peace and security, deter conflict, secure the basis for economic prosperity, and promote domestic and international understanding of the significance of the Japan-U.S. Alliance.	Section I. The Aim of the Guidelines The aim of these Guidelines is to create a solid basis for more effective and credible U.S.-Japan cooperation under normal circumstances, in case of an armed attack against Japan, and in situations in areas surrounding Japan. The Guidelines also provided a general framework and policy direction for the roles and missions of the two countries and ways of cooperation and coordination, both under normal circumstances and during contingencies.

2015 Guidelines	1997 Guidelines
Section II. Basic Premises and Principles The Guidelines, as well as actions and activities under the Guidelines, are and will be consistent with the following basic premises and principles. A. The rights and obligations under the Treaty of Mutual Cooperation and Security between Japan and the United States of America (the Japan-U.S. Security Treaty) and its related arrangements, as well as the fundamental framework of the Japan-U.S. Alliance, will remain unchanged. B. All actions and activities undertaken by Japan and the United States under the Guidelines will be consistent with international law, including the Charter of the United Nations and its provisions regarding the peaceful settlement of disputes and sovereign equality of States, as well as other relevant international agreements. C. All actions and activities undertaken by Japan and the United States will be in accordance with their respective constitutions, laws, and regulations then in effect, and basic positions on national security policy. Japan will conduct actions and activities in accordance with its basic positions, such as the maintenance of its exclusively national defense-oriented policy and its three non-nuclear principles. D. The Guidelines do not obligate either government to take legislative, budgetary, administrative, or other measures, nor do the Guidelines create legal rights or obligations for either government. Since the objective of the Guidelines, however, is to establish an effective framework for bilateral cooperation, the two governments are expected to reflect in an appropriate way the results of these efforts, based on their own judgment, in their specific policies and measures.	Section II. Basic Premises and Principles The Guidelines and programs under the Guidelines are consistent with the following basic premises and principles. 1. The rights and obligations under the Treaty of Mutual Cooperation and Security between the United States of America and Japan (the U.S.-Japan Security Treaty) and its related arrangements, as well as the fundamental framework of the U.S.-Japan alliance, will remain unchanged. 2. Japan will conduct all its actions within the limitations of its Constitution and in accordance with such basic positions as the maintenance of its exclusively defense-oriented policy and its three non-nuclear principles. 3. All actions taken by the United States and Japan will be consistent with basic principles of international law, including the peaceful settlement of disputes and sovereign equality, and relevant international agreements such as the Charter of the United Nations. 4. The Guidelines and programs under the Guidelines will not obligate either Government to take legislative, budgetary or administrative measures. However, since the objective of the Guidelines and programs under the Guidelines is to establish an effective framework for bilateral cooperation, the two Governments are expected to reflect in an appropriate way the results of these efforts, based on their own judgments, in their specific policies and measures. All actions taken by Japan will be consistent with its laws and regulations then in effect.

Section 3 Strengthened Alliance Coordination

2015 Guidelines	1997 Guidelines
Section III. Strengthened Alliance Coordination Effective bilateral cooperation under the Guidelines will require the two governments to conduct close, consultative dialogue and sound policy and operational coordination from peacetime to contingencies. The two governments must be well informed and coordinate at multiple levels to ensure successful bilateral security and defense cooperation. To that end, the two governments will take advantage of all available channels to enhance information sharing and to ensure seamless and effective whole-of-government Alliance coordination that includes all relevant agencies. For this purpose, the two governments will establish a new, standing Alliance Coordination Mechanism, enhance operational coordination, and strengthen bilateral planning. A. Alliance Coordination Mechanism Persistent and emerging threats can have a serious and immediate impact on the peace and security of Japan and the United States. In order to address seamlessly and effectively any situation that affects Japan's peace and security or any other situation that may require an Alliance response, the two governments will utilize the Alliance Coordination Mechanism. This mechanism will strengthen policy and operational coordination related to activities conducted by the Self-Defense Forces and the United States Armed Forces in all phases from peacetime to contingencies. This mechanism also will contribute to timely information sharing as well as the development and maintenance of common situational awareness. To ensure effective coordination, the two governments will establish necessary procedures and infrastructure (including facilities as well as information and communication systems) and conduct regular training and exercises. The two governments will tailor to the situation the procedures for coordination as well as the exact composition of participating agencies within the Alliance Coordination Mechanism structure. As part of these procedures, contact information will be shared and maintained from peacetime.	Section VI. Bilateral Programs for Effective Defense Cooperation under the Guidelines Effective bilateral cooperation under the Guidelines will require the United States and Japan to conduct consultative dialogue throughout the spectrum of security conditions: normal circumstances, an armed attack against Japan, and situations in areas surrounding Japan. Both sides must be well informed and coordinate at multiple levels to ensure successful bilateral defense cooperation. To accomplish this, the two Governments will strengthen their information and intelligence sharing and policy consultations by taking advantage of all available opportunities, including SCC and SSC meetings, and they will establish the following two mechanisms to facilitate consultations, coordinate policies, and coordinate operational functions. First, the two Governments will develop a comprehensive mechanism for bilateral planning and the establishment of common standards and procedures, involving not only U.S. Forces and the Self-Defense Forces but also other relevant agencies of their respective Governments. The two Governments will, as necessary, improve this comprehensive mechanism. The SCC will continue to play an important role for presenting policy direction to the work to be conducted by this mechanism. The SCC will be responsible for presenting directions, validating the progress of work, and issuing directives as necessary. The SDC will assist the SCC in bilateral work. Second, the two Governments will also establish, under normal circumstances, a bilateral coordination mechanism that will include relevant agencies of the two countries for coordinating respective activities during contingencies 1. Bilateral Work for Planning and the Establishment of Common Standards and Procedures Bilateral work listed below will be conducted in a comprehensive mechanism involving relevant agencies of the respective Governments in a deliberate and efficient manner. Progress and results of such work will be reported at significant

2015 Guidelines	1997 Guidelines
B. Enhanced Operational Coordination Enhanced bilateral operational coordination for flexible and responsive command and control is a core capability of critical importance to Japan and the United States. In this context, the two governments recognize the continued importance of collocating operational coordination functions to strengthen cooperation between the Self-Defense Forces and the United States Armed Forces. The Self-Defense Forces and the United States Armed Forces will exchange personnel to ensure robust information sharing, to facilitate coordination from peacetime to contingencies, and to support international activities. The Self-Defense Forces and the United States Armed Forces, in close cooperation and coordination, will take action through their respective chains-of-command. C. Bilateral Planning The two governments will continue to develop and update bilateral plans to ensure smooth and effective execution of coordinated operations by the Self-Defense Forces and the United States Armed Forces. To ensure the effectiveness of the plans and the ability to make flexible, timely, and appropriate responses, the two governments will exchange relevant information, including identifying operational and logistic support requirements and sources in advance, as appropriate. The two governments will conduct bilateral planning in peacetime for contingencies relevant to Japan's peace and security through an upgraded Bilateral Planning Mechanism, which includes relevant agencies of the respective governments. Bilateral plans will be developed with input from relevant agencies, as appropriate. The Security Consultative Committee (SCC) will continue to be responsible for presenting directions, validating the progress of the planning under the mechanism, and issuing directives as necessary. The SCC will be assisted by an appropriate subordinate body. Bilateral plans are to be reflected appropriately in the plans of both governments.	milestones to the SCC and the SDC. (1) Bilateral Defense Planning and Mutual Cooperation Planning U.S. Forces and the Self-Defense Forces will conduct bilateral defense planning under normal circumstances to take coordinated actions smoothly and effectively in case of an armed attack against Japan. The two Governments will conduct mutual cooperation planning under normal circumstances to be able to respond smoothly and effectively to situations in areas surrounding Japan. Bilateral defense planning and mutual cooperation planning will assume various possible situations, with the expectation that results of these efforts will be appropriately reflected in the plans of the two Governments. The two Governments will coordinate and adjust their plans in light of actual circumstances. The two Governments will be mindful that bilateral defense planning and mutual cooperation planning must be consistent so that appropriate responses will be ensured when a situation in areas surrounding Japan threatens to develop into an armed attack against Japan or when such a situation and an armed attack against Japan occur simultaneously. (2) Establishment of Common Standards for Preparations The two Governments will establish under normal circumstances common standards for preparations for the defense of Japan. These standards will address such matters as intelligence activities, unit activities, movements and logistics support in each readiness stage. When an armed attack against Japan is imminent, both Governments will agree to select a common readiness stage that will be reflected in the level of preparations for the defense of Japan by U.S. Forces, the Self-Defense Forces and other relevant agencies. The two Governments will similarly establish common standards for preparations of cooperative measures in situations in areas surrounding Japan so that they may select a common readiness stage by mutual agreement.

2015 Guidelines	1997 Guidelines
	(3) Establishment of Common Procedures The two Governments will prepare in advance common procedures to ensure smooth and effective execution of coordinated U.S. Forces and Self-Defense Forces operations for the defense of Japan. These will include procedures for communications, transmission of target information, intelligence activities and logistics support, and prevention of fratricide. Common procedures will also include criteria for properly controlling respective unit operations. The two Forces will take into account the importance of communications and electronics interoperability, and will determine in advance their mutual requirements. 2. Bilateral Coordination Mechanism The two Governments will establish under normal circumstances a bilateral coordination mechanism involving relevant agencies of the two countries to coordinate respective activities in case of an armed attack against Japan and in situations in areas surrounding Japan. Procedures for coordination will vary depending upon items to be coordinated and agencies to be involved. They may include coordination committee meetings, mutual dispatch of liaison officers, and designation of points of contacts. As part of such a bilateral coordination mechanism, U.S. Forces and the Self-Defense Forces will prepare under normal circumstances a bilateral coordination center with the necessary hardware and software in order to coordinate their respective activities.

Section 4 Seamlessly Ensuring Japan's Peace and Security

2015 Guidelines	1997 Guidelines
Section IV. Seamlessly Ensuring Japan's Peace and Security Persistent and emerging threats can have a serious and immediate impact on Japan's peace and security. In this increasingly complex security environment, the two governments will take measures to ensure Japan's peace and security in all phases, seamlessly, from peacetime to contingencies, including situations when an armed attack against Japan is not involved. In this context, the two governments also will promote further cooperation with partners. The two governments recognize that these measures need to be taken based on flexible, timely, and effective bilateral coordination tailored to each situation and that interagency coordination is essential for appropriate Alliance responses. Therefore, the two governments will utilize the whole-of-government Alliance Coordination Mechanism, as appropriate, to: • assess the situation; • share information; and • develop ways to implement the appropriate Alliance response, including flexible deterrent options, as well as actions aimed at de-escalation. To support these bilateral efforts, the two governments also will coordinate strategic messaging through appropriate channels on issues that could potentially affect Japan's peace and security. Section IV. Part A Cooperative Measures from Peacetime In order to ensure the maintenance of Japan's peace and security, the two governments will promote cooperation across a wide range of areas, including through diplomatic efforts, to strengthen the deterrence and capabilities of the Japan-U.S. Alliance.	Noted that this part of the Guidelines are significantly rewritten. The 2015 Guidelines took section III, section IV and section V of the 1997 Guidelines and then re-categorized contingencies. Comparison below cannot be taken as exact. Only Section IV. Of the 2015 Guidelines can be argued that it is similar to section IV of the 1997 Guidelines. Section III. Cooperation under Normal Circumstances Both Governments will firmly maintain existing U.S.-Japan security arrangements. Each Government will make efforts to maintain required defense postures. Japan will possess defense capability within the scope necessary for self-defense on the basis of the "National Defense Program Outline." In order to meet its commitments, the United States will maintain its nuclear deterrent capability, its forward deployed

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The Self-Defense Forces and the United States Armed Forces will enhance interoperability, readiness, and vigilance to prepare for all possible situations. To these ends, the two governments will take measures, including, but not limited to, the following: Intelligence, Surveillance, and Reconnaissance In order to identify at the earliest possible stage any indications of threats to Japan's peace and security and to ensure a decisive advantage in intelligence gathering and analysis, the two governments will share and protect information and intelligence, while developing and maintaining common situational awareness. This will include enhancing coordination and cooperation among relevant agencies. The Self-Defense Forces and the United States Armed Forces will conduct intelligence, surveillance, and reconnaissance (ISR) activities based on the capabilities and availability of their respective assets. This will include conducting bilateral ISR activities in a mutually supportive manner to ensure persistent coverage of developments that could affect Japan's peace and security. Air and Missile Defense The Self-Defense Forces and the United States Armed Forces will maintain and strengthen deterrence and their defense postures against ballistic missile launches and aerial incursions. The two governments will cooperate to expand early warning capabilities, interoperability, network coverage, and real-time information exchange and to pursue the comprehensive improvement of capabilities to respond to the threat of ballistic missiles. Moreover, the two governments will continue to coordinate closely in responding to provocative missile launches and other aerial activities. Maritime Security The two governments will cooperate closely with each other on measures to maintain maritime order based upon international law, including freedom of navigation. The Self-Defense Forces and the United States Armed Forces will cooperate, as appropriate, on various efforts such as maintaining and enhancing bilateral presence in the maritime domain through ISR and training and exercises, while further developing and enhancing shared maritime domain	forces in the Asia-Pacific region, and other forces capable of reinforcing those forward deployed forces. Both Governments, based on their respective policies, under normal circumstances will maintain close cooperation for the defense of Japan as well as for the creation of a more stable international security environment. Both Governments will under normal circumstances enhance cooperation in a variety of areas. Examples include mutual support activities under the Agreement between the Government of Japan and the Government of the United States of America concerning Reciprocal Provision of Logistic Support, Supplies and Services between the Self-Defense Forces of Japan and the Armed Forces of the United States of America; the Mutual Defense Assistance Agreement between the United States of America and Japan; and their related arrangements. Information Sharing and Policy Consultations Recognizing that accurate information and sound analysis are at the foundation of security, the two Governments will increase information and intelligence sharing, and the exchange of views on international situations of mutual interest, especially in the Asia-Pacific region. They will also continue close consultations on defense policies and military postures. Such information sharing and policy consultations will be conducted at as many levels as possible and on the broadest range of subjects. This will be accomplished by taking advantage of all available opportunities, such as SCC and Security Sub-Committee (SSC) meetings. Various Types of Security Cooperation Bilateral cooperation to promote regional and global activities in the field of security contributes to the creation of a more stable international security environment.

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awareness including by coordinating with relevant agencies, as necessary. 4. Asset Protection The Self-Defense Forces and the United States Armed Forces will provide mutual protection of each other's assets, as appropriate, if engaged in activities that contribute to the defense of Japan in a cooperative manner, including during training and exercises. 5. Training and Exercises The Self-Defense Forces and the United States Armed Forces will conduct effective bilateral and multilateral training and exercises both inside and outside of Japan in order to strengthen interoperability, sustainability, and readiness. Timely and realistic training and exercises will enhance deterrence. To support these activities, the two governments will cooperate to ensure that training areas, facilities, and associated equipment are available, accessible, and modern. 6. Logistic Support Japan and the United States are primarily responsible for providing logistic support for their respective forces in all phases. The Self-Defense Forces and the United States Armed Forces will provide mutual logistic support where appropriate, including, but not limited to, supply, maintenance, transportation, engineering, and medical services, for such activities as set forth in the Agreement between the Government of Japan and the Government of the United States of America Concerning Reciprocal Provision of Logistic Support, Supplies and Services between the Self-Defense Forces of Japan and the Armed Forces of the United States of America (the Acquisition and Cross-Servicing Agreement) and its related arrangements. 7. Use of Facilities In order to expand interoperability and improve flexibility and resiliency of the Self-Defense Forces and the United States Armed Forces, the two governments will enhance joint/shared use and cooperate in ensuring the security of facilities and areas. Recognizing the importance of being prepared for contingencies, the two governments also will cooperate in conducting site surveys on facilities including civilian airports and seaports, as appropriate.	Recognizing the importance and significance of security dialogues and defense exchanges in the region, as well as international arms control and disarmament, the two Governments will promote such activities and cooperate as necessary. When either or both Governments participate in United Nations peacekeeping operations or international humanitarian relief operations, the two sides will cooperate closely for mutual support as necessary. They will prepare procedures for cooperation in such areas as transportation, medical services, information sharing, and education and training. When either or both Governments conduct emergency relief operations in response to requests from governments concerned or international organizations in the wake of large-scale disasters, they will cooperate closely with each other as necessary. 3. Bilateral Programs Both Governments will conduct bilateral work, including bilateral defense planning in case of an armed attack against Japan, and mutual cooperation planning in situations in areas surrounding Japan. Such efforts will be made in a comprehensive mechanism involving relevant agencies of the respective Governments, and establish the foundation for bilateral cooperation. Bilateral exercises and training will be enhanced in order not only to validate such bilateral work but also to enable smooth and effective responses by public and private entities of both countries, starting with U.S. Forces and the Self-Defense Forces. The two Governments will under normal circumstances establish a bilateral coordination mechanism involving relevant agencies to be operated during contingencies. Section V. Cooperation in Situations in Areas Surrounding Japan That Will Have an Important Influence on Japan's Peace and Security (Situations in Areas Surrounding Japan) Situations in areas surrounding Japan will have an important influence on Japan's

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Section IV. Part B Responses to Emerging Threats to Japan's Peace and Security The Alliance will respond to situations that will have an important influence on Japan's peace and security. Such situations cannot be defined geographically. The measures described in this section include those that may be taken, in accordance with the two countries' respective laws and regulations, in circumstances that have not yet amounted to such a situation. Early recognition and adaptable, resolute decision-making on bilateral actions will contribute to deterrence and de-escalation of such situations. In addition to continuing cooperative measures from peacetime, the two governments will pursue all avenues, including diplomatic efforts, to ensure the peace and security of Japan. Utilizing the Alliance Coordination Mechanism, the two governments will take additional measures, based on their own decisions, including, but not limited to, those listed below. 1. Noncombatant Evacuation Operations When Japanese and U.S. noncombatants need to be evacuated from a third country to a safe haven, each government is responsible for evacuating its own nationals, as well as dealing with the authorities of the affected area. As appropriate, the two governments will coordinate in planning and cooperate in carrying out evacuations of Japanese or U.S. noncombatants. These evacuations will be carried out using each country's capabilities such as transportation means and facilities in a mutually supplementary manner. The two governments may each consider extending evacuation assistance to third-country noncombatants. The two governments will conduct early-stage coordination through the Alliance Coordination Mechanism, as appropriate, to carry out cooperation in fields such as the safety of evacuees, transportation means and facilities, customs, immigration and quarantine processing, safe havens, and medical services. The two governments will enhance coordination in noncombatant evacuation operations from peacetime, as appropriate, including by conducting training and exercises. 2. Maritime Security	peace and security. The concept, situations in areas surrounding Japan, is not geographic but situational. The two Governments will make every effort, including diplomatic efforts, to prevent such situations from occurring. When the two Governments reach a common assessment of the state of each situation, they will effectively coordinate their activities. In responding to such situations, measures taken may differ depending on circumstances. 1. When a Situation in Areas Surrounding Japan is Anticipated When a situation in areas surrounding Japan is anticipated, the two Governments will intensify information and intelligence sharing and policy consultations, including efforts to reach a common assessment of the situation. At the same time, they will make every effort, including diplomatic efforts, to prevent further deterioration of the situation, while initiating at an early stage the operation of a bilateral coordination mechanism, including use of a bilateral coordination center. Cooperating as appropriate, they will make preparations necessary for ensuring coordinated responses according to the readiness stage selected by mutual agreement. As circumstances change, they will also increase intelligence gathering and surveillance, and enhance their readiness to respond to the circumstances. 2. Responses to Situations in Areas Surrounding Japan The two Governments will take appropriate measures, to include preventing further deterioration of situations, in response to situations in areas surrounding Japan. This will be done in accordance with the basic premises and principles listed in Section II above and based on their respective decisions. They will support each other as necessary in accordance with appropriate arrangements.

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Taking into account their respective capabilities, the two governments will cooperate closely to enhance maritime security. Cooperative measures may include, but are not limited to, information sharing and inspection of ships based on a United Nations Security Council resolution or other basis under international law. 3. Measures to Deal with Refugees If a situation develops such that a flow of refugees into Japan becomes likely or actually begins, the two governments will cooperate to maintain Japan's peace and security while handling refugees in a humane manner consistent with applicable obligations under international law. Primary responsibility for such refugee response lies with Japan. The United States will provide appropriate support upon a request from Japan. 4. Search and Rescue The two governments will cooperate and provide mutual support, as appropriate, in search and rescue operations. The Self-Defense Forces, in cooperation with relevant agencies, will provide support to combat search and rescue operations by the United States, where appropriate, subject to Japanese laws and regulations. 5. Protection of Facilities and Areas The Self-Defense Forces and the United States Armed Forces are responsible for protecting their own facilities and areas in cooperation with relevant authorities. Upon request from the United States, Japan will provide additional protection for facilities and areas in Japan in close cooperation and coordination with the United States Armed Forces. 6. Logistic Support The two governments will enhance mutual logistic support (which includes, but is not limited to, supply, maintenance, transportation, engineering, and medical services), as appropriate, to enable effective and efficient operations. This includes rapid validation and resourcing of operational and logistic support requirements. The Government of Japan will make appropriate use of the authorities and assets of central and local government agencies as well as private sector assets. The Government of Japan will provide logistic or other associated support where appropriate, subject to Japanese laws and regulations.	Functions and fields of cooperation and examples of items of cooperation are outlined below, and listed in the Annex. <i>(1) Cooperation in Activities Initiated by Either Government</i> a. <u>Relief Activities and measures to Deal with Refugees</u> Each Government will conduct relief activities with the consent and cooperation of the authorities in the affected area. The two Governments will cooperate as necessary, taking into account their respective capabilities. The two Governments will cooperate in dealing with refugees as necessary. When there is a flow of refugees into Japanese territory, Japan will decide how to respond and will have primary responsibility for dealing with the flow; the United States will provide appropriate support. b. <u>Search and Rescue</u> The two Governments will cooperate in search and rescue operations. Japan will conduct search and rescue operations in Japanese territory; and at sea around Japan, as distinguished from areas where combat operations are being conducted. When U.S. Forces are conducting operations, the United States will conduct search and rescue operations in and near the operational areas. c. <u>Noncombatant Evacuation Operations</u> When the need arises for U.S. and Japanese noncombatants to be evacuated from a third country to a safe haven, each Government is responsible for evacuating its own nationals as well as for dealing with the authorities of the affected area. In instances in which each decides it is appropriate, the two Governments will coordinate in planning and cooperate in carrying out their evacuations, including for

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7. Use of Facilities The Government of Japan will provide, as needed, temporary use of facilities, including civilian airports and seaports, in accordance with the Japan-U.S. Security Treaty and its related arrangements. The two governments will enhance cooperation in joint/shared use of facilities and areas.	the securing of transportation means, transportation and the use of facilities, using their respective capabilities in a mutually supplementary manner. If similar need arises for noncombatants other than of U.S. or Japanese nationality, the respective countries may consider extending, on their respective terms, evacuation assistance to third country nationals. d. <u>Activities for Ensuring the Effectiveness of Economic Sanctions for the Maintenance of International Peace and Stability</u> Each Government will contribute to activities for ensuring the effectiveness of economic sanctions for the maintenance of international peace and stability. Such contributions will be made in accordance with each Government's own criteria. Additionally, the two Governments will cooperate with each other as appropriate, taking into account their respective capabilities. Such cooperation includes information sharing, and cooperation in inspection of ships based on United Nations Security Council resolutions. (2) <i>Japan's Support for U.S. Forces Activities</i> a. <u>Use of Facilities</u> Based on the U.S.-Japan Security Treaty and its related arrangements, Japan will, in case of need, provide additional facilities and areas in a timely and appropriate manner, and ensure the temporary use by U.S. Forces of Self-Defense Forces facilities and civilian airports and ports. b. <u>Rear Area Support</u> Japan will provide rear area support to those U.S. Forces that are conducting operations for the purpose of achieving the objectives of the U.S.-Japan Security Treaty. The primary aim of this rear area support is to enable U.S. Forces to use facilities and conduct operations in an effective manner. By its very nature, Japan's rear area support will be provided primarily in Japanese territory. It may also be provided on the high seas and international airspace around Japan which are distinguished from areas where combat operations are being conducted.

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	In providing rear area support, Japan will make appropriate use of authorities and assets of central and local government agencies, as well as private sector assets. The Self-Defense Forces, as appropriate, will provide such support consistent with their mission for the defense of Japan and the maintenance of public order. (3) <i>U.S.-Japan Operational Cooperation</i> As situations in areas surrounding Japan have an important influence on Japan's peace and security, the Self-Defense Forces will conduct such activities as intelligence gathering, surveillance and minesweeping, to protect lives and property and to ensure navigational safety. U.S. Forces will conduct operations to restore the peace and security affected by situations in areas surrounding Japan. With the involvement of relevant agencies, cooperation and coordination will significantly enhance the effectiveness of both Forces' activities.
Section IV. Part C Actions in Response to an Armed Attack against Japan Bilateral actions in response to an armed attack against Japan remain a core aspect of Japan-U.S. security and defense cooperation. When an armed attack against Japan is anticipated, the two governments will take steps to deter the armed attack and to de-escalate the situation, while making preparations necessary for the defense of Japan. When an armed attack against Japan occurs, the two governments will conduct appropriate bilateral actions to repel it at the earliest possible stage and to deter any further attacks. The two governments also will take necessary measures including those	Section IV. Actions in Response to an Armed Attack against Japan Bilateral actions in response to an armed attack against Japan remain a core aspect of U.S.-Japan defense cooperation. When an armed attack against Japan is imminent, the two Governments will take steps to prevent further deterioration of the situation and make preparations necessary for the defense of Japan. When an armed attack against Japan takes place, the two Governments will conduct appropriate bilateral actions to repel it at the earliest possible stage. 1. When an Armed Attack against Japan is Imminent

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listed earlier in Chapter IV. 1. When an Armed Attack against Japan is Anticipated When an armed attack against Japan is anticipated, the two governments will intensify, through a comprehensive and robust whole-of-government approach, information and intelligence sharing and policy consultations, and will pursue all avenues, including diplomatic efforts, to deter the attack and to de-escalate the situation. The Self-Defense Forces and the United States Armed Forces will assume appropriate postures for bilateral operations, including the execution of necessary deployments. Japan will establish and maintain the basis for its support of U.S. deployments. The preparations by the two governments may include, but would not be limited to: joint/shared use of facilities and areas; mutual logistic support, including, but not limited to, supply, maintenance, transportation, engineering, and medical services; and reinforced protection of U.S. facilities and areas in Japan. 2. When an Armed Attack against Japan Occurs <i>a. Principles for Coordinated Actions</i> If an armed attack against Japan occurs despite diplomatic efforts and deterrence, Japan and the United States will cooperate to repel promptly the attack and deter any further attacks to return peace and security to Japan. Such coordinated actions will contribute to the reestablishment of peace and security in the region. Japan will maintain primary responsibility for defending the citizens and territory of Japan and will take actions immediately to repel an armed attack against Japan as expeditiously as possible. The Self-Defense Forces will have the primary responsibility to conduct defensive operations in Japan and its surrounding waters and airspace, as well as its air and maritime approaches. The United States will coordinate closely with Japan and provide appropriate support. The United States Armed Forces will support and supplement	The two Governments will intensify information and intelligence sharing and policy consultations, and initiate at an early stage the operation of a bilateral coordination mechanism. Cooperating as appropriate, they will make preparations necessary for ensuring coordinated responses according to the readiness stage selected by mutual agreement. Japan will establish and maintain the basis for U.S. reinforcements. As circumstances change, the two Governments will also increase intelligence gathering and surveillance, and will prepare to respond to activities which could develop into an armed attack against Japan. The two Governments will make every effort, including diplomatic efforts, to prevent further deterioration of the situation. Recognizing that a situation in areas surrounding Japan may develop into an armed attack against Japan, the two Governments will be mindful of the close interrelationship of the two requirements: preparations for the defense of Japan and responses to or preparations for situations in areas surrounding Japan. 2. When an Armed Attack against Japan Takes Place <i>(1) Principles for Coordinated Bilateral Actions</i> a. Japan will have primary responsibility immediately to take action and to repel an armed attack against Japan as soon as possible. The United States will provide appropriate support to Japan. Such bilateral cooperation may vary according to the scale, type, phase, and other factors of the armed attack. This cooperation may include preparations for and execution of coordinated bilateral operations, steps to prevent further deterioration of the situation, surveillance, and intelligence sharing. b. In conducting bilateral operations, U.S. Forces and the Self-Defense Forces will employ their respective defense capabilities in a coordinated, timely, and effective manner. In doing this, they will conduct effective joint operations of their

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the Self-Defense Forces to defend Japan. The United States will take actions to shape the regional environment in a way that supports the defense of Japan and reestablishes peace and security. Recognizing that all instruments of national power will be required to defend Japan, the two governments respectively will employ a whole-of-government approach, utilizing their respective chains-of-command, to coordinate actions through the Alliance Coordination Mechanism. The United States will employ forward-deployed forces, including those stationed in Japan, and introduce reinforcements from elsewhere, as required. Japan will establish and maintain the basis required to facilitate these deployments. The two governments will take actions as appropriate to provide defense of each other's forces and facilities in response to an armed attack against Japan. <i>b. Concept of Operations</i> i. <u>Operations to Defend Airspace</u> The Self-Defense Forces and the United States Armed Forces will conduct bilateral operations to defend airspace above and surrounding Japan. The Self-Defense Forces will have primary responsibility for conducting air defense operations while ensuring air superiority. For this purpose, the Self-Defense Forces will take necessary actions, including, but not limited to, defense against attacks by aircraft and cruise missiles. The United States Armed Forces will conduct operations to support and supplement the Self-Defense Forces' operations. ii. <u>Operations to Counter Ballistic Missile Attacks</u> The Self-Defense Forces and the United States Armed Forces will conduct bilateral operations to counter ballistic missile attacks against Japan.	respective Forces' ground, maritime and air services. The Self-Defense Forces will primarily conduct defensive operations in Japanese territory and its surrounding waters and airspace, while U.S. Forces support Self-Defense Forces' operations. U.S. Forces will also conduct operations to supplement the capabilities of the Self-Defense Forces. c. The United States will introduce reinforcements in a timely manner, and Japan will establish and maintain the basis to facilitate these deployments. (2) <i>Concept of Operations</i> a. <u>Operations to Counter Air Attack against Japan</u> U.S. Forces and the Self-Defense Forces will bilaterally conduct operations to counter air attack against Japan. The Self-Defense Forces will have primary responsibility for conducting operations for air defense. U.S. Forces will support Self-Defense Forces' operations and conduct operations, including those which may involve the use of strike power, to supplement the capabilities of the Self-Defense Forces. b. <u>Operations to Defend Surrounding Waters and to Protect Sea Lines of Communication</u> U.S. Forces and the Self-Defense Forces will bilaterally conduct operations for the defense of surrounding waters and for the protection of sea lines of communication. The Self-Defense Forces will have primary responsibility for the protection of major ports and straits in Japan, for the protection of ships in surrounding waters, and for other operations.

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The Self-Defense Forces and the United States Armed Forces will exchange real-time information for early detection of ballistic missile launches. When there is an indication of a ballistic missile attack, the Self-Defense Forces and the United States Armed Forces will maintain an effective posture to defend against ballistic missile attacks heading for Japan and to protect forces participating in ballistic missile defense operations. The Self-Defense Forces will have primary responsibility for conducting ballistic missile defense operations to defend Japan. The United States Armed Forces will conduct operations to support and supplement the Self-Defense Forces' operations. iii. <u>Operations to Defend Maritime Areas</u> The Self-Defense Forces and the United States Armed Forces will conduct bilateral operations to defend waters surrounding Japan and to secure the safety of sea lines of communication. The Self-Defense Forces will have primary responsibility for the protection of major ports and straits in Japan and of ships and vessels in waters surrounding Japan and for other associated operations. For this purpose, the Self-Defense Forces will take necessary actions, including, but not limited to, coastal defense, anti-surface warfare, anti-submarine warfare, mine warfare, anti-air warfare, and air interdiction. The United States Armed Forces will conduct operations to support and supplement the Self-Defense Forces' operations. The Self-Defense Forces and the United States Armed Forces will cooperate in the interdiction of shipping activities providing support to adversaries involved in the armed attack. The effectiveness of these activities will be enhanced through information	U.S. Forces will support Self-Defense Forces' operations and conduct operations, including those which may provide additional mobility and strike power, to supplement the capabilities of the Self-Defense Forces. c. <u>Operations to Counter Airborne and Seaborne Invasions of Japan</u> U.S. Forces and the Self-Defense Forces will bilaterally conduct operations to counter airborne and seaborne invasions of Japan. The Self-Defense Forces will have primary responsibility for conducting operations to check and repel such invasions. U.S. Forces will primarily conduct operations to supplement the capabilities of the Self-Defense Forces. The United States will introduce reinforcements at the earliest possible stage, according to the scale, type, and other factors of the invasion, and will support Self-Defense Forces' operations. d. <u>Responses to Other Threats</u> i. The Self-Defense Forces will have primary responsibility to check and repel guerrilla-commando type attacks or any other unconventional attacks involving military infiltration in Japanese territory at the earliest possible stage. They will cooperate and coordinate closely with relevant agencies, and will be supported in appropriate ways by U.S. Forces depending on the situation. ii. U.S. Forces and the Self-Defense Forces will cooperate and coordinate closely to respond to a ballistic missile attack. U.S. Forces will provide Japan with necessary intelligence, and consider, as necessary, the Use of forces providing additional strike power. (3) <i>Activities and Requirements for Operations</i> a. Command and Coordination. U.S. Forces and the Self-Defense Forces, in

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sharing and other forms of cooperation among relevant agencies.	close cooperation, will take action through their respective command-and-control channels. To conduct effective bilateral operations, the two Forces will establish, in advance, procedures which include those to determine the division of roles and missions and to synchronize their operations.
iv. <u>Operations to Counter Ground Attacks</u>	b. Bilateral Coordination Mechanism. Necessary coordination among the relevant agencies of the two countries will be conducted through a bilateral coordination mechanism. In order to conduct effective bilateral operations, U.S. Forces and the Self-Defense forces will closely coordinate operations, intelligence activities, and logistics support through this coordination mechanism including use of a bilateral coordination center.
The Self-Defense Forces and the United States Armed Forces will conduct bilateral operations to counter ground attacks against Japan by ground, air, maritime, or amphibious forces. The Self-Defense Forces will have primary responsibility for conducting operations to prevent and repel ground attacks, including those against islands. If the need arises, the Self-Defense Forces will conduct operations to retake an island. For this purpose, the Self-Defense Forces will take necessary actions, including, but not limited to, operations to prevent and repel airborne and seaborne invasions, amphibious operations, and rapid deployment.	c. Communications and Electronics. The two Governments will provide mutual support to ensure effective use of communications and electronics capabilities.
The Self-Defense Forces, in cooperation with relevant agencies, also will have primary responsibility for defeating attacks by special operations forces or any other unconventional attacks in Japan, including those that involve infiltration.	d. Intelligence Activities. The two Governments will cooperate in intelligence activities in order to ensure effective bilateral operations. This will include coordination of requirements, collection, production, and dissemination of intelligence products. Each Government will be responsible for the security of shared intelligence.
The United States Armed Forces will conduct operations to support and supplement the Self-Defense Forces' operations.	e. Logistics Support Activities. U.S. Forces and the Self-Defense Forces will conduct logistics support activities efficiently and properly in accordance with appropriate bilateral arrangements. To improve the effectiveness of logistics and to alleviate functional shortfalls, the two Governments will undertake mutual support activities, making appropriate use of authorities and assets of central and local government agencies, as well as private sector assets. Particular attention will be paid to the following points in conducting such activities:
v. <u>Cross-Domain Operations</u>	i. Supply. The United States will support the acquisition of supplies for systems of U.S. origin while Japan will support the acquisition of supplies in Japan.
The Self-Defense Forces and the United States Armed Forces will conduct bilateral operations across domains to repel an armed attack against Japan and to deter further attacks. These operations will be designed to achieve effects across multiple domains simultaneously.	ii. Transportation. The two Governments will closely cooperate in transportation operations, including airlift and seallift of supplies
Examples of cooperation across domains include the actions described below.	
The Self-Defense Forces and the United States Armed Forces, in	

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cooperation with relevant agencies, as appropriate, will strengthen their respective ISR postures, enhance the sharing of intelligence, and provide protection for each other's ISR assets. The United States Armed Forces may conduct operations involving the use of strike power, to support and supplement the Self-Defense Forces. When the United States Armed Forces conduct such operations, the Self-Defense Forces may provide support, as necessary. These operations will be based on close bilateral coordination, as appropriate. The two governments will cooperate to address threats in the space and cyberspace domains in accordance with bilateral cooperation set out in Chapter VI. The Self-Defense Forces and the United States Armed Forces' special operations forces will cooperate during operations, as appropriate. c. <i>Operational Support Activities</i> The two governments will cooperate in the following activities in support of bilateral operations. i. <u>Communications and Electronics</u> The two governments will provide mutual support to ensure effective use of communications and electronics capabilities, as appropriate. The Self-Defense Forces and the United States Armed Forces will ensure effective communication between the two forces and maintain a common operational picture for bilateral operations under common situational awareness. ii. <u>Search and Rescue</u> The Self-Defense Forces and the United States Armed Forces, in cooperation with relevant agencies, will cooperate and provide mutual support in search and rescue operations, including combat search and rescue, as appropriate.	from the United States to Japan. iii. Maintenance. Japan will support the maintenance of U.S. Forces' equipment in Japan; the United States will support the maintenance of items of U.S. origin which are beyond Japanese maintenance capabilities. Maintenance support will include the technical training of maintenance personnel as required. Japan will also support U.S. Forces' requirement for salvage and recovery. iv. Facilities. Japan will, in case of need, provide additional facilities and areas in accordance with the U.S.-Japan Security Treaty and its related arrangements. If necessary for effective and efficient operations, U.S. Forces and the Self-Defense Forces will make joint use of Self-Defense Forces facilities and U.S. facilities and areas in accordance with the Treaty and its related arrangements. v. Medical Services. The two Governments will support each other in the area of medical services such as medical treatment and transportation of casualties.

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iii. <u>Logistic Support</u> When operations require supplementing their respective logistics resources, the Self-Defense Forces and the United States Armed Forces will provide flexible and timely mutual logistic support, based on their respective capabilities and availability. The two governments will make appropriate use of the authorities and assets of central and local government agencies, as well as private sector assets, to provide support. iv. <u>Use of Facilities</u> The Government of Japan will provide, as needed, additional facilities in accordance with the Japan-U.S. Security Treaty and its related arrangements. The two governments will enhance cooperation in joint/shared use of facilities and areas. v. <u>Chemical, Biological, Radiological, and Nuclear Protection</u> The Government of Japan will maintain primary responsibility for emergency responses to chemical, biological, radiological, and nuclear (CBRN) incidents or attacks in Japan. The United States retains primary responsibility for maintaining and restoring the mission capability of the United States Armed Forces in Japan. At Japan's request, the United States will support Japan in CBRN incident or attack prevention and response-related activities in an effort to ensure the protection of Japan, as appropriate.	
Section IV. Part D Actions in Response to an Armed Attack against a Country other than Japan When Japan and the United States each decides to take actions involving the use of force in accordance with international law, including full respect for sovereignty, and with their respective Constitutions and laws to respond to an armed attack against the United States or a third country, and Japan has not come under armed attack, they will cooperate closely to respond to the armed attack and to deter further attacks. Bilateral responses will be coordinated through the whole-of-government Alliance Coordination	No equivalent section

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Mechanism. Japan and the United States will cooperate as appropriate with other countries taking action in response to the armed attack. The Self-Defense Forces will conduct appropriate operations involving the use of force to respond to situations where an armed attack against a foreign country that is in a close relationship with Japan occurs and as a result, threatens Japan's survival and poses a clear danger to overturn fundamentally its people's right to life, liberty, and pursuit of happiness, to ensure Japan's survival, and to protect its people. Examples of cooperative operations are outlined below: 1. Asset Protection The Self-Defense Forces and the United States Armed Forces will cooperate in asset protection, as appropriate. Such cooperation will include, but not be limited to, protection of assets that are engaged in operations such as Noncombatant Evacuation Operations or Ballistic Missile Defense. 2. Search and Rescue The Self-Defense Forces and the United States Armed Forces, in cooperation with relevant agencies, will cooperate and provide support in search and rescue operations, including combat search and rescue, as appropriate. 3. Maritime Operations The Self-Defense Forces and the United States Armed Forces will cooperate in minesweeping, as appropriate, including to secure the safety of sea lines of communication. The Self-Defense Forces and the United States Armed Forces, in cooperation with relevant agencies, will cooperate in escort operations to protect ships and vessels, as appropriate. The Self-Defense Forces and the United States Armed Forces, in cooperation with relevant agencies, will cooperate in the interdiction of shipping activities providing support to adversaries involved in the armed attack, as appropriate.	

2015 Guidelines	1997 Guidelines
4. Operations to Counter Ballistic Missile Attacks The Self-Defense Forces and the United States Armed Forces will cooperate in intercepting ballistic missiles, as appropriate, in accordance with their respective capabilities. The two governments will exchange information to ensure early detection of ballistic missile launches. 5. Logistics Support When operations require supplementing their respective logistics resources, the Self-Defense Forces and the United States Armed Forces will provide flexible and timely mutual logistic support, based on their respective capabilities and availability. The two governments will make appropriate use of the authorities and assets of central and local government agencies, as well as private sector assets, to provide support.	
Section IV. Part E Cooperation in Response to a Large-scale Disaster in Japan When a large-scale disaster takes place in Japan, Japan will have primary responsibility for responding to the disaster. The Self-Defense Forces, in cooperation with relevant agencies, local governments, and private actors, will conduct disaster relief operations. Recognizing that immediate recovery from a large-scale disaster in Japan is essential for Japan's peace and security and that such a disaster could affect the activities of the United States Armed Forces in Japan, the United States, in accordance with its own criteria, will provide appropriate support for Japan's activities. Such support may include search and rescue, transportation, supply, medical services, incident awareness and assessment, and other specialized capabilities. The two governments will coordinate activities through the Alliance Coordination Mechanism, as appropriate. To improve the effectiveness of the United States Armed Forces' cooperation in humanitarian assistance and disaster relief activities in Japan, the two governments will work together closely, including through information sharing. In addition, the United States Armed Forces also may participate in disaster-related drills, which will increase mutual understanding in responding to large-scale disasters.	No equivalent section

Section 5 Cooperation for Regional and Global Peace and Security

2015 Guidelines	1997 Guidelines
Section V. Cooperation for Regional and Global Peace and Security In an increasingly interconnected world, Japan and the United States will take a leading role in cooperation with partners to provide a foundation for peace, security, stability, and economic prosperity in the Asia-Pacific region and beyond. For well over half a century, both countries have worked together to deliver effective solutions to challenges in diverse regions of the world. When each of the two governments decides to participate in international activities for the peace and security of the region and beyond, the two governments, including the Self-Defense Forces and the United States Armed Forces, will cooperate closely with each other and with partners, as appropriate, such as in the activities described below. This cooperation also will contribute to the peace and security of both countries. A. Cooperation in International Activities The two governments will participate in international activities, based on their own judgment. When working together, the Self-Defense Forces and the United States Armed Forces will cooperate to the maximum extent practicable. The two governments may coordinate the activities through the Alliance Coordination Mechanism, as appropriate, and also will pursue bilateral and multilateral cooperation in these activities. The Self-Defense Forces and the United States Armed Forces will share procedures and best practices, as appropriate, for smooth and effective cooperation. While the two governments will continue to cooperate on a broad array of issues that may not be explicitly included in the Guidelines, common areas for cooperation by the two governments in regional and international activities will include: 1. Peacekeeping Operations When the two governments participate in peacekeeping operations authorized by the United Nations (UN) in accordance with the Charter of the United Nations, the two governments will cooperate closely, as appropriate, to maximize interoperability between the Self-Defense Forces and the United States Armed Forces. The two governments also may cooperate in providing logistic support for and protecting UN and other personnel who participate in the same mission, as appropriate. 2. International Humanitarian Assistance/Disaster Relief When the two governments conduct international humanitarian assistance/disaster relief (HA/DR) operations in response to requests from governments concerned or international organizations in the wake of large-scale humanitarian and natural disasters, the two governments will cooperate closely to provide mutual support, as appropriate, maximizing interoperability between participating Self-Defense Forces and United States Armed Forces. Examples of cooperative activities may include mutual logistic support and operational	No equivalent section

2015 Guidelines	1997 Guidelines
coordination, planning, and execution. 3. Maritime Security When the two governments conduct activities for maritime security, the two governments will cooperate closely, as appropriate. Examples of cooperative activities may include efforts for: safe and secure sea lines of communication such as counter-piracy and minesweeping; non-proliferation of weapons of mass destruction; and counterterrorism activities. 4. Partner Capacity Building Proactive cooperation with partners will contribute to maintaining and enhancing regional and international peace and security. The two governments will cooperate in capacity building activities, as appropriate, by making the best use of their capabilities and experience, with the objective of strengthening the capability of partners to respond to dynamic security challenges. Examples of cooperative activities may include maritime security, military medicine, defense institution building, and improved force readiness for HA/DR or peacekeeping operations. 5. Noncombatant Evacuation Operations In circumstances when international action is required for the evacuation of noncombatants, the two governments will utilize, as appropriate, all possible avenues including diplomatic efforts to ensure the safety of noncombatants, including those who are Japanese or U.S. nationals. 6. Intelligence, Surveillance, and Reconnaissance When the two governments participate in international activities, the Self-Defense Forces and the United States Armed Forces will cooperate in ISR activities, as appropriate, based on the respective capabilities and availability of their assets. 7. Training and Exercises In order to enhance the effectiveness of international activities, the Self-Defense Forces and the United States Armed Forces will conduct and participate in joint training and exercises, as appropriate, to strengthen interoperability, sustainability, and readiness. The two governments also will continue to pursue opportunities to work with partners in training and exercises to contribute to enhancing interoperability with the Alliance and the development of common tactics, techniques, and procedures. 8. Logistic support	

2015 Guidelines	1997 Guidelines
When participating in international activities, the two governments will cooperate to provide mutual logistic support. The Government of Japan will provide logistic support where appropriate, subject to Japanese laws and regulations. B. Trilateral and Multilateral Cooperation The two governments will promote and improve trilateral and multilateral security and defense cooperation. In particular, the two governments will reinforce efforts and seek additional opportunities to cooperate with regional and other partners, as well as international organizations. The two governments also will work together to strengthen regional and international institutions with a view to promoting cooperation based upon international law and standards.	

Section 6 Space and Cyberspace Cooperation

2015 Guidelines	1997 Guidelines
Section VI. Space and Cyberspace Cooperation A. Cooperation on Space Recognizing the security aspects of the space domain, the two governments will maintain and strengthen their partnership to secure the responsible, peaceful, and safe use of space. As part of such efforts, the two governments will ensure the resiliency of their space systems and enhance space situational awareness cooperation. The two governments will provide mutual support, as appropriate, to establish and improve capabilities and will share information about actions and events that might affect the safety and stability of the space domain and impede its use. The two governments also will share information to address emerging threats against space systems and will pursue opportunities for cooperation in maritime domain awareness and in space-related equipment and technology that will strengthen capabilities and resiliency of the space systems, including hosted payloads. To accomplish their missions effectively and efficiently, the Self-Defense Forces and the United States Armed Forces will continue to cooperate and to contribute to whole-of-government efforts in utilizing space in such areas as: early-warning; ISR; positioning, navigation, and timing; space situational awareness; meteorological observation; command, control, and communications; and ensuring the resiliency of relevant space systems that are critical for mission assurance. In cases where their space systems are threatened, the Self-Defense Forces and the United States Armed Forces will cooperate, as appropriate, in mitigating risk and preventing damage. If damage occurs, they will cooperate, as appropriate, in reconstituting	No equivalent section

2015 Guidelines	1997 Guidelines
relevant capabilities. B. Cooperation on Cyberspace To help ensure the safe and stable use of cyberspace, the two governments will share information on threats and vulnerabilities in cyberspace in a timely and routine manner, as appropriate. The two governments also will share, as appropriate, information on the development of various capabilities in cyberspace, including the exchange of best practices on training and education. The two governments will cooperate to protect critical infrastructure and the services upon which the Self-Defense Forces and the United States Armed Forces depend to accomplish their missions, including through information sharing with the private sector, as appropriate. The Self-Defense Forces and the United States Armed Forces will: • maintain a posture to monitor their respective networks and systems; • share expertise and conduct educational exchanges in cybersecurity; • ensure resiliency of their respective networks and systems to achieve mission assurance; • contribute to whole-of-government efforts to improve cybersecurity; and • conduct bilateral exercises to ensure effective cooperation for cybersecurity in all situations from peacetime to contingencies. In the event of cyber incidents against Japan, including those against critical infrastructure and services utilized by the Self-Defense Forces and the United States Armed Forces in Japan, Japan will have primary responsibility to respond, and based on close bilateral coordination, the United States will provide appropriate support to Japan. The two governments also will share relevant information expeditiously and appropriately. In the event of serious cyber incidents that affect the security of Japan, including those that take place when Japan is under an armed attack, the two governments will consult closely and take appropriate cooperative actions to respond.	

Section 7 Bilateral Enterprise

2015 Guidelines	1997 Guidelines
Section VII. Bilateral Enterprise The two governments will develop and enhance the following areas as a foundation of security and defense cooperation, in order to improve further the effectiveness of bilateral cooperation: A. Defense Equipment and Technology Cooperation In order to enhance interoperability and to promote efficient acquisition and maintenance, the two governments will: • cooperate in joint research, development, production, and test and evaluation of equipment and in mutual provision of components of common equipment and services; • strengthen the basis to repair and maintain common equipment for mutual efficiency and readiness; • facilitate reciprocal defense procurement to enhance efficient acquisition, interoperability, and defense equipment and technology cooperation; and • explore opportunities for cooperation with partners on defense equipment and technology. B. Intelligence Cooperation and Information Security • Recognizing that common situational awareness is essential, the two governments will enhance intelligence cooperation and information sharing at all levels, including the national strategic level. • In order to enable robU.S.t intelligence cooperation and information sharing, the two governments will continue to promote cooperation in strengthening policies, practices, and procedures related to the protection of classified information. • The two governments also will explore opportunities for cooperation with partners on information sharing. C. Educational and Research Exchanges Recognizing the importance of intellectual cooperation concerning security and defense, the two governments will deepen exchanges of members of relevant organizations and strengthen communication between each side's research and educational institutions. Such efforts will serve as the enduring foundation for security and defense officials to share their knowledge and reinforce cooperation.	No equivalent section

Section 8 Processes for Review

2015 Guidelines	1997 Guidelines
Section VIII. Processes for Review The SCC, assisted by an appropriate subordinate body, will <i>regularly</i> evaluate whether the Guidelines remain adequate in light of the evolving circumstances. The two governments will update the Guidelines in a timely and appropriate manner when changes in situations relevant to the Japan-U.S. Alliance relationship occur and if deemed necessary in view of the circumstances at that time.	Section VII. Timely and Appropriate Review of the Guidelines The two Governments will review the Guidelines in a timely and appropriate manner when changes in situations relevant to the U.S.-Japan security relationship occur and if deemed necessary in view of the circumstances at that time.

Endnotes:

¹ I would like to thank Professor William Brooks and Japan Studies for funding a research trip to Tokyo. I deeply appreciate the opportunities to conduct interviews with various renowned experts in Japanese defense and security policies. My sincerest thanks go to Professor Haruo Tohmatsu, Grant Newsham, Dr. James Przystup, James L. Schoff and others who prefer to remain anonymous. I would also like to thank Evan Sankey, Rie Horiuchi, Siwapol Kittiwongsakul, Dr. Asuka Matsumoto, and Alexander Evans for research materials, contacts, and coordinating meetings in Tokyo for me.

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¹⁴ Ibid.

¹⁵ Sadler 2015, 38.

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- ³⁷ For a more detailed comparison with former principles, please refer to Dr. Heigo Sato’s research paper. Heigo Sato, *Japan’s Arms Export and Defense Production Policy*, Center for Strategic and International Studies, accessed February 16, 2017, https://csis-prod.s3.amazonaws.com/s3fs.../150331_Sato_JapanArmsExport-1.pdf.
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- ⁵⁰ Ibid., 298.
- ⁵¹ Ibid., 364 and 432.
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- ⁵³ James L. Schoff wrote a thorough record of past American requests for Japanese support in the Chapter 3 of his recent report “Uncommon Alliance for the Common Good.” Please see James L. Schoff, *Uncommon Alliance for the Common Good: The United States and Japan After the Cold War*, Carnegie Endowment for International Peace, accessed May 2, 2017, http://carnegieendowment.org/files/CEIP_Uncommon_Alliance_final_full.pdf.
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Japan's Development Assistance Strategy in a Changing World

Ms. Carrie Williams

Introduction

Japan after its defeat in World War II was until the 1960s a recipient of foreign aid to help rebuild an economy that literally had been reduced to rubble. Soon, however, as it began to reenter the international community following the San Francisco Peace Treaty and the end of the U.S. Occupation, Japan, now under a peace Constitution that renounced war, sought for ways to play a role in the new postwar order. That chance came in 1954, when Japan joined the Colombo Plan, a regional organization to promote social and economic development. Membership in the plan soon gave Japan the opportunity to switch from being a recipient of foreign aid to a donor. It came in the form of Official Development Assistance (ODA), a term coined in 1969 by the Development Assistance Committee of the OECD to measure foreign aid. Soon, Japan became a top donor, what some observers called an "Aid Superpower." Such superlatives have long lapsed, but Japan remains one the major ODA donors in the world, with a program that has become increasingly effective and of high quality over the years. This paper examines Japan's increasingly effective and strategic use of ODA as a major soft-power tool, particularly under the current administration of Prime Minister Shinzo Abe, and offers some suggestions for aid policy options that would make Japan even more of a strategic player in a changing regional and global environment.

Since 1959, when Japan provided its first foreign aid loans to India, ODA has played a major role in defining the character of Japan's foreign policy. Japan has utilized its soft-power tools adeptly over the postwar decades, including diplomacy to enhance its energy security, economic strength, and public image, but in its relations with the developing world, economic aid has been its most effective tool of all. According to the Ministry of Foreign Affairs, the objective of ODA is "to help developing nations with supplies, civil engineering and other assistance."¹

In recent years, ODA has taken on an openly strategic dimension. With China's growing maritime assertiveness in East Asia, Japan has adjusted its ODA programs in Southeast Asian countries to meet that reality, creating "partnerships" with countries like the Philippines and Vietnam, the aim being to help those countries build up their own security capacities and sway these countries away from the increasing influence of China by lining up their own interests with those of Japan. ODA to the Middle East also has been used to protect Japan's national interests, given the economy's heavy reliance on that region for oil and gas resources. Recently, Japan has added to its energy security strategy a broader aspect, that of using ODA indirectly in the international fight against terrorism by helping fight poverty in affected developing countries and providing funding

for nation-building efforts. Moreover, since its inception, ODA, as Japan's most effective foreign policy tool, has become indirectly linked to Japan's security relationship with the United States. One could say that the U.S. in certain cases has provided the hard-power of its military assistance and Japan has supplied the soft-power of its economic assistance.

The main goal of development assistance is to foster autonomous development – Japanese aid specialists call it “self-help.” For example, it is not enough to just give a poor country food aid; the knowhow to allow the people to grow their own food and sustain themselves is even more critical. Stephen Browne, author of *The Rise and Fall of Development Aid*, distinguishes development assistance into two sectors, non-strategic and strategic. According to his findings, “non-strategic aid was comprised of multilateral assistance and ‘altruistic’ bilateral aid, intended primarily to respond to the objective development needs of recipient countries.”² While strategic aid, also considered commercial and historical aid, “was designed primarily to further the political, cultural and market influence of the donors.”³ To understand the various ways Japan has applied strategic and non-strategic aid, this paper presents relevant case studies of ODA programs in Southeast Asia and the Middle East.

Japanese ODA and its Fundamental Pillars

After WWII, a devastated Japan was initially an aid-recipient country, mainly emergency assistance from the United States and infrastructure loans from the World Bank. Through the Government and Relief in Occupied Areas (GARIOA) program, Japan received funds used to supply “food, petroleum, fertilizers, and medical supplies, with the aim of preventing starvation, disease, and social unrest.”⁴ The U.S. followed this program with the introduction of the Economic Rehabilitation in Occupied Areas (EROA) program in 1949, which provided raw materials and machinery for economic rehabilitation; Japan benefitted from this plan until 1951. In addition, Japan received loans from the World Bank to build the bullet train (*shinkansen*) that was completed in time for the Olympics in 1964.

By 1954, Japan was stable enough to qualify as an aid donor, joining the Colombo Plan. Originally launched in 1951 as an organization for the economic and social advancement of South and Southeast Asian countries, the Colombo Plan consisted of a transfer of “physical capital and technology as well as a strong component of skills development.”⁵ From Japan's experience as an aid recipient to a member of the Colombo Plan, the fundamental pillars and methods of Japanese ODA emerged.

Japan's growing economy in the second half of the 1960s allowed ODA to expand and diversify, which introduced general grant aid as well as greater efforts to ensure the efficient use of aid resources. A publication in 1980 called “The Philosophies of Economic Cooperation: Why Official Development Assistance?” clarified Japan's motives and growing role as an aid donor, stating that Japan is guided by: “humanitarian

and moral considerations” and “the recognition of interdependence among nations.” It concluded that “providing ODA is a cost for building an international environment to secure Japan’s comprehensive security.”⁶ This unequivocally declared Japan’s use of ODA as a foreign policy tool to effectively engage in security and energy policy without the use of “hard power” or a “big stick” to achieve their desired outcomes.

From the 1960s to the 1980s, Japan continued to expand its foreign aid program until it became the top aid donor in the world in 1989, even surpassing the United States. During these decades, however, the focus of aid policy was mainly on quantitative expansion rather than qualitative improvement of the program. Under the OECD’s scrutiny, Japan’s ODA was still below par, compared to the other donors.

One major feature of Japan’s ODA program was the request-only basis (*yousei-shugi*), which meant that the recipient had to ask for aid before Japan would provide it. This feature was taken advantage of by Japanese trading firms that would consult with a potential recipient, design an aid project, have the recipient ask for it, and then be confident that the project order would come to the Japanese company. Much of the early aid was tied and provided as concessional loans (yen loans), not grants, so a Japanese company that may have found and designed a project was usually assured of receiving an order. The system was later uprooted when Japan began to untie its aid, increase grants, in comparison to yen loans, improve terms and conditions, and become more proactive in finding sustainable aid projects – moving toward having a country strategy instead of picking through a laundry list of possible projects that may or may not help that country’s development needs. Another early problem was that Tokyo avoided imposing political conditionality on recipient countries. Projects were implemented without assurances from the recipient country of improvement in its internal finances or other conditions, as the OECD and the IMF required. It was only after the end of the Cold War that Japan introduced new aid guidelines; the ‘Four Guidelines of ODA’ (1991) and the ‘ODA Charter’ (1992), which was part of an overall effort to improve the quality and conditionality of Japanese economic aid. It was a long haul, but by the 2000s, Japan had an aid philosophy that rivalled its OECD peers.

As the world became more interconnected, it also became more complicated, which required Japan to revise their ODA objectives to match the changing global climate and national interests. In addition, pressure from the OECD and from the U.S. to improve aid terms and quality began to produce results in the 1990s. In 1992, Japan announced in its first ODA Charter, four guidelines for implementing its economic assistance program, all requiring diligent attention to trends in recipient countries. The four guidelines were: (1) trends in military expenditures; (2) evidence of development and production of weapons of mass destruction (nuclear weapons) and ballistic missiles, (3) export and import of arms, and (4) efforts to promote democratization, introduce a market-oriented economy, and state of human rights and freedoms.⁷ The ODA Charter is

revised every few years, but the fundamental priorities remain the same, to achieve world peace through economic assistance and promote Japan's stature within the global community. As a result, ODA evolved over the years to become Japan's "most consistent and effective tool of postwar Japanese foreign policy."⁸ As the world changes, Japan has adapted its foreign policy tools, and at this juncture, its ODA is highly evaluated by Japan's peers in the OECD as effective to respond to the exigencies of the times.⁹

Qualitative Results of Japanese ODA

With each ODA Charter revision¹⁰, Japan has increased the level of qualitative aid given, improving based on the constructive criticism given by international organizations and scholarly observers. The current 2015 ODA Charter "emphasizes humanitarian principles and the importance of working on global issues in an interdependent world."¹¹ Under this new charter, Japanese aid "can be used to support foreign armed forces in noncombat operations such as disaster relief, infrastructure building and coast guard activities."¹² An expert on Japanese foreign policy based in Washington commented on the current revision as being "a natural development of Japanese ODA as a part of foreign policy, [especially as it] benefits bilateral relationships."¹³

To see how Japan's aid program evolved, let us look at one program over the years. For example, in the 1980s, JICA (Japan International Cooperation Agency) formulated a comprehensive plan for one of the poorest regions in the Philippines, Bohol Island. "Through agriculture and infrastructure, development has positively affected the island economy, and in 2009, Bohol achieved self-sufficiency in rice."¹⁴ In addition, because of the comprehensive development plan and its projects, "the military and the National Police declared Bohol to be insurgency-free in 2010."¹⁵ Takahiro Sasaki, Chief Representative of the JICA Philippines Office further explains the increase in economic growth for the island through tourism. "The province has become a destination for sightseeing, bringing in more than 560,000 tourists per year."¹⁶

Japan has not only responded to constructive criticism of its aid programs, it has developed a self-evaluation process to improve aid delivery and sustainability. It has beefed up its mission level presence, instead of just supplying funds, expecting the government to fairly allocate or other parties to carry out the project. Slowly but surely, JICA and NGOs have begun to work together on aid projects. Japan now sends volunteers and experts into the region to launch and maintain local based projects, essentially putting a face on the aid package.

In India, JICA's involvement has results in energy-saving methods. India adopted an energy-saving braking system "that was developed and used in Japan for subway vehicles. The system is contributing to the improvement of the city's environment and, consequently, to the mitigation of climate change."¹⁷ By adopting Japanese methods,

Prime Minister Modi has installed an environment saving system while adding jobs to extend, maintain, and improve the system.

In Myanmar, the government needed help in reforesting ravaged land, but had limited resources, so it turned to Japan for help. JICA sent in professionals to begin working on the Project for Mangrove Rehabilitation Plan for Enhancement of Disaster Prevention in the Ayeyarwady Delta. Hideto Yamazaki, JICA's forestation project expert in Myanmar explained the goal they were striving towards, "Our goal is to reestablish the natural ecosystem to strengthen the coast against wind and tide, and to improve the residential living environment."¹⁸ JICA is working on this project in conjunction with the administrative officers and workers of the targeted reforestation areas, effectively establishing a cooperative, collaborative relationship between the face of Japanese aid and the locals benefitting from this assistance.

The improved quality of Japanese aid over the years has opened the doors for this type of interaction at the local level. According to a Washington-based expert on ODA, "Japan's ODA has been a positive influence on development. It is really hard to argue that Japanese ODA did nothing."¹⁹ In other words, Japan has not been content just to send funds and goods to recipients as aid; it has continue to focus on training and sending aid professionals who could assist and teach local workers. Without such expertise, there would not have been such a high level of results that has received praise from OECD peers.

Since the 1990s, Japan has become Cambodia's biggest donor, providing funds to rebuild infrastructure that was destroyed by war and neglect. According to an expert on Cambodian development, "In addition, Japan has been working closely with the Cambodian government to strengthen its education system, which remains weak and underfunded."²⁰ To compensate for the loss of advanced human capital, Japan has also implemented educational programs for science, technology and engineering. Cambodia has benefitted tremendously from its relations with Japan, with JICA "[providing] technical assistance and financial resources to improve public finance management, reform the legal and judicial system, and promote gender equality."²¹ Commenting on JICA's work in Cambodia and its impact thus far, one JICA employee stated, "Cambodia is still poor and we are focused on traditional type cooperation (hospitals, sewage system), but it depends on the development level of the country."²² JICA has spent a lot of time improving its employees' interactions within the country, but one employee has stated that, "we need to learn about the country to fully understand because we do local community involvement, [so] it would be beneficial if we could speak the language and receive cultural training from JICA."²³

Although, Japan has made great strides to improve aid over the years, there is still room for improvement in terms of local level engagement and cultural knowledge of the recipient countries; investing time and training into learning about the local culture and

society will show that Japan has a vested interest in that country for more than national interest reasons.²⁴ Japan has also been faulted even in recent years for its lack of coordination with other aid donors on the ground. There has been a need to transfer more hands-on authority to the local mission level.

That being said, aid coordination with the United States has been ongoing since the early 1980s, although the contents and enthusiasm on both sides has waxed and waned over the years. USAID maintains a permanent position at the U.S. Embassy in Tokyo to coordinate, plan joint programs or projects, and share information with counterparts in Japan's aid bureaucracy.

A major turning point in Japan's foreign assistance occurred during the period when Prime Minister Junichiro Koizumi was in office (2001-2006), particularly during and after the U.S.-led war on terror in Afghanistan and Iraq. The OECD review of Japan (2006) placed Japan as the number 2 donor in the world in 2005, after the U.S., for the fifth year in a row. Japan had disbursed \$13.1 billion, a 47% leap over 2014. The reason was its providing massive aid funds to Iraq for reconstruction and debt refinancing. It also became the number one ODA donor to Afghanistan, even hosting a donor's pledging conference in Tokyo in 2002. Although the Taliban has put aid workers' lives in jeopardy, Japan has remained active in Afghanistan with such programs as helping to build schools and curricula in an increasingly dangerous environment. Japan's strategic use of aid has increased under Prime Minister Shinzo Abe. Alarmed by China's maritime assertiveness in the South and East China seas, Japan has developed a special aid program, sanctioned by the latest ODA Charter, to help Southeast Asian countries enhance their surveillance capabilities. This includes offering patrol vessels to maintain maritime security in critical sea lanes.

Prime Minister Shinzo Abe pledged in early 2017 to provide Vietnam with six patrol vessels to aid its maritime safety efforts. Vietnam is one of several Southeast Asian nations embroiled in a territorial dispute with China in the South China Sea. Japan has also offered the Philippines two large patrol vessels to deal with its border issues with China.

To promote the rule of law, another special program that aims to send a message to China, Japan has offered support to Southeast Asian countries to strengthen their law enforcement capabilities. Japan has accused China of ignoring international law by its assertive actions in the South China Sea.

Expansion of Aid to the Middle East²⁵

Although most of Japan's ODA is allocated to Asia, its carefully targeted foreign aid to the Middle East has served Japan's national interests as well as promoted regional

peace and stability. Funds have also been allocated that have indirectly targeted the sources of terrorism – like poverty and instability – in recent years.

Japan receives more than 80% of its oil from the Middle East, so maintaining stability in the region is of key interest to Japanese energy security policy. Traditionally, Japan has been notoriously passive in its Middle Eastern foreign policy, but under Abe, it has now moved to a more proactive stance to protect national interests as well as help stabilize the region.²⁶ The change actually began under Prime Minister Koizumi: “With increasing petroleum prices a threat to the Japanese economy, the government started to reconsider its relations with the Middle East through its own energy needs rather than through an American prism.”²⁷ Koizumi visited the region in 2006. The recent Fukushima nuclear crisis, and public pressure to find alternative methods to nuclear power,²⁸ has caused Japan to become ever more reliant on its relationship with the Middle East.

Japan, starting in the 1990s and accelerating in the 2000s, has found it increasingly necessary to employ “hard-power” in the Middle East, albeit in non-combat capacities, to back up its energy security interests as well as to support U.S.-led interventions, such as multinational force operations, anti-piracy activities, and anti-terrorist operations. Japanese troops were first deployed to the Persian Gulf in 1991 – after the Gulf War -- to conduct minesweeping operations. This was the first time that the SDF was deployed abroad since World War II. In 1996, under Japan’s PKO Law, Tokyo dispatched a peace-keeping force to the Golan Heights, where they remained until 2016. During President Bush’s war on terror, the SDF were deployed by Prime Minister Koizumi to Iraq to aid in reconstruction efforts, and to the Indian Ocean to refuel ships engaged in anti-terror activities.

In addition, Japan in 2011 joined the U.S. and other powers in the Gulf of Aden in anti-piracy operations, with Maritime Self-Defense Force ships providing escort services to commercial tankers. It even established a military base in Djibouti, which Prime Minister Abe visited in August 2013. There has been serious discussion in the Diet and government circles since 2012 about the possibility of deploying the MSDF to the Strait of Hormuz to conduct minesweeping and escort operations in the event of the Strait’s closure. Prime Minister Abe has taken an increasingly proactive approach to the region in case of a crisis in the interest of energy security and ensuring Middle Eastern stability. If war were to break out in the Persian Gulf, the Japanese Government would likely use its new security legislation passed in 2016 to defend its energy shipping lanes.

Japan, though, has also used its diplomacy and soft power tools, like ODA, to promote stability and peace in the Middle East. Abe, during his first time as prime minister, initiated in 2006 the Corridor of Peace and Prosperity, aimed at bringing about reconciliation between the Israelis and Palestinians. In that program, for example,

Japanese teachers have been working in Palestinian refugee camps in Jordan, and Japan had provided financial support for the Jericho Agro-Industrial Park, launched in 2014.

In January 2015, while on a trip through the Middle East, Prime Minister Abe warned that “the world would suffer an “immeasurable loss” if terrorism spreads in the Middle East, and he pledged about \$200 million in nonmilitary assistance for countries battling the Islamic State jihadi group.”²⁹ He also pledged a total of another \$2.5 billion in nonmilitary assistance to the Middle East for humanitarian assistance and infrastructure.”³⁰ Abe continued, “It goes without saying that the stability of the Middle East is the foundation for peace and prosperity for the world, and of course for Japan.”³¹

Egypt is the number one recipient of Japan’s ODA to the Middle East. In addition to development aims, Prime Minister Abe hoped to reduce the likelihood of homegrown terrorists rising out of the Arab Spring. Given that Abe believes poverty, limited job opportunities and poor infrastructure obstruct people from rising above the poverty line, he sees Egypt as a model for eradicating potential terrorism through ODA. Abe “stressed the need for economic growth in the Middle East, where militants often try to exploit frustrations with issues such as unemployment and neglected schools to gain recruits.”³²

According to the Embassy of Japan in Egypt (<http://www.eg.emb-japan.go.jp/e/assistance/>),

“Japan accords priority to the following areas for assistance to Egypt. Such priority was apportioned on the basis of policy dialogue between Japan and Egypt, as well as studies and research on development conditions, objectives and plans designed by Egypt:

- Expansion of agricultural production
- Development of human resources
- Boosting economic infrastructure
- Upgrading health and medical care services, population control and family planning
- Improvement of living environment (water and sewage systems) and public hygiene.”

Japan since the mid-2000s has provided critical economic development assistance to Afghanistan (See the tables at http://reliefweb.int/sites/reliefweb.int/files/resources/japan_assistance.pdf).

According to development expert, Kuniko Ashizawa, Japan, since 2001, has provided close to \$5 billion on major reconstruction and stabilization projects in Afghanistan. It ranks second, after the U.S., in assistance to that country, with pledges totaling about \$8 billion. Much of that went for infrastructure building, agriculture and

rural development, and health and education improvement, while about a third was security-related programs, such as supporting the salaries of the Afghan police. The rest went to projects to improve governance and to provide humanitarian assistance. Very little went directly to Afghanistan via JICA, mainly due to security concerns at the local level. More than 60% was channeled through UN-related and other international organizations. Around a third was disbursed as direct bilateral grants to the Afghan government or NGOs providing official development. (Japanese Assistance in Afghanistan: Helping the United States, Acting Globally, and Making a Friend, NBR, 2014)

According to a statement made by Yoshikazu Yamada in 2012, a JICA employee, "The people of Afghanistan have tremendous trust in Japan for having been providing reliable, civilian assistance. If the people of Afghanistan can enjoy so-called "dividends of peace" first-hand, there would be a solid base on which we can further evolve our assistance for the longer-term development."³³ These good deeds, in conjunction with Japan's security concerns, showcase Japan's use of aid as a tool of foreign policy and security diplomacy.

In comparison, Japan's involvement in Iran is more for economic and energy interests than development assistance. Iran as a rich oil producer does not qualify for official development assistance; official and private investment as well as technical assistance is what Japan offers.

On Jan. 5, 2016, Japan and Iran signed a bilateral investment treaty designed to entice Japanese firms to do business in the oil-rich country that is opening its borders now to foreign competition for its markets. The pact was made possible after Japan had lifted sanctions on Iran over its nuclear program in December, following confirmation by UN inspectors that Tehran had implemented measures promised under a landmark nuclear freeze deal it struck with six major powers last July. The sanctions included halts on new investment in the areas of oil and gas.

"The momentum to expand the economic relationship between Japan and Iran is growing. Iran, with large economic potential, is an extremely important partner for Japan," Japanese Foreign Minister Fumio Kishida said at a signing ceremony in Tokyo with Iranian Minister of Economic Affairs and Finance Ali Taiebnia. "I hope the investment agreement will contribute greatly to strengthening economic ties," Kishida and Taiebnia said that the lifting of sanctions "has set the stage to make the bilateral relationship a strategically important partnership." Noting that the two countries have always had a friendly relationship, the Iranian minister expressed hope the agreement will "revive and develop bilateral relationship." (Kyodo, Jan. 6, 2016).

Reportedly, Japan has been invited by Iran to once again develop the Azadegan oil fields, a massive project that it withdrew from in 2010. The relationship between Tokyo and Tehran goes beyond Japan's interest in Iranian oil. Japan has pledged to

provide experts to assist with Iran's nuclear energy program, including training on how to build earthquake-proof plants. Major Japanese businesses are eager to return to the lucrative Iranian market.

In 2016, Foreign Minister Fumio Kishida offered Iran around \$2.2 million for “nuclear safety initiatives to help the Middle Eastern state implement its historic nuclear deal with the West.”³⁴ According to the numbers, more financial incentive has been given to assist in Iran operating nuclear power responsibly rather than development aid that would directly affect the people. Although, an article from Mina Pollmann of *the Diplomat* claims otherwise; she states that “a bilateral council will be set up to coordinate how Japan and Iran can comprehensively cooperate on a range of issues including economic relations, the environment, and medical care.”³⁵ Yet these measures have yet to hit the spotlight the same way nuclear energy deals have.

According to *The Japan Times* (December 2016), despite the US's rocky relationship with Iran, Japan will continue to be on friendly terms with Iran, an apparent demonstration to that country of its independence from the U.S. In March 2017, Deputy FM Nobuo Kishi reiterated Japan's commitment to Iran, despite its troubled relations with the US. Touching upon the nuclear deal made in December 2016, Iranian Deputy FM Seyed Abbas Araghchi noted, “The nuclear deal is a multilateral agreement and all parties have promised to be committed to the agreement and implement it in a constructive atmosphere with a good will.”³⁶ For Japan, such a statement is a clear signal that it can continue to pursue the mutually beneficial economic relationship that was interrupted by international politics a decade before.

Oil in the Middle East has often got Japan into hot water. It started with the 1973 oil embargo, when Japan, with 71% of its oil coming from the Middle East, panicked, and seeking to act independently of the U.S., sided with the oil producing states against Israel. By December, Japan was considered by OPEC as an Arab-friendly state.

It was under this umbrella of independence that Iraq and Japan began their relationship in the 1970s. Middle East expert Keiko Sakai notes that at the time, Japan's “policy toward the oil-producing countries was understood as a pro-Arab policy, aimed at securing an oil supply from the region.”³⁷ During the 1970s, Japan's main interest in Iraq, like many other Middle East countries, was oil. At the time, Japan procured 7.6% of its oil needs from Iraq, compared to 6.1% from Iran. Iraq was also being developed as an important market for machinery, iron and steel, and automobiles. About a fifth of Japan's orders for plant construction came from Iraq, as well. As a result of this purely mercantile interest, relations between the two countries during the 1980s, even during the Iran-Iraq war, were cordial.

Iraq's invasion of Kuwait and ensuing Gulf War (1990-1991) was a game changer. Had it not been for this war, Japan would probably have developed the kind of large-scale economic relationship that it had for some time with Iran. The Gulf War, and

the inability of Japan to respond to the security crisis except by signing a check to underwrite part of the U.S.-led multinational force fighting Iraq was a bitter experience that Japanese policy makers could not forget. The experience resulted in the passage of a peace-keeping operations (PKO) law in 1992, as well as a reevaluation of Japan's heretofore mercantilist and diplomatic aloof approach to the Middle East and its inner conflicts. No longer did Japan want to be the object of domestic and international criticism for its "checkbook diplomacy."³⁸

Even before the Iraq War was over, Japan, which dispatched SDF troops for humanitarian and reconstruction assistance to Samawah in Iraq, was planning a comprehensive aid program to help that nation rebuild itself after the conflict. At the International Donors' Conference on the Reconstruction of Iraq held in October 2003 in Madrid, Japan pledged financial assistance of up to \$3.5 billion in mostly yen loans to meet Iraq's medium-term reconstruction needs. It also pledged an additional \$1.5 billion in grant aid for immediate reconstruction needs. In 2006, to echo this sentiment, Abe, in his first term as prime minister declared, "There will be no change in Japan's support for Iraq. Reconstruction aid for Iraq is being undertaken by the international community."³⁹ A statement was later released in 2007 that expounded upon the term "strategic partnership" about Japan-Iraq relations:

Stability in Iraq is necessary for the national interests of Japan, which imports 90% of the crude oil that it needs from the Middle Eastern region. Japan has actively assisted the reconstruction of Iraq by, for example, dispatching our Self Defense Forces to conduct humanitarian assistance, Official Development Assistance (ODA) amounting to about US\$5 billion, and debt relief measures amounting to about US\$6 billion.⁴⁰

Iraq is, and will remain, a strategic partner in Japan's future, especially with security and foreign relations within the region. After a decade of involvement, Japan has successfully made an ally and friend out of Iraq, which characterizes the 'soft power' of ODA to shape relationships in a way that 'hard power' cannot. By providing the tools and experts to help Iraq get back on its feet after the war, Japan has showcased the effectiveness of ODA in building a more peaceful world through the improvement of infrastructure and the economy of struggling countries.

In addition, Japan has built into its Middle East policy a "mercantile realism" that highlights the increasing importance of its energy security policy, based on Japan's dependence on access to oil supplies, and after the 2011 nuclear power plant accident, Japan's effort to reduce reliance on nuclear power. Although Japanese and U.S. interests in the Middle East converge, Japan need not always default to US interests in every situation. There will always be cases where Japan will place precedence on its interests first, as in the current rush into Iran, while demonstrating a more active partnership in the Alliance through its support of the U.S. on the Middle East peace process, the need to

denuclearize Iran, and support the anti-terrorist policies of the U.S. and other countries by using Japan's soft-power, centered on financial aid.

“The Japan ODA Model”

More than its energy or national security policies, Japan has placed its ODA policy at the forefront of its increasing strategic relations with Southeast Asia and the Middle East -- two regions that remain vital to its national interests. David Arase points to the restrictions the U.S. placed on postwar Japan that led to this style of international engagement. Arase explains that, “because of the Yoshida Doctrine⁴¹, Japan's postwar foreign policy initiatives were restricted to areas of low politics involving Japan's economic interests.”⁴² He further elaborates: “This meant that Japanese diplomacy was intimately related to the use of economic instruments to raise Japan's international standing. Japan's ODA fit this low-politics agenda well.”⁴³ ODA continues to serve Japan as it adapts strategies to the positives and negatives that an international system imposes on them, especially in the context of a now globalized U.S.-Japan relationship.

Japanese ODA is meant not only to address the internal deficiencies of a recipient developing country, but also to use as a kind of leverage for deals and arrangements that will work in Japan's favor when it comes to energy and security issues. In exchange for assisting in the rebuilding of Cambodia, Japan leveraged their aid for education and improving infrastructure to lure a new friend away from Chinese influence. In the Philippines, Abe's pledge to assist in expanding the rehabilitation center in Manila produced an amicable and secure relationship with the Duterte administration. As a successful model of foreign policy, ODA has proven time and time again that it has greater sway in working towards national interests than any other tool in Japan's foreign policy arsenal. However, given the looming maritime presence of China and the increasing nuclear and missile capabilities of North Korea, Japan has no choice but to build up its self-defense while strengthening the U.S.-Japan Alliance. Once defense concerns are taken care of, Japan can continue to focus in its diplomacy on the soft power tools like ODA as the legacy of the Yoshida Doctrine intended.

The tragic experience of WWII and the legacy of the Occupation taught Japan an indelible lesson that military must never be used to pursue its strategic goals. Arase explains further, “Whereas a state might be expected to more or less automatically translate economic capabilities into military capabilities to strengthen its diplomacy, in the strategy devised by Prime Minister Yoshida Shigeru postwar Japan would restrict itself to economic means.”⁴⁴ This allowed Japan to achieve economic prosperity faster. Focusing on military capabilities would have caused Japan to mimic the dominant countries in the system, China and U.S., but by redirecting focus to economic prominence, Japan primed itself to become a formidable power in the international

system through less forceful means; in this situation, soft power triumphed over hard power.

ODA as a Strategic Tool for Self-Defense

In 2014, under the guidance of Foreign Minister Fumio Kishida, a report was submitted that recommended converting official development assistance into a ‘strategic’ tool in foreign relations.⁴⁵ However, this direction feeds into continuous OECD criticism that Japan only provides ODA to countries that are important to its national interests. That is not necessarily true; there is plenty of humanitarian aid in Japan’s ODA program, as seen in its assistance to Africa. Still, Japan needs to use its soft power in ways that help meet its own security and energy needs, and is not overly dependent on the policy imperatives set by the U.S. The unpredictable presidency of Donald Trump should already have drummed into Japan that lesson.

Although the U.S.-Japan Alliance will remain intact, no matter how many bumps in the road during the Trump administration, Japan needs to have a hedging plan if the U.S. fails to deliver on its promises to Japan and the region. ODA is one clue to such a strategy: “While Japan has redefined its aid orientation to serve its geostrategic and national interests, largely due to the changes in the global geostrategic environment in the wake of China’s rise, Tokyo also remains strongly committed to the conventional aid philosophy.”⁴⁶ In reviewing the security and defense interest of investing solely in ODA, Purnendra Jain revisits an argument aid expert Dennis Yasutomo made in the late 1980s. “Aid as a form of statecraft thus inherited Japan’s pacifist spirit of the postwar era, ‘which has molded aid into a concrete, activist, global foreign policy tool for a “*heiwa kokka*,” a peace-loving Japan,”⁴⁷ which shows that using foreign aid as a tool of security and energy is a documented and long standing practice.

The 2016 Diplomatic Bluebook states, “For Japan to ensure its security and economic national interests, and to continue to maintain and develop an international order desirable for Japan...it is essential to conduct strategic diplomacy, while rationally grasping changes in the international situation and responding to them.”⁴⁸ This statement expressly states Japan set out to establish security and economic interests based on strategic diplomacy, and under “Proactive Contribution to Peace,” Peace Consolidated Diplomacy will be the soft power tool Abe turns to as he maps Japan’s future. Peace Consolidated Diplomacy has provided favorable returns for Japan in times of crisis. After the 2011 earthquake and tsunami, approximately 163 countries and 43 international organizations reached out to Japan. Some were countries where Japan provides ODA, or other forms of humanitarian assistance, and those countries sent supplies and kind messages, despite their disadvantaged position.⁴⁹ Since establishing its ODA system, Japan has successfully set the model for interacting with the world without the use of force.

The ODA Model can be Japan's "Proactive ODA Diplomacy" for the coming years. At first glance, it does not appear to do much to deter China's growing assertiveness in the region or North Korea's growing existential threat to Japan. But the ODA model is a powerful instrument of persuasion, and the Abe administration should upgrade its use to what might be called "Proactive ODA Diplomacy" as a means of building goodwill and friendship even among potential and real enemies. Yukio Okamoto, a former special adviser to several prime ministers stated in a September 2013 speech, "China will not listen to Japan about the Senkakus; it is only the United States that can deter their actions."⁵⁰ That may be still true, but ultimately, a proactive diplomacy toward China, based on the legacy of over two decades of ODA provided to that country to help it modernize, could help build a better relationship that can ameliorate the bitter feud over the territorial dispute. Trilateral cooperation among Japan, the U.S., and Japan in the future should not be ruled out.

Outreach to China

Given the ongoing standoff with China over the Senkaku Islands and China's maritime assertiveness in the East and South China seas, it may be time for Japan to apply Abe's brand of proactive diplomacy to soften the atmosphere between Tokyo and Beijing. ODA to China, however, is no longer an option; that country graduated from the massive yen loan programs Japan had provided for its modernization until the mid-1990s. But diplomacy building on that legacy could be a springboard for improving relations across the board. According to Brian Harding, "It was clear that China felt threatened by the strength of U.S.-Japan relations and that there was a need for *modus Vivendi* with China to minimize friction."⁵¹ Although U.S. and Japan will not be ratcheting down the Alliance any time soon, their focus can be directed towards inviting China into a trilateral relationship meant to alleviate China's concerns regards the Alliance. It is possible because on April 11, 2017, China.org reported Chinese Premier Li Keqiang's efforts to bring ties with Japan back on track. Li explains, "History and reality show that China-Japan relations can maintain healthy and stable development only if both sides adhere to the principles set in the four political documents between the two countries and stick to the direction of peace."⁵² Li called on Japan to view China's development as an opportunity to reestablish a positive policy, opening the door for Japan to interact with China via economic assistance. If Li is sincere, the door to better relations remains open.

In comparison, Japan faces an existential threat from the DPRK; there is no other recourse in its policy but to rely on the U.S. security presence, move closer to the ROK strategically, maintain close, cooperative ties with China, and always be prepared for dialogue with the DPRK if the opportunity arises. Of course, the resolution of the Japanese abductees' issue remains another impediment to fruitful contacts with North Korea.⁵³

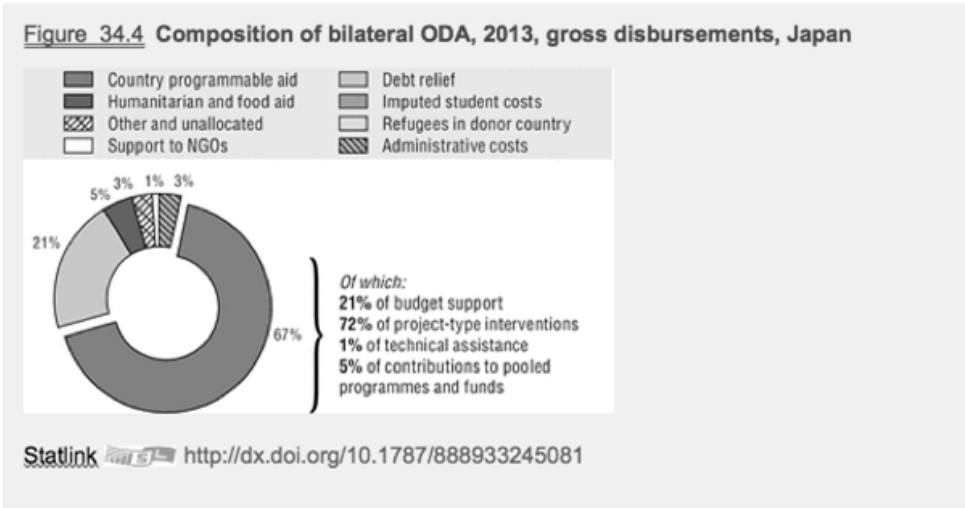
Japan is one among many countries that hold trepidations about future relations with the U.S. under the Trump administration. Tan Ming Hui and Nazia Hussain reported for *The Diplomat* that this unpredictable has brought Japan closer to its other allies through a shared concern: “Japan and India share concerns over the Trump administration’s unpredictable foreign policy decisions.”⁵⁴ However, despite these concerns, after Abe’s visit with Trump in February 2017, both leaders reaffirmed their commitment to the alliance, highlighting that, “The alliance with the United States is Japan’s bulwark against an assertive, rising China, which Japan sees as its greatest threat,”⁵⁵ reports Laura Rosenberg of *Foreign Policy* magazine.

Conclusion

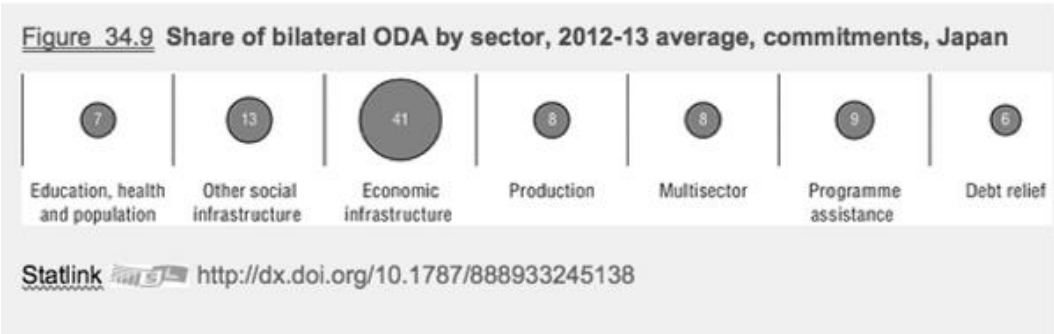
ODA began as reparations to Southeast Asian countries that Japan had ravaged during WWII. It also was an effective means for Japan to rejoin the international community by helping the developing needs of countries in Asia and, increasingly, other regions. “Lacking a military or security assistance option because of its peace constitution, Tokyo realized that its means of influencing the course of world politics was limited almost entirely to economic and diplomatic tools.”⁵⁶ From its strategic investment in the Middle East to its goodwill JICA missions in Southeast Asia, Japan’s ODA diplomacy has delivered numerous advantages for Japanese national interests. Given the success of its ODA model, Japan should apply it to any current and future foreign relations it engages in, especially with China.

One shortcoming Japan using diplomacy and soft power including ODA as its main set of policy tools is that it has no way to protect Japan against aggressors like North Korea or incursions into Japanese territory from China. Defense capabilities and the Alliance must remain the main line of dealing with such regional threats. In other cases, where Japan can apply those means, a proactive use of ODA and diplomacy may prove effective. Proactive ODA diplomacy as suggested by this paper is worth the policy effort and the chance to be tested, whether it is in Southeast Asia, the Middle East or other regions of security interest to Japan and the international community.

Appendix A



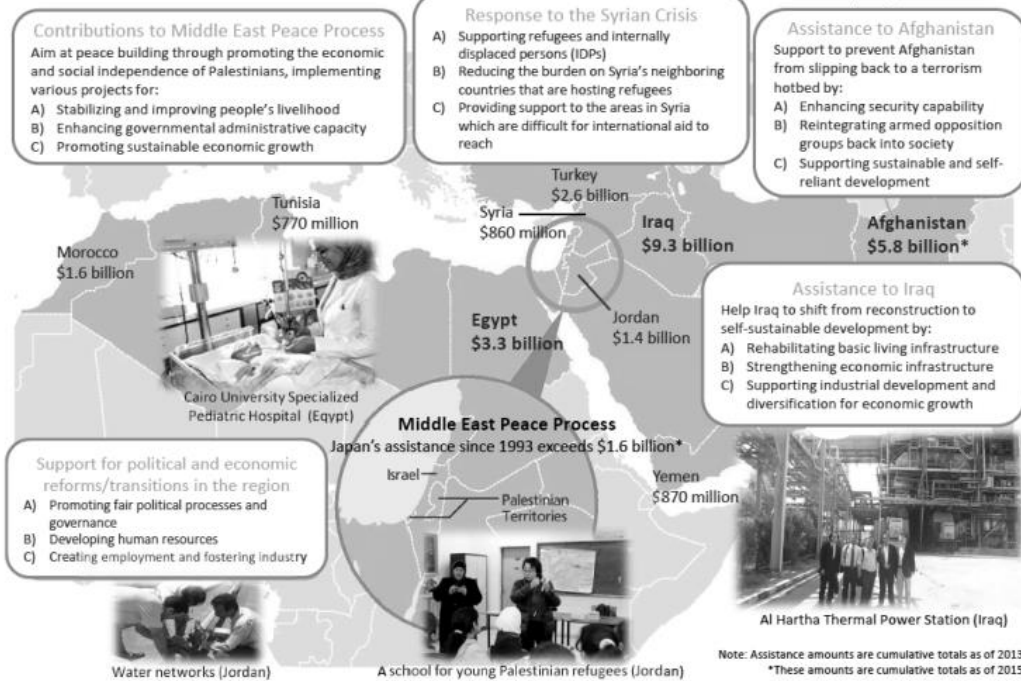
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Japan's Changing Ties with Taiwan under the Abe Administration

Mr. Jianan Ye

Introduction

On May 20, 2016, Tsai Ing-wen, head of the Democratic Progressive Party (DPP), was inaugurated as the president of Taiwan. Compared to her predecessor, Ma Ying-jeou from the Kuomintang (KMT), Tsai was expected to shift Taiwan's external policy preferences, including fostering a closer relationship between Taipei and Tokyo. Indeed, since then hopes for improved relations have risen to an unprecedented level in both capitals. In particular, Tsai Ing-wen's appointment of Frank Hsieh, the former DPP nominee in the 2008 presidential election and a prominent politician, as Taiwan's representative to Japan further indicates the emphasis the new administration puts on the Japan-Taiwan ties. Correspondingly, friendly gestures have also come from the Japanese side. Prime Minister Shinzō Abe has reiterated on different occasions that, albeit relations remain unofficial, Taiwan is regarded as an important partner that shares mutual values and interests. As the Japanese tend to say, there have been “love calls” coming from both sides.

What is noteworthy about the “unofficial” relationship between Japan and Taiwan is that it is by no means strictly bilateral. It is much more complex, entangled in the context of regional and international dynamics, and inextricably involved in the diplomatic game of chess that China and the United States have long been playing. On the one hand, China, which upholds the “One China” principle, is constantly annoyed by Taiwan's close interactions with Japan. In recent years, the situation has become even more delicate due to heightening tensions between Beijing and Tokyo over territorial and historical issues, as well as China's increasing maritime assertiveness in the East and South China seas. On the other hand, both Japan and Taiwan are embedded in America's “Hub-and-Spoke” security system, based on a bilateral security treaty with Japan and a de-facto alliance with Taiwan under the Taiwan Relations Act. The U.S. is required by law to go to Taiwan's defense if it is attacked. Taiwan's strategic importance to the U.S., and the forward-deployment of U.S. forces in Japan that could come to Taiwan's aid, has entangled Japan into whatever scenario that might emerge between the U.S. and China over Taiwan, but the situation has also made it somewhat easier for Japan to cultivate unofficial ties with Taiwan to an even increasing degree.

Initially, with the inauguration of Donald J. Trump as U.S. president, interactions among Washington, Taipei, and Tokyo seem to witness a modification, or even a redefinition. Washington seems to have retreated somewhat from its early overture to Taiwan, largely the result of a shift in policy focus to the belligerence of North Korea, and the need to ask Beijing for a helping hand. But Tokyo under Abe is less constrained,

and relations with Taipei seem to be evolving in a way that could encounter a pushback from Beijing at some point.

After a brief historical review of bilateral ties, this paper explores the changing relationship between Japan and Taiwan under Abe. It outlines and analyzes the issues and factors at play in the bilateral relationship, and spotlights the key actors involved. It then concludes with some thoughts about the prospects for future relations against the backdrop of changing regional and international dynamics.

Historical Perspective

Japan and Taiwan have maintained a multifaceted intimate relationship despite the cut-off of official diplomatic ties in 1972. More specifically, the relationship has been underpinned by a shared history during the colonial period, economic interdependence, strategic alignment, and social and ideological connections between the Japanese and Taiwanese people.

The pre-1972 Period

Like many other countries in the world, the initial encounters between Japan and Taiwan were prominently driven by trade. Due to their geographic proximity, there was considerable trade dating back to the 1600s when the Dutch colonized Taiwan as a transportation base for trade with Japan. Later, during the Kingdom of Tungning era¹ in Taiwan, commercial activities between Japan and the Dutch colony blossomed. Japan imported commodities like deerskin, sugar, and silk from Taiwan and exported precious metal, porcelain, armors, and cotton cloth in turn. At that time, Japanese merchants were even permitted to live in Keelung, a northern city in Taiwan. However, the trade connection was suspended after 1600 by authorities due to Japan's self-imposed seclusion policy (*sakoku*) under the Tokugawa Shogunate and a ban on maritime trade imposed by the Qing Dynasty.

The connection wasn't rebuilt until Japan seized Taiwan (then called Formosa) from the floundering Qing dynasty in China after the 1894-95 Sino-Japanese War. As stated in the 1895 Treaty of Shimonoseki, China ceded Taiwan and the Pescadores Islands² to Japan as part of the war settlement. After that, Japan ruled Taiwan as a colony until its defeat in World War II in 1945. During the colonial period, the Japanese rulers sought to turn the island into a showpiece of a model colony, with many efforts to improve the island's economy, industry, and infrastructure, as well as to assimilate its culture.³ As a result, fifty years of relatively accommodating and progressive colonial rule provided the historical, cultural, and social foundations of today's bilateral relationship.

After Japan's surrender at the end of World War II, control of Taiwan was reverted to the Republic of China (ROC). Later, when the Chinese Nationalists were defeated by the Communists (CPC) and retreated from the mainland in 1949, Taiwan became the de facto entity of the ROC. Although Prime Minister Shigeru Yoshida initially intended to approach the newly established People's Republic of China (PRC) economically and diplomatically, the U.S. required Japan to accept diplomatic relations with the KMT-led Nationalist China in Taiwan in the context of the Cold War.⁴ With the outbreak of Korean War, diplomatic relations between the governments of Japan and Taiwan were established following the termination of U.S. occupation of Japan in 1952. The Treaty of Taipei⁵ was then signed with the ROC in order to end the state of war. Japan recognized the ROC then as the legitimate government of China.

What Happened in 1972?

Japan's position recognizing Taiwan was overturned in the wake of a series of "shocks" to the international system, including the "Nixon shock," the sudden announcement of President Nixon's visit to China and subsequent normalization of relations with Beijing, involving recognition of the PRC as the sole legitimate government of China, and not the ROC anymore. In addition, Japan failed in its co-sponsoring of a United Nations motion allowing Taiwan to keep its membership, following mainland China's recognition in the UN General Assembly in 1971.

Then Prime Minister Kakuei Tanaka, reacting to the Nixon shock, immediately decided to establish diplomatic relations with the PRC as quickly as possible. He traveled in 1972 to Beijing where he was feted as an honored guest. As a result, the Treaty of Taipei was abrogated unilaterally by Tokyo and was replaced by the 1972 Japan-China Joint Communiqué, which has codified Japan's declaratory positions toward Taiwan heretofore. As stated by the joint communiqué, "the government of the People's Republic of China reiterates that Taiwan is the inalienable part of the territory of the People's Republic of China. The government of Japan fully understands and respects this stand of the Government of the People's Republic of China."⁶ Like the U.S., Japan did not directly recognize China's claim to Taiwan. Instead, the joint communiqué adopted the words "understands and respects," which provided leeway for Japan's foreign policy toward Taiwan.⁷ From 1972, though, Japan adheres to the "One-China Policy," which assumes that Taiwan will eventually be absorbed through diplomacy under the Beijing government.

Developments after 1972

Despite the cut-off of official relations, Japan and Taiwan continued to have robust unofficial relations, bilaterally and in multilateral fora, in the following decades. Indeed, the Japanese formula of establishing unofficial organizations to maintain ties

between Tokyo and Taipei set the precedent for Taiwan's nongovernmental relations with other countries across the world.

Drawn together by common security, social, and economic concerns, Japan and Taiwan maintained friendly but cautious unofficial ties after 1972. Then, in 1988, with the death of President Chiang Ching-kuo, relations significantly improved under the presidency of Lee Teng-hui. Lee had studied in Japan during the World War II and had a much more positive view of Japan than his predecessors.⁸ Additionally, since Taiwan was gradually being democratized during Lee's tenure, shared values also facilitated the development of relations between Tokyo and Taipei. Subsequently, close connections were sustained after Chen Shui-bian's ascendance to presidency in 2000. With the mounting hostility from Beijing, the Chen administration was eager to push for stronger trilateral security partnership among the U.S., Japan, and Taiwan. By the same token, Japanese leaders also became annoyed by what they perceived as assertive provocations of China. While Japan didn't openly embrace Chen's "quasi-alliance" ideas, it was interested in developing a stronger sense of "alignment" with Taiwan through constructing a wider and deeper relationship.⁹

However, when Ma Ying-jeou was inaugurated as president in 2008, the relationship cooled down. President Ma adopted a balanced policy with all three countries, namely, the U.S., Japan, and mainland China. With Ma's election, Taiwan's relations with mainland China improved markedly. The change in posture was a mixture of relief and concern for Japan. On the one hand, it eliminated Japan's concern about a cross-Straits crisis, but on the other hand, it heightened the prospects for a shift in the regional balance of power toward China.¹⁰ Moreover, Ma's presidency also witnessed several intense occasions between Taiwan and Japan. For instance, Ma omitted mention of Japan in his inauguration speech and vocally claimed the disputed Senkaku/Diaoyutai islands as Taiwan's. Despite that, there is no question that Ma's policy toward Japan still had a friendly nature, and his legacy of gradual improvements to the relationship should not be overlooked. For instance, during Ma's tenure, Taiwan-Japan tourism gained added momentum and tourists could travel without visas to Japan. Drivers licenses were mutually recognized, and working holiday opportunities for young people were established.

Japan-Taiwan Relations under the Abe Administration

In 2006, Shinzō Abe became Japan's youngest postwar prime minister, but he had to resign in September 2007, after a series of cabinet scandals and for his own health reasons. He returned five years later, following the Liberal Democratic Party (LDP)'s landslide victory in the 2012 general election. Abe started his second premiership in December 2012. He also became the only Japanese prime minister who has dealt with three presidents in Taiwan: Chen Shui-bian, Ma Ying-jeou, and Tsai Ing-wen.

In general, Japan-Taiwan relations have thrived under the Abe administration, and at this time, future prospects for a higher degree of interaction are good. Abe, like his predecessors, has focused his Taiwan policy on maintaining and developing non-governmental, working-level relations. He has taken care not to rub Beijing the wrong way, even when aspects of the Taiwan relationship have been enhanced.

In exploring the dynamics, this section focuses on the vital actors and issues of the relationship, as well as circumstances in the domestic, regional, and international system.¹¹

Key Actors

Since Japan and Taiwan lack diplomatic relations, traditional government-to-government affairs are predominantly conducted by designated non-governmental or semi-governmental agencies. Such activities are carried out, under the “Japanese Formula,” by political parties and private sector organizations, such as trading and industrial associations, overseas compatriot organizations, and non-governmental organizations (NGOs).

The Japanese Formula

After the governments of Japan and Taiwan severed their diplomatic relations in 1972, two non-governmental agencies were established to handle matters concerning the interests of Japan and Taiwan, in accordance with the Arrangement for the Establishment of the Respective Overseas Offices signed on December 26, 1972. On the Japan side, the Interchange Association was founded, while on the Taiwan side, the Association of East Asian Relations was established. Since then, these two agencies have functioned as the de facto embassies in the context of the Japan-Taiwan relations. Under the Abe administration, these agencies have been renamed, however, signaling the deepening of Tokyo-Taipei ties.

After the termination of diplomatic relations with the ROC, and abrogation of the Treaty of Taipei, the Interchange Association was established by the approval by the Ministry of Foreign Affairs and the Ministry of International Trade and Industry of Japan. The association essentially operates from the former premises of the Japanese embassy, with offices in Tokyo, Taipei, and Kaohsiung. Its staff even enjoys some diplomatic privileges, as well as limited diplomatic immunity. In 2017, its name was changed to the Japan-Taiwan Exchange Association, demonstrating Japan’s commitment to enhancing a closer relationship with Taiwan.

Likewise, the Association of East Asian Relations of Taiwan was founded in 1972 when Japan switched its diplomatic recognition from Taipei to Beijing. Since then, it has functioned to represent Taiwan’s interests in Japan with six liaison offices and branches

in Japan. In 1992, the name of its liaison office in Tokyo was changed to the Taipei Economic and Cultural Representative Office in Japan (TECRO), and in 2017 the Association was formally renamed as the Association of Taiwan-Japan Relations, in response to the renaming of its counterpart earlier this year.

By November 2016, the Interchange Association and the Association of East Asian Relations had held hundreds of bilateral meetings and had concluded 47 agreements, arrangements, and cooperation memorandums. These agreements cover various areas, including fisheries (1), trade and investment (5), transportation (12), diplomatic and consular affairs (5), rule of law (3), fiscal policy (3), telecommunication (1), exchange (6), environmental protection (1), tourism (1), energy (1), and education (1).¹²

Parties

Unique to the unofficial relationship is a longstanding tradition of intraparty interaction between Japanese political parties and Diet members, and their counterparts in Taiwan. Pro-Taiwan politicians in Japan have formed various working groups that endeavor to enhance a more robust relationship and support Taiwan at the regional and international level.

One of the most influential groups is the Liberal Democratic Party's Youth Division where Prime Minister Abe and many other prime ministers once were active. It has long been an enthusiastic promoter of the relationship, and delegations from the group have visited Taiwan on a regular basis since 1965, a tradition initiated by the then director Toshiki Kaifu.

Meanwhile, Japan's main opposition party, the Democratic Party, is bound to further bolster future cooperation with Taiwan with the election of a Taiwanese-Japanese politician, Renho Murata, as the party leader. Deemed the "Daughter of Taiwan" by Taiwanese media, Renho is known for her strong links to Taiwan's Democratic Progressive Party. It was revealed by the press soon after her election that she had dual citizenship.

Civil Society

The relationship has also been enhanced by the vigorous exchanges and cooperation between private sector organizations in Japan and Taiwan. In particular, trading and industrial associations and overseas compatriot organizations have played a significant role.

To help promote bilateral trade, branches of industrial associations and commercial organizations have been established in both countries. For instance, the Taiwan External Trade Development Council (TAITRA), a major Taiwanese industrial

association, founded its branches in Japan to further strengthen its global trade promotion network and to provide better services for Taiwanese companies. By the same token, organizations like Taiwan Trade Center (TTC) and Taipei World Trade Center (TWTC) have founded their offices in Japan.

Overseas compatriots, especially Taiwanese in Japan, significantly contribute to the development of bilateral relations. According to the Overseas Community Affairs Council of Taiwan, there are more than 50,000 Taiwanese and Taiwanese-Japanese living in Japan, and the mutual tourist visits and exchanges also reached a high record of 6 million in 2015. The Taiwanese Association in Japan, therefore, has become a vital connection between Tokyo and Taipei.

Key Issues

Currently, many issues are embedded in the broader Japan-Taiwan relations, namely, conflicting territorial claims over the Senkaku Islands, or Diaoyutai in Chinese, struggles over fishery resource negotiations, the lifting of import constraints over products from Fukushima and other four areas, trade agreement negotiations, and “comfort women” issue.

The Island Dispute

Both Japan and Taiwan claim sovereignty over the Senkaku/Diaoyutai islands in the East China Sea, territory also claimed by mainland China. Disputes over the islands started to emerge in the late 1960s when UN reports suggested the possibility of the existence of large hydrocarbon reserves in the vicinity of the islands. Since then, the dispute has flared up repeatedly in the 1970s and 1990s.¹³ Later, the controversy over the islands worsened in September 2012, when the Japanese government purchased the three islands from their private owner, which triggered anti-Japanese protests in both Taiwan and the mainland China. Japan’s stance holds that the Senkaku islands are under its valid and effective control, are clearly an inherent territory of Japan from historical documents, and that no issue of territorial sovereignty exists to be resolved.¹⁴ To solve the disputes, President Ma Ying-jeou proposed the East China Sea Peace Initiative in August 2012 and urged all parties to put the sovereignty issue aside and work together to find a peaceful solution. Ma also proposed setting up a mechanism to jointly exploit the natural resources. However, the initiative has been ignored by Tokyo, and tensions have continued among the two claimants. Although currently both governments seek to downplay the territorial issue, nationalist sentiments still prevail in both countries, especially among non-governmental organizations, social activists, and opposition parties. There has been no attempt by Taiwan to coordinate with China, the other claimant in the dispute, a common strategy or approach.

The Japan-Taiwan Fishery Negotiation

The East China Sea is rich in fishery resources and thus a prime fishing ground for both Japan and Taiwan. Controversy over fishing rights was raised when both parties' claimed overlapping 200-nautical-mile Exclusive Economic Zones (EEZ). Taiwan and Japan launched their first fishery talks in 1996 between the Association of East Asian Relations and the Interchange Association. Since then Japan and Taiwan have conducted more than 17 formal meetings as well as numerous preparatory meetings and consultations. Despite the fact that the negotiations were interrupted occasionally, both sides successfully concluded a civil fishery agreement in April 2013, covering the waters south of 27 degree north latitude and north of the Yaeyama Islands.¹⁵ Under the agreement, Japanese and Taiwanese fishing boats in the area are exempted from the jurisdiction of each other's law enforcement, and the two sides agree to discuss resource conservation and common fishing rules.

Although the agreement was hailed as a strategic success by both parties, it excludes the territorial seas around the disputed islands. In addition, Japan and Taiwan are also involved in a diplomatic spat over the Okinotori islands and fishery rights in waters around the site in recent years. This little-known dispute, however, has triggered nationalist sentiments in both Japan and Taiwan.¹⁶

Ban on Products from Fukushima and other Four Prefectures

Taiwan imposed import restrictions on food products from Fukushima Prefecture and nearby Ibaraki, Tochigi, Gunma, and Chiba prefectures in the wake of the meltdown of the Fukushima Dai-ichi nuclear power plant in March 2011. Since then, Taiwan has also been conducting random radiation checks on nine categories of imported foods from Japan. Pressure from the Japanese side to remove the ban has been accumulating. In May 2016, the new Taiwanese administration announced a two-stage proposal stating that Taiwan plans to keep a ban on the import of food from Fukushima but conditionally allow imports of certain products from four other Japanese prefectures. As a result, controversies have been raised in Taiwan over food security and whether Taiwan should ease its ban. Opposition parties and the public have strongly objected to the government's compromise proposal. There is no evidence, incidentally, that any of the food products coming from any of the five prefectures are contaminated, so the ban is based on false rumors and not facts.

Trade Agreement Negotiation

As export-oriented economies, both Japan and Taiwan heavily rely on the openness of the world's trade system. Although the economic interdependence between Japan and Taiwan is significantly vigorous, Taiwan has constantly expressed its

willingness to seek a formal trade agreement in the absence of official diplomatic relations. Yet, progress has stalled because Japan and Taiwan appear to have different visions of what trade arrangement to approve. Japan seems more interested in reaching a multilateral trade agreement, modeled on the Trans-Pacific Partnership (TPP). However, on January 23, President Donald Trump signed a presidential memorandum withdrawing the U.S. from the TPP, which was a major setback for leaders in Tokyo and Taipei hoping to ride on the TPP's coattails. Despite the Trump shock, Japan continues to pursue the TPP without the U.S. participation. For Taiwan, to start negotiations for a free-trade agreement (FTA) between the two economies, or to join a multilateral trade negotiation, has been a top priority given that it struggles to reduce economic dependence on the mainland China.

The “Comfort Women” Issue

The “comfort women” issue -- military sex slaves for the “comfort” of Japanese soldiers during WWII -- has aroused passionate public sentiments in Taiwan, as well as other Asian countries. It is the one negative legacy of the past that has hurt ties between Taiwan and Japan. More than 2,000 Taiwanese women were forced into sexual slavery by the Japanese Imperial Army during World War II, according to the Taipei Women's Rescue Foundation, a Taiwan-based NGO dedicated to the “comfort women” issue. The Taiwanese government has repeated its request for Japan to formally apologize to Taiwanese comfort women and offer them compensation, thereby restoring their reputations. However, the Japanese government has resisted. When Japan and South Korea agreed to settle the issue by a formal apology and compensation to the Korean victims in December 2015, Taiwan was offended that no similar offer went out to its victims. It has strongly conveyed its stance to Japan and asked for negotiations. So far, Tokyo has not responded to the demand.

Factors Affecting Bilateral Ties

Under the Abe administration, Japan-Taiwan relations have seemingly blossomed. What are some of the various factors, domestic and external, that explain the new trend? And what roles have China and the U.S. played even indirectly in contributing to the incipient sea change in Japan-Taiwan ties.

Social Factor

One key factor has been the shared values of democratic governance, freedom, free-market economy, and the rule of law. In addition, feelings of close friendship between Japanese and Taiwanese have laid the social foundation for the relationship.

Since the late 1980s, Taiwan's democratization has drawn Japanese closer to Taiwan ideologically. Increasingly, many Japanese have shown admiration for Taiwan's

democratization and perceived a convergence of values between Taiwan and Japan that could form a basis for expanding bilateral ties. For Taiwanese, the feelings toward Japan are somewhat complex among different generations due to the fact that Taiwan was under Japanese rule for fifty years. However, in terms of the society, the Taiwanese attitudes are quite positive toward Japan. According to a 2016 poll by Japan's Interchange Association, a record 56 percent of Taiwanese people picked Japan as the foreign country or region they like most. Japan was also cited as the most popular overseas travel destination and a majority of respondents said the Japan-Taiwan relationship was in good shape, according to the survey.¹⁷ Such positive public opinion was also illustrated after the Great East Japan Earthquake when monetary donations totaling \$160 million were contributed from all quarters of Taiwan and deep condolence was shown by President Ma and other senior Taiwanese government figures.¹⁸

Economic Factor

Taiwan's rapid economic ascendancy as one of the four "Asian Dragons" has led to Japan's expanding economic relations with the island.

For many years, Japan has enjoyed a large trade surplus with Taiwan. Currently, Japan is Taiwan's third largest trade partner, just behind mainland China and the U.S., while Taiwan is Japan's fourth largest trade partner. In 2016, the volume of bilateral trade reached \$60.2 billion, and Taiwan had a trade deficit of \$21.09 billion. Taiwan has been an important market outlet for Japanese exports, especially high-tech products such as communication technology and machine tools. Similarly, Taiwan has also been an important source for Japanese imports. In terms of investment, the accumulative volume of investment from Taiwan was \$8.325 billion by 2016 while that from Japan was \$19.069 billion.¹⁹ While there is no question that Japan has more economic interests in China than in Taiwan, given the size of China, Japan's economic interest in Taiwan has grown to such a significant extent that it can no longer be ignored.

Political Factor

The political connections between top leaders also play a significant role within the relationship.

The Abe administration has been seen as a pro-Taiwan regime and Prime Minister Abe has also constantly expressed Japan's willingness to enhance Japan-Taiwan relations. Although during the Ma Ying-jeou presidency the cross-Strait ties seemed to largely take precedence over Taiwan-Japan relations, Japan remained one of the top priorities for Ma. With little pressure from Beijing due to the rapprochement, ties between Taiwan and Japan grew even stronger. When Tsai came to office, the underlying intraparty connections and non-official channels maintained by the DPP over the last several decades were illustrated. Tsai even reinforced this network in her pre-election trip to

Japan, where she met with the Democratic Party of Japan's secretary general, visited the Japanese cabinet offices, and held a closed-door conversation with Prime Minister Abe.

China Factor

Besides, the changing security dynamics, especially China's perceived assertiveness also lead to closer Japan-Taiwan relations.

Since coming into office in December 2012, Prime Minister Abe not only has demonstrated his commitment to rebooting Japan's economy through a comprehensive policy agenda dubbed "Abenomics," he has embarked on a radically different course than his successors designed to turn Japan, in diplomatic and security terms, into a "normal country." He aims to amend the Constitution and insert Japan more proactively as a main player in the international community and in regional security, with Japan's ally the U.S.

Dealing with a rising China has been particularly vexing for Japan, even before Abe came into office. Japan sees China as a revisionist power out to upset the geopolitical balance in the Asia-Pacific region. To that end, Prime Minister Abe has been vigorously enhancing traditional alliance and cooperation with the U.S. and South Korea, and at the same time, actively developing strategic partnerships with India, Australia, the Philippines, and Vietnam, while cultivating closer ties with Russia, and courting countries in Southeast Asia (including Myanmar), Africa and Central Asia. Since Taiwan is strategically aligned with the U.S., it is listed high on Abe's external policy agenda due to its unique geopolitical position.²⁰ One could argue that Taiwan is Tokyo's "stealth strategic partner" in East Asia.

For Taiwan, prior to May 2016, Ma's pro-China political discourse reduced Beijing's suspicion and interference in the development of Taiwan-Japan relations, and the interactions between Taiwan and Japan were largely unobstructed. Although Ma held tough stances on issues regarding historical memory and territorial disputes, the connection between Tokyo and Taipei remained quite robust.²¹

After her inaugural address on May 20, 2016, however, Tsai refused to recognize the 1992 Consensus and its core idea of "One China" principle despite China's insistence, resulting in a precipitous cool-down across the Strait. Consequently, China has adopted tools to weaken Tsai's regime, such as restricting cross-Strait economic interactions, obstructing Taiwan's international participation, and reducing Taiwan's official allies. With a doctrine of pragmatic diplomacy, Tsai therefore has turned to Japan and the U.S. for security assurance, and has aimed to build closer ties with the other markets like the ASEAN countries and India. Apart from foreign affairs, Tsai Ing-wen has also appeared to focus most of her efforts on domestic reforms since taking office, including launching pension and labor reform and enacting a law on transitional justice.

United States and the Alliance Factor

Japan and Taiwan, like other states situated on the peripheries of the global U.S. security architecture that has prevailed since the end of World War II, have greatly benefited from “America’s sword” in the region. Their respective alignment with the U.S. has also facilitated their own collaboration. Washington has also encouraged regional partners to institutionalize security cooperation with each other even when the United States is excluded, on the principle that stronger ties between allies complement their relations with America.

For Japan, the U.S.-Japan Treaty of Mutual Security and Cooperation and the 1997 Defense Guidelines and its 2015 revision indirectly tie Tokyo’s security to Taipei through obligations to help Washington maintain regional stability and support U.S. military forces in East Asia. The guidelines stipulate Tokyo will provide logistical support to U.S. forces operating in areas surrounding Japan, which means that Japan will be involved in any Taiwan Strait conflict should the United States choose to intervene. Thus, geopolitically Taiwan is a *de facto* ally for Japan in this region.²² By the same token, Taiwan’s relations with the U.S. are codified by the 1979 Taiwan Relations Act, and Taiwan also regards Japan as a semi-ally along with the U.S. in this region.

Prospects and Conclusion

Based on the multifaceted interacts between Tokyo and Taipei, as well as the dynamic influential factors, several points can be made concerning the prospects of this bilateral relationship in the coming years.

First, the relationship between Japan and Taiwan will be further strengthened under the current Abe and Tsai administrations. Currently, both administrations adopt quite friendly gestures to each other given their national interests. It is also highly possible to continue the cooperation once Abe and Tsai are reelected and continue their tenures to 2021 and 2014, respectively. Japan’s strategic future also hinges on Taiwan’s ability to retain autonomy from the mainland and in ways that preclude China from projecting military power from Taiwan into the Western Pacific. Therefore, cooperation may be expanded to more substantial areas, such as military and intelligence, facing China’s massive buildup of military power.

Second, despite that, Tokyo is not prepared to jeopardize its fundamental relations with Beijing for Taipei, especially with Taiwan’s intention for *de jure* independence. Like the U.S., Tokyo is concerned that Taipei has the intention to raise tension in the Taiwan Strait and to destabilize Asia Pacific if it moves aggressively toward *de jure* independence. If it is Taipei, not Beijing that seeks to fundamentally change the status quo, Tokyo, like Washington, is unlikely to side with Taipei because the mainland China will never compromise on the issue of Taiwan independence, while the U.S. and Japan

have no wish to go to war with China. Hence, the relations will remain unofficial and those non-governmental agencies will continue to play a substantial role, representing both governments.

Third, under the Trump administration, Japan and Taiwan's interests may align in urging the United States to rethink its role in the Asia-Pacific region and the cost of recent exchange of interests between the U.S. and China on the North Korea issue. Although President Trump repeatedly claimed to want to redefine the alliance with Japan during the campaign, Japan and the U.S. have since strengthened their relations, starting with Prime Minister Abe's visit to the U.S. North Korea's provocative acts, including missile testing, have helped cement the Alliance. For Taiwan, the situation is a bit worrying, particularly should President Trump alter his position on the "One-China" policy (his aides say he will not) and tends to want to hand the North Korea problem over to President Xi Jinping to figure out. Such sudden turns by the U.S. seems to benefit China at the expense of Taiwan.

In a nutshell, the Japan-Taiwan relations have significantly developed under the Abe administration and currently both governments seem to maximize their common interests and downplay controversial disputes. In the future, Taiwan's security interests and political values predominantly coincide with Japan's in the context of regional and international circumstances. This suggests a closer convergence of Tokyo-Taipei relations over the coming decade.

Endnotes:

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- ¹ The Kingdom of Tungning or Kingdom of Formosa was a government that ruled part of southwestern Taiwan between 1661 and 1683. It was founded by Koxinga (Zheng Chenggong) as part of the loyalist movement to restore the Ming government in China after it was overthrown by the Qing dynasty.
- ² The Penghu or Pescadores Islands are an archipelago of 90 islands and islets in the Taiwan Strait.
- ³ Ka, C. (1995). *Japanese colonialism in Taiwan: land tenure, development, and dependency, 1895-1945*. Boulder, Colo.: Westview Press.
- ⁴ Yoshihide, S. (2001). Taiwan in Japan's Security Considerations. *The China Quarterly*, (165), 130-146.
- ⁵ The Treaty of Taipei, or the Sino-Japanese Peace Treaty, was a peace treaty between Japan and the Republic of China (ROC) signed in Taipei on April 28, 1952, marking the formal end of the Second Sino-Japanese War (1937–45). This treaty was necessary because neither the Republic of China nor the People's Republic of China was invited to sign the Treaty of San Francisco due to disagreements by other countries as to which government was the legitimate government of China during and after the Chinese Civil War.
- ⁶ Mochizuki, M. M. (2007). Japan's shifting strategy toward the rise of China. *Journal of Strategic Studies*, 30(4-5), 739-776.
- ⁷ In 1998, Japan and China issued a joint declaration which restates Japan's basic position on Taiwan. "The Japanese side continues to maintain its stance on the Taiwan issue which was set forth in the Joint Communiqué of the Government of Japan and the Government of the People's Republic of China and reiterates its understanding that there is one China. Japan will continue to maintain its exchanges of private and regional nature with Taiwan."
- ⁸ Lee, T. H. (1999). *The Road to Democracy: Taiwan's Pursuit of Identity*. Dell Publishing Company.
- ⁹ Bridges, B., & Chan, C. P. (2008). Looking north: Taiwan's relations with Japan under Chen Shui-bian. *Pacific Affairs*, 81(4), 577-596.
- ¹⁰ Matsuda, Y. (2009). Improved Cross-Strait Relations Confusing to the Japanese. *AJISS Commentary*, (80), 2.
- ¹¹ Sun, J. (2007) "Japan-Taiwan relations: Unofficial in Name Only," *Asian Survey* 47(5), pp. 790-810.
- ¹² The Association of East Asian Relations. Retrieved May 11, 2017, from <http://www.mofa.gov.tw/aeear/cp.aspx?n=4810D2C08B273D5E>
- ¹³ Deans, P. (2000). Contending nationalisms and the Diaoyutai/Senkaku dispute. *Security Dialogue*, 31(1), 119-131.
- ¹⁴ Japan claims that when the Senkaku islands were placed under the administration of the U.S. in accordance with Article 3 of the San Francisco Peace Treaty, the Taiwanese authorities did not raise any objection to this. Neither did the Taiwanese side raise the issue of the sovereignty of the Senkaku islands during the process of negotiating the Treaty of Taipei in 1952. Moreover, none of the points raised by the Taiwanese authorities as historical, geographical or geological evidence provide valid grounds to support Taiwan's assertion of sovereignty over the Senkaku islands. Therefore, Japan does not accept Taiwan's own assertion.
- ¹⁵ Republic of China (Taiwan) signs fisheries agreement with Japan. (2013, April 15). Retrieved May 11, 2017, from http://www.mofa.gov.tw/en/News_Content.aspx?n=539A9A50A5F8AF9E&sms=37B41539382B84BA&s=E80C25D078D837BB.
- ¹⁶ Song, Y. H. (2009). Okinotorishima: A Rock or An Island? Recent Maritime Boundary Controversy Between Japan And Taiwan/China. In *Maritime Boundary Disputes, Settlement Processes, and the Law of the Sea* (pp. 145-175). Brill.

¹⁷ Record 56% of Taiwanese say favorite country is Japan. (2016, July 20). Retrieved May 10, 2017, from <http://www.japantimes.co.jp/news/2016/07/20/national/record-56-taiwanese-say-favorite-country-japan-china-next-6/#.WRaRWWjyteU>.

¹⁸ Minister of Foreign Affairs, Japan. Retrieved May 9, 2017, from http://www.mofa.go.jp/region/asia-paci/taiwan/pdfs/japan-taiwan_relations.pdf

¹⁹ The Association of East Asian Relations. Retrieved May 11, 2017, from <http://www.mofa.gov.tw/aeear/NewsNoDept.aspx?n=61CC97AE87C22D21&sms=516A8B4F29B6AA51>.

²⁰ Chen, J. (2006) "Japan's Policies Towards Taiwan: Trends, Causes and Implications for the Future of Tokyo-Taipei Relations," *Stanford Journal of East Asian Affairs* 6(1), pp. 53-61.

²¹ Wilkins, T. S. (2012) "Taiwan-Japan Relations in an Era of Uncertainty," *Asia Policy* 13, pp.113-132.

²² Wang, Q. K. (2000) "Taiwan in Japan's Relations with China and the United States after the Cold War," *Pacific Affairs* 73(3), pp. 353-373.

Japan's Healthcare Crisis: Implications for the United States

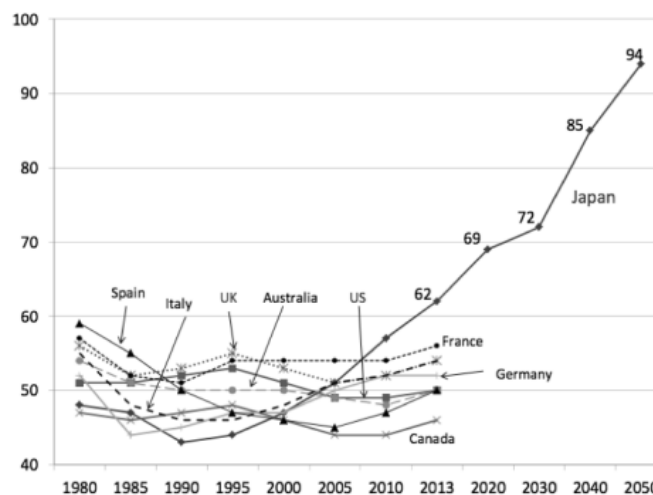
Mr. Jingwei Zhang

Introduction

Japan is already one of the oldest societies in the world, with a rapidly aging population and fewer babies being born every year. The proportion of its elderly population (people over 65 years old), which was 14.5% in 1995, increased significantly to 20.2% by 2005 and to 26% by 2016.¹ The current rate of the elderly is significantly higher than that of the United States (14.5% in 2014) and the European Union (18.9% in 2015).² Since the life expectancy of Japanese continues to increase – now 83.7 and ranking number 1 on the world – and younger Japanese show little enthusiasm about having children – the fertility rate now being a dismal 1.41 – Japan is on track to reach 40% by 2060.³ Last year was the first year since 1899 that fewer than one million babies were born in the country.

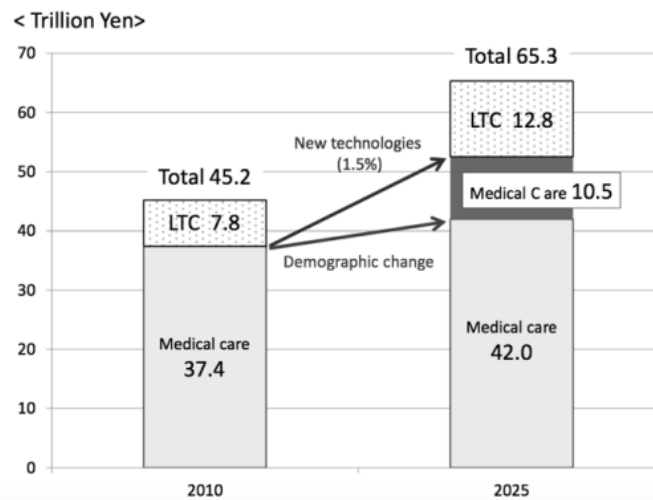
The population has been in decline since 2008, and the negative impact on the national economy is already apparent. According to the baseline scenario in Population Projection for Japan (January 2012) conducted by the National Institute of Population and Social Security Research, Japan's population is expected to decrease by 32 per cent from 128 million in 2010 to 87 million in 2060.⁴ Another think tank—the Japan Center for Economic Research estimated that 1.1% of annual working population decline theoretically can lead to 0.7% decline in nominal GDP.⁵

Figure 1: Age dependency ratio



Source: The World Bank Data. National Institute of Population and Social Security Research, Projection 2012. Note: Age dependency ratio is the ratio of dependents—people younger than 15 or older than 64—to the working age population—those ages 15-64. Data are shown as the proportion of dependents per 100 working age population.

Figure 2: Forecast of healthcare expenses of 2025



Source: National Institute of Population and Social Security Research, Population Projection, January 2012. Ministry of Health, Labor and Welfare, 2011 National medical care expenses overview. Long term care benefits survey October 2013.

The demographic changes are creating a crisis for Japan's healthcare system. Until now, Japan's healthcare system has maintained a sterling reputation in the world. It was ranked the 1st globally by the World Health Organization in 2000, because it is able to achieve the highest life expectancy with relatively low healthcare expenditure as a share of GDP.⁶ However, the situation has already changed dramatically. The OECD Health Statistics for 2015 indicate that Japan's healthcare expenses a portion of GDP in 2013 reached 10.2 per cent, higher than the OECD average of 8.9 per cent.⁷ Besides, Japan's dependency ratio—population younger than 15 or older than 64 to the working age population—is significantly higher than other major industrialized countries and continues to climb, as is shown in Figure 1. A high dependency ratio would negatively impact tax revenues, and simultaneously increase the consumption of healthcare services, both of which would weaken the government's ability to support Japan's world-famous universal healthcare system. Consequently, despite a shrinking population, the total medical care expenses of Japan are forecast to increase from 45.2 trillion yen in 2010 to 65.3 trillion yen in 2025 (Figure 2).⁸ Considering the stagnation of Japanese economy and the increasing strain of the national budget, structural reform of Japan's healthcare and welfare systems is an urgent and unavoidable task.

Current Health Insurance Policies in Japan

In Japan, public health insurance plays a dominant role in the health insurance market, while private insurance only serves a minor role. In 2013, Japan's total healthcare expenditure amounted to around 10% of GDP, 83% of which was publicly funded, mainly through the public health insurance system (PHIS).⁹ Within the PHIS, user charges, tax-financed subsidies, and insurance premiums accounted for approximately

12%, 38% and 49% of the total health expenditure respectively.¹⁰ The PHIS, comprising over 3,400 insurers, provides universal primary coverage¹¹. Japanese residents are mandated to enroll in one of the PHIS plans on the basis of their employment status and/or place of residence. Specifically, PHIS programs available to Japanese citizens and resident noncitizens can be categorized into two types: the Employees' Healthcare Insurance and the National Health Insurance for farmers, self-employed individuals, and the unemployed.¹² For both types of insurance, the insured are required to pay a 30 percent coinsurance rate for medical services and pharmaceuticals, except for children under age 3 (20%), adults between 70 and 74 with lower incomes (20%), and those 75 and over with lower incomes (10%).¹³ Additionally, all PHIS plans provide the same benefits package that is determined by the central government, usually through negotiations led by the Central Social Insurance Medical Council, a governmental body. This package covers hospital, primary, and specialist ambulatory and mental health care, approved prescription drugs, home care services by medical institutions, hospice care, physiotherapy, and most dental care.¹⁴ Patients can freely perfectly adequate system for the healthcare needs of the Japanese society – at least until now.

In addition, the government regulates almost all aspects of the PHIS. The central government assumes the responsibility to set the fee schedule and provide subsidies to local governments, insurers, and providers. It is also responsible for establishing and enforcing industry regulations for insurers and providers. Japan's 47 prefectures carry out those regulations and develop regional healthcare delivery system with funds allocated by the central government.¹⁵

Inefficiencies and Problems in the Existing Healthcare System

As mentioned previously, Japan's healthcare system is admired for its effectiveness worldwide. But the system is by no means perfect; there exist inefficiencies and problems in terms of its healthcare infrastructure and care-delivery system that the growing demographic crisis has uncovered.

With regard to healthcare infrastructure, Japan's healthcare system has a structural problem. First and foremost, there is a significant shortage of physicians per capita, especially in fields such as primary care, obstetrics, gynecology, and pediatrics.¹⁶ In 2014, the average number of physicians per population of 1,000 in OECD countries was about 3.0.¹⁷ Japan, with only 2.0 doctors per 1,000 citizens, ranks the 26th among the 29 data-available member states.¹⁸ Furthermore, the distribution of physicians in Japan is imbalanced, with rural areas generally lacking sufficient medical services, while some urban areas are oversaturated.¹⁹ Simultaneously, the number of beds per 1000 inhabitants in Japan is significantly higher than its OECD counterparts (13.2 in Japan compared with OECD median of 4.5).²⁰ The shortage of physicians, in combination with the oversupply of hospital beds, has contributed to overworked physicians and the problem of patients'

long stay in hospitals.²¹ Japanese doctors see 3.5 times more patients than in other OECD nations per year, and Japanese patients' average length of hospital stay (16.9 days in 2014) is more than 2 times of that of the OECD average.²² Patients' long stay in hospitals has incurred additional fiscal burdens for the government, as under the PHIS, the majority of medical costs are reimbursed by the government. Also, with insufficient physicians, the quality of care for inpatients is questioned.

In addition, the substantial shortage of care workers for the elderly and disabled is another pressing issue within Japan's healthcare infrastructure. Despite the fact that the number of care workers has tripled to 1.71 million in 2013, up from 0.55 million in 2000, it still failed to keep pace with rapidly growing demand.²³ According to the estimate by Japan's Health, Labor and Welfare Ministry, Japan will need 0.8 million more long-term care workers to fill the demand gap in the coming decade.²⁴ The huge shortage of care workers is largely because this job is low-paying and physically demanding. According to an official survey in 2015, the average salary of full-time care workers was approximately ¥220,000, roughly ¥110,000 lower than the all-industry average.²⁵ Besides, this job is both physically and mentally challenging. Care workers not only need to provide the elderly with physical support, but also have to be always on alert during their working time, especially when taking care of dementia patients.

As a result, many nursing homes have to turn away clients despite the availability of empty beds because of insufficient staff. In 2013, there are approximately 520,000 elders who were on waiting lists for admittance to nursing homes in Japan.²⁶ Moreover, it should be pointed out that the lack of long-term care workers is one of the contributing factors to the relatively low working participation rate of Japanese women, as many women have to quit their jobs to shoulder the responsibility of looking after elderly family members.

In terms of Japan's nursing-care delivery system, there are two major disadvantages. First, the efficiency of Japan's healthcare system suffers due to the absence of primary care physicians. Primary care physicians can manage a patient's care and resolve minor health issues, acting as "gatekeepers" to reduce the number of patients' unnecessary visits to hospitals. Such primary care physicians do exist in Japan but remain rare. It is because the healthcare insurance system in Japan allows the insured to freely seek treatment from the provider of their choice without a referral for specialists. Consequently, Japanese patients visit hospitals more frequently than patients in other OECD countries. More frequent visits usually mean higher medical costs for the Japanese government. Moreover, this phenomenon, combined with the shortage of physicians in Japan, has led to the low quality of doctor consultation. In Japan, the average consultation is only 3 minutes in length, well below the 10-15 common range in OECD nations.²⁷ Besides, overcrowded hospitals would prevent medical resources from being utilized for patients with more urgent needs, leading to low efficiency.²⁸

Second, Japan's current "fee-for-service" model can be further improved. The "fee-for-service" model indicates that medical fees are identical for the same type of medical treatment across all healthcare providers in Japan. The fee schedule of all medical services is determined by the Central Social Insurance Medical Council, and is adjusted every two years through consultations with representatives from different sectors in the healthcare system. On one hand, a strictly regulated fee schedule allows the government to control healthcare expenditures and create an egalitarian system in which every resident has access to the same healthcare service for the same price from the provider of their choice.

On the other hand, with a fixed fee schedule, doctors can only improve their income by increasing the volume of patients. As a result, it has incentivized doctors to prioritize quantity over quality, the evidence of which is the high frequency but short length of doctor consultation in Japan. Moreover, it has triggered the overuse of some diagnosis and treatment measures. This is revealed in the number of magnetic resonance imaging (MRI) units per 1,000 patients in Japan, which was more than three times higher than the OECD average in 2008, suggesting that Japanese doctors are conducting more MRI scans on patients than what is medically necessary.²⁹ Doctors can profit from this expensive treatment while the bulk of medical costs is burdened by the government.

Last but not least, only a small percentage of hospitals and clinics have established their own electronic medical record system, and there is no centralized system where medical records can be accessed and shared by all healthcare providers. According to the data from the Ministry of Health, Labor and Welfare (MHLW), there are only 21.9% of medical institutions that introduced electronic medical records as of 2011.³⁰ The absence of such a system, along with patients' free choice of doctors and facilities, has led to redundant and overlapping treatment, incurring additional costs on the system.³¹

Japan's economy has remained stagnant for over two decades, and its public debt relative to GDP has grown to become the highest in the world. This has strained the national budget and forced the government to acknowledge these inefficiencies in the healthcare system and begin to implement significant reforms.

Countermeasures by the Japanese Government

Recognizing these pressing challenges, the Japanese government has implemented a series of reforms, which are mainly three-folded: policies to mitigate the negative influence of labor force shortage; policies to improve the efficiency of the healthcare system and ease fiscal burden; and policies to encourage innovation and technology advancement. The following section will introduce and assess the measures that the Japanese government has taken so far.

Mitigating the Negative Influence of the Labor Force Shortage

The Abe administration's solution for the fiscal crisis hitting the healthcare system is to reboot the national economy (Abenomics) and somehow stem Japan's demographic decline. The government hopes to encourage older workers to remain longer in the labor force before retiring, encourage more women to join and stay in the workforce and to recruit more foreign workers to fill the labor shortage gap. Such developments would naturally increase government revenues, alleviate the fiscal strain on the nation's social services, and provide young families with enough income, including double incomes, to encourage couples to have more children. Of course, there must be available facilities and daycare workers to take care of the children of working parents. So far, these policies have only produced limited success.

In early 2013, Prime Minister Abe introduced the concept of "womenomics" as a key aspect of Japan's growth strategy. Measures would be taken to encourage broader female participation in the job market, not just for salaried work but also managerial positions. Admittedly, some progress has been witnessed so far as Japanese female labor participation has been rising steadily in recent years. Nonetheless, the effectiveness of this policy is still constrained by many factors.

First, Japanese women are still expected to assume their traditional role of managing household chores including raising children and taking care of elderly parents. Women usually leave the job market after having their first child. In addition, the lack of long-term nursing care workers has forced many Japanese women to leave their jobs in order to care for elderly parents or other relatives.

Second, factors such as gender inequality, low wages and inadequate day care facilities also have discouraged women from participating in the workforce. Traditionally, most Japanese women join the labor market after finishing their education, but afterwards, many have to make a choice between continuing their career and having children as there are many barriers for doing both. For example, according to a government survey, almost half of Japanese women who work on short-term contracts suffer harassment after becoming pregnant or giving birth.³² Also, many mothers see their continuous employment out of economic necessity as their salary has not increased in the era of economic stagnation. Most importantly, the lack of day care facilities further deters women from joining in the labor market.

In the past, there was little demand for public day care facilities as the majority of Japanese women were housewives. However, the demand has increased rapidly as an increasing percentage of women has stayed in the workforce. Aware of the problem, the Japanese government has implemented a series of policies in the last two decades such as the "Angel Plan" in 1992, the "New Angel Plan" in 1999 and the "Strategy Towards No Waiting Lists for Nursery" launched in 2001, 2008 and 2013. Despite these historical

efforts, the outcomes are still far from satisfactory. Surprisingly, waiting lists for day nursery services has continued to increase even as the birth rate is declining constantly. For example, by April 2016, 23,000 children were on waiting lists to enroll in nursery schools, not including another 7,000 ineligible children as their parents were on child care leave.³³ The major obstacle to create more day care facilities is the lack of nursery teachers. This job is unpopular for its low wages, and the turnover in this industry is considerably high. The Abe administration's solution to the problem is trying to raise wages to lure back many of the trained nursery teachers who have left the industry and attract new teachers to join. However, these proposals have been criticized for not going far enough.³⁴

Another potential measure to mitigate the problem of labor force shortage is to utilize more foreign workers, but so far the numbers are relatively small. In the context of the medical and welfare sector, the Japanese government started to accept a limited number of nurses and care workers from Southeast Asia in 2008, under economic partnership agreements (EPA) with the Philippines, Indonesia and Vietnam. Under EPA programs, qualified applicants will receive Japanese language training followed by professional training at a Japanese medical or care facility in order to prepare for the national license exam. Applicants who pass the national license exam are eligible to work in Japan indefinitely, renewing their residence status every three years. Since the implementation of this policy, over 4000 candidates from these three countries have been recruited and trained, and these candidates made a great deal of effort to complete their training and earn their license, as do the facilities that take charge of their training.³⁵ But ironically, 16-38% of those who passed the national license exam ultimately returned to their home country instead of staying in Japan.³⁶ According to a director of a nursing care facility in Hyogo Prefecture who utilizes such foreign labor, once the workers receive three years of training, they tend to return to their own country to open up their own nursing care facility.

Many of the foreign nurses and care workers who left Japan cited low salary, long working hours and unfavorable working environments as their major reasons for leave. These are the same reasons why this is not a preferred job for Japanese. In other words, these Southeast Asian candidates are deterred by the poor working conditions that also discourage Japanese residents from engaging in this job. Therefore, to secure adequate nurses and care workers in Japan, the priority should be improving working conditions and raising the wage level.

The reluctance of the Japanese society to accept large numbers of foreign workers in the healthcare or any sector is another factor contributing to the limited effectiveness of this policy. Since this cultural gap remains a problem, many Japanese healthcare institutions are still skeptical of working with foreign workers. Understandably, from a cultural and psychological perspective, both medical institutions and individual families

would prefer domestic Japanese workers to take care of frail elders. As a matter of fact, the exposure of the healthcare sector in Japan to foreigners is usually very limited compared with other sectors.

Improving the Efficiency of the Current Healthcare System to Ease Fiscal Burden

Since Prime Minister Abe assumed his position, healthcare sector reform has been placed high on the agenda. The Abe government implemented a series of reform measures designed to improve efficiency and ease the fiscal burden.

To solve the structural problem within the healthcare system, reforms seek to eliminate excessive and unused hospital beds to control medical costs. Simultaneously, these attempts also include measures to increase the number of physicians. Since the 1980s, the Japanese government has maintained a strict quota on the enrollments at medical schools to prevent a deluge of doctors.³⁷ But in recent years, the shortage of doctors has been addressed by the increase in enrollment quota at existing medical schools as well as the creation of new medical schools. For instance, the total number of students allowed in a year at Japan's 80 medical schools has increased from 7,600 in 2007 to 9,040 in 2013. Also, in 2014, the Ministry of Education, Culture, Sports, Science and Technology approved the creation of a new medical school at an existing university in Tohoku, for the first time in more than three decades.³⁸ However, there is no guarantee that graduates from medical schools will continue to work at a local hospital in the region. More often than not, students at medical schools in rural areas prefer to work in urban areas after graduation, which has exacerbated the imbalance of medical resources between urban rural areas. Therefore, raising quota and opening new medical schools alone will not help remedy the immediate shortage of physicians, training physicians to satisfy Japan's medical demand requires a long-term policy approach that has to consider the nation's demographic trends and regional disparity.

With regard to the nursing-care delivery system, the Japanese government aims to shift the current hospital-based care system to a community-based care system, and encourage more primary care and preventative medicine. Specifically, new reforms will control medical costs by eliminating redundant and overly frequent treatments and encouraging patients to see family doctors before visiting hospitals. For instance, the Japanese government has introduced a plan to strengthen patients' financial incentives to rely more on family doctors so that the demand on hospital outpatient departments can be reduced. In addition, under the Health Care Reform Act 2015, hospitals with over 200 beds are now allowed to charge additional fees to patients without referral for outpatient consultations, and highly specialized large-scale hospitals with over 500 beds are responsible for promoting care coordination between providers in the community.³⁹

Moreover, in recent reforms introduced in the Long-Term Care Insurance Act, national and local governments have the responsibility to establish a community-based

integrated care system. The concept of “community-based integrated care” is defined as “comprehensive care integrating the various resources of the community through coordination between formal health, welfare and medical care specialists, and further, including informal or mutual activities by the residents such as volunteers”.⁴⁰ In other words, under the community-based integrated care system, the elderly can have access to a variety of health care services, including personal care, nursing, physiotherapy and other rehabilitation services at home or in the community. For example, visiting nursing services are a critical part of this community-based integrated care system, and are covered by the health insurance and long-term care insurance systems. Besides the visiting nursing system, systems for the integral provision of care by nursing and care staff were launched since 2006, with services including daycare service, compound services and regular/on-demand home-visit nursing and long-term care service.⁴¹

In addition, Japan’s current healthcare system relies overly on hospital treatment to cure diseases, and new reforms are intended to expand disease control measures toward the promotion of preventive medicine in order to reduce medical costs. Specifically, MHLW is taking actions to control diabetes mellitus, hypertension, and lipid metabolism disorder, mainly through advocating of healthy lifestyle, and hence to prevent cardio- and cerebrovascular disorders that severely impair vital prognosis and quality of life.⁴² For instance, healthcare insurers are obligated to carry out physical examinations on insured people over 40 years old to detect signs of lifestyle-related diseases as early as possible. They are also required to provide specific health guidance to the insured, if appropriate, to prevent the clinical manifestation of lifestyle-related diseases.⁴³

To relief the government’s fiscal pressure, in fiscal years 2015/2016 and 2016/2017, the government will raise the contributions of corporate and government employees to help finance the medical costs of residents over 75 years old and bolster the National Health Insurance (NHI) schemes. Besides, a centralized electronic health record system is planned to be established to enable different medical and care facilities to access and share individual medical information more effectively. Other measures include transferring the management of national health insurance plans from municipalities to prefectures, allowing mixed medical treatment (the combination of private treatment and insurance treatment) on the patients’ request, reviewing and revising medical and nursing insurance premiums and actual consultation fees based on income, age, etc.⁴⁴

Innovation Policy

The Abe administration has placed technology at the heart of its healthcare reform efforts. A series of practices has been carried out in recent years such as the issue of Act to Promote Healthcare and Medical Strategy and the Act on Promotion of Healthcare

Policy in 2014, as well as the establishment of the Japan Agency for Medical Research (AMED) in 2015. These new policies and institutions are meant to develop a more robust R&D industry to forge closer connections between fundamental and applied research and to innovate more cost-effective treatments and speed up the approval of new pharmaceuticals.

In addition, the Abe administration believes innovation and technological advancement are invaluable for improving the efficiency of Japan's healthcare system and mitigating the adverse effects of labor force shortage. Specifically, the government seeks to use big data and wireless technologies to increase efficiency and better allocate medical resources. For example, wearable medical devices can track a patient's health condition, and patients can use the data and information to better manage their health and seek more appropriate treatments.⁴⁵ To a certain degree, such devices can act as the role of a family doctor, and partly mitigating the family doctor shortage problem.

Moreover, since Japan is a leading country in robotics, researchers are exploring how robots can be utilized to help deal with the nation's demographic challenges. One example is a robotic seal called Paro, invented by Tsukuba's National Institute of Advanced Industrial Science and Technology. This robotic seal has been proved effective in reducing anxiety, stress, depression and even patients' perception of pain during chemotherapy treatments. Besides, it is also useful to calm dementia patients and prevent them from wandering around, reducing the doses of psychotropic drugs. Other robots can help seniors out of bed, deliver food from the refrigerator to the elderly, assist old people with their housework, and be used by nursing care facilities to attend to bedridden patients.⁴⁶

Unlike many other countries where artificial intelligence is viewed with deep suspicion, people in Japan tend to be open-minded about working with robots and being helped by robots, partly because of the nation's severe labor shortage. For example, some Japanese construction firms have applied robotic technology to replace manpower in their work sites. However, the promotion of robots in the healthcare sector is constrained by its high costs, and commercialization is difficult to be realized any time soon. Besides, despite the relatively high social acceptability for robots and other high technologies, it still requires substantial education of the public to better take advantage of these innovations.

Generally speaking, Japan is on the right track to adjust its healthcare system to better meet the needs of its changing population. Since many reform measures are still in progress, it is still too early to judge their effectiveness. However, it would be wise to keep several principles listed below in mind.

Policy Recommendations

First, the Japanese government has to seriously consider the problem of resource misallocation, which includes the mismatch of facilities across different regions (e.g. urban areas and rural areas), the mismatch between the number of physicians and hospital beds, and the mismatch between the number of specialists and primary care physicians. The government should wisely allocate subsidies to avoid repeated construction of healthcare facilities in the same region, and adjust the physician to hospital beds ratio to an appropriate level. Also, the government should provide financial incentives to encourage more students to become primary care physicians as well as guide medical graduates to work in underserved areas (e.g. through tuition reduction and waiver schemes).

Second, more attention should be paid to reduce medical waste and improve healthcare quality. The current system in Japan offers few incentives for improving care quality. There are no systematic metrics to evaluate the performance of different medical institutions, nor are there any requirements for renewal or recertification of doctors' medical license. These shortcomings have significantly constrained the improvement of Japan's healthcare quality, and according countermeasures should be implemented as soon as possible. In addition to these measures already under way, another potential measure to improve the productivity of medical resources is to significantly raise the cost of visiting hospitals for minor treatment without a referral. Such a measure may be uncomfortable in the short term for residents, who are accustomed to go to hospitals for any health issues, but over the long term, the approach seems necessary for the sustainability of the system.

Third, although it is almost impossible to reverse the trend of the aging and shrinking population in the near future, more efforts should be made to mitigate the decline of the working population. A potential solution for the shortage of both care workers and nursery teachers is to promote mixed care centers which can serve the needs of both children and the elderly. Also, Japan's government expenditure towards child care accounts for only about 1 percent of GDP, one of the lowest among OECD countries.⁴⁷ Therefore, there is still potential to increase total fertility by spending more on child care, as some studies have found that there is a significantly positive correlation between the two indicators.⁴⁸ Finally, although it remains a sensitive issue, the Japanese government should further open its borders to qualified foreign workers, starting with lowering visa barriers.

Last but not least, the government should continue to facilitate healthcare innovation and advance in medical technology. The development of robotics and artificial intelligence (AI) has displayed a promising prospect and has begun to play an increasingly important role in dealing with Japan's demographic challenges. Nonetheless,

more efforts should be made to lower the costs so that these new solutions can be feasibly incorporated into the current system.

Implications for the United States from the Japanese Case

Japan's healthcare spending as a share of GDP is 10.2%, well below that of the United States, which is 16.4%. The U.S. has often been criticized for excessive healthcare costs that do not match the health level of the population. In contrast, Japan's healthcare system's results are quite impressive, when compared to the U.S. For example, Japan at 83.7 years average is number one in longevity in the world, while, the U.S., in comparison, is ranked 31st in a recent year, with a life expectancy of 79.3 years.⁴⁹ Simultaneously, the infant mortality rate in Japan is 2.7, while in the US it is 6.5 per 1,000 live births. Although the healthy diet of Japanese does play a role in maintaining their long life expectancy and general health, a more important reason should be its relatively effective healthcare system that provides universal and affordable medical services for the entire population. Admittedly, the U.S. differs significantly from Japan in terms of culture, lifestyle, medical preference, insurance system, etc., and what is suitable for Japan may not necessarily work well in the U.S. Nevertheless, there are still lessons that the U.S. can learn from Japan.

Most importantly, the U.S. government can experiment with greater government regulation of the healthcare sector to deal with the rising medical costs. The universality and affordability of Japan's healthcare system stems from the government's tight control of the fee schedule to maintain a single payment system. Such a system ensures the equality of care throughout the entire country as every insurance plan is the same in terms of the types of services covered and the fee for every treatment procedure. Moreover, this system also enables the government to promote specific medical technologies or pharmaceuticals by reducing their costs or deterring other technologies or pharmaceuticals by raising their costs. This could facilitate the application of new inventions in the medical field. Undoubtedly, this system also has its disadvantages as has been pointed out previously, such as contributing to low quality. Nonetheless, the low-quality problem faced by Japan is caused by multiple reasons including the shortage of physicians, the lack of primary care physicians, the weak accreditation standards for doctors, the lack of performance evaluation for hospitals as well as its fragmented hospital network. In other words, since the U.S. already has a culture of high-quality healthcare, it may be less vulnerable to these quality concerns than Japan.

After all, in the health sector, there is always a trade-off between quality and equality. Although the United States is among the richest countries in the world, this prosperity has not translated into better health. Despite its highest health spending as a share of GDP among all OECD countries, the U.S.'s health outcome, in terms of life expectancy and infant mortality, is not only worse than Japan, but also worse than OECD

average. In other words, its high input does not generate high output, and obviously, the efficiency is low. The major problem for the U.S. is the huge health-wealth gap across its residents. While rich people enjoy very high-quality healthcare services, the poor and uninsured find healthcare inaccessible and unaffordable. Therefore, it would be well-advised for the U.S. to give a priority to delivering healthcare to every resident before it further improves the quality and efficiency of its care delivery system.

Additionally, Japan's healthcare system reforms can also offer some insights for the U.S. For example, Japan now puts more emphasis on preventive medicine, and this also fits well into the U.S. context. In the U.S., approximately 86 percent of total healthcare expenditure is spent on avoidable chronic diseases.⁵⁰ In other words, millions of dollars can be saved if the U.S.'s preventative care is better managed.

As the first country to become a "super-aging" society, Japan's many policies to cope with aging population are of value for the U.S. to draw on. For example, Japan incorporated disability prevention services into its long-term care programs in 2005, aiming to maintain the functional abilities and sustain independent living of the elderly.⁵¹ This will help contain the surging long-term care costs. The high work participation rate of elderly Japanese could also provide some insights for countries that are facing or will face aging societies. In anticipation of a society in which one third of the population will be over 65 years old, the Japanese government is implementing policies to encourage seniors to participate more in productive activities.⁵² Finally, Japan's new efforts to build community-based integrated care present examples for other countries that seek to control healthcare expenditure and ease the fiscal burden.

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Japan and RCEP: The New Asia-Pacific Regional Architecture?

Ms. Liangliang Zhu

Introduction

For the past several years, the goal of launching the Transpacific Partnership (TPP) has not only been at the center of Japan's foreign trade policy, but also a part of its growth strategy. That hope was dashed, however, when President Trump on coming into office in January, signed an order to formally withdraw the U.S. from the TPPⁱ. The decision was devastating for the administration of Prime Minister Shinzo Abe, since Japan during the four years of negotiations with Japan and other TPP partners had made politically painful concessions in the agricultural sectorⁱⁱ. In addition, since the Trump administration now wants Japan to negotiate in place of the TPP a bilateral free-trade agreement (FTA), which the Abe government would like to avoid, bilateral trade relations could become quite rocky if the U.S. seriously pursues that course. Japan has agreed to launch a bilateral economic dialogue with the U.S., and an initial meeting took place in April, but the agenda has yet to be formally set.

Although specific trade policy remains unknown, President Trump's decision of the US withdrawal from the TPP raises many concerns. The consensus among trade policy experts is that the Trump administration's trade policy will be based on bilateralism, centered on negotiating "better deals" with the U.S.'s trading partners, and protectionism, including border tariffs. The efficacy of such an outmoded approach, which hails back to the 1980s, a period of constant trade friction and protectionist legislation, is highly doubtful, according to most economists. Japan was targeted for criticism during the Trump campaign for flooding the U.S. with exports, particularly autos. The accusations were rebutted by the Japanese government with facts that proved otherwise.

Regarding the U.S. withdrawal from the TPP, Prime Minister Shinzo Abe has decided to pursue a TPP-11 option, hoping that eventually the U.S. might return to the foldⁱⁱⁱ. Critics of this approach, however, point out that the option, though legally feasible, may be economically meaningless. The U.S. in terms of GDP made up the bulk of the original TPP-12.^{iv}

President Trump in turn aims to sign bilateral trade agreements with the various countries rather than join multilateral pacts. He is seen as swimming against a global tide favoring regional free-trade agreements, or so-called "mega-FTAs." But the Trump team plans to first focus on Japan for negotiating a new bilateral FTA to replace the TPP agreement. Japan is willing to have talks with the U.S. in the recently launched Economic

Dialogue (April), but it is loath to negotiate a bilateral FTA that would go beyond concessions on sensitive trade issues made during the TPP talks.

The default regional mechanism now that TPP is moribund will be the Regional Comprehensive Economic Partnership (RCEP), in which Japan is already a participant in ongoing negotiations. RCEP is a mega-FTA being negotiated among the 10 ASEAN (Association of South-East Asian Nations) nations and their six FTA partners: Australia, China, India, Japan, New Zealand and South Korea. The goal is to conclude RCEP negotiations soon, though deadlines have been slipping. Prime Minister Abe is making a new push for an early conclusion of the RCEP talks, adding his desire to see higher standards inserted into the final discussion than originally planned^v.

This paper, researched in Washington and Tokyo, focuses on three aspects of Japan's search for a regional economic architecture. First, the paper discusses the current trade-policy issues that the Japanese government faces. Specifically, how is Japan responding to the tectonic shifting of trade policy in the region now that the U.S. has abandoned its leadership role by ditching TPP? Second, the paper provides contents analysis of the RCEP and what benefits would the pact bring to Japan if talks are successful? And third, what would be the implications for the Asia-Pacific if RCEP becomes the new regional architecture?

Japan's Trade Policy: TPP vs. RCEP

The successful conclusion of TPP talks between Japan and the U.S. in later 2015 was hailed by Prime Minister Abe as a signature accomplishment of his comprehensive economic policy, dubbed "Abenomics". Abe was convinced that the trade deal would bring economic and strategic benefits not only to Japan, but also to the Asia-Pacific region as a whole. The U.S.'s withdrawal in January 2017 was a major blow to Abe's trade policy agenda and domestic economic policy of TPP-induced structural reforms to strengthen the weak agriculture sector. As a kind of "Plan B", Abe opted to try to save the best parts of the TPP pact by pursuing a TPP-11 strategy, without the U.S. At this writing, Japan is still consulting with the other TPP nations to see if a TPP-11 formula is agreeable.

Meanwhile, Japan also is actively pursuing a hedging strategy of bringing about a successful conclusion to the RCEP negotiations. Abe has continued to denounce the perceived growing trend of protectionism and has reconfirmed Japan's commitment trade openness through multilateralism. He sees this dual approach as a win-win situation for Japan over the long run.

For the United States under President Obama, the TPP would be a stepping stone from a regional FTA, to an Asia-Pacific FTA and then, linking to other mega-FTAs like one being negotiated with Europe, be a fulfillment of the World Trade Association

(WTO) Doha Round global agreement, which has been moribund for over a decade. The process has been called a WTO-Plus arrangement.^{vi} President Obama and Prime Minister Abe had developed a synergy that propelled the bilateral TPP talks through many difficult snags. For the US, the initial goal of the TPP was to strengthen US trade and investment ties to the Asia-Pacific region. Some arguments asserted that the TPP was designed as that part of President Obama's "rebalancing" strategy designed to constrain the influence of China in the region. Japan was on board, too^{vii}.

Analysis by the Japanese government showed that the TPP would significantly increase GDP growth and create jobs, despite some potential damage to the agriculture sector. But Abe hoped to use TPP pressure to modernize that sector to make it more competitive and sustainable. In the best scenarios, the successful implementation of this pact would have increased Japan's real GDP by 2 percent or so over the long run. The forecast predicted that the deal would add 13.6 trillion yen to the economy and generate nearly 800,000 new jobs^{viii}.

Now that the U.S. has pulled out of the TPP, the initial plan as proposed by Japanese scholars and policymakers is to continue the partnership minus the U.S., or TPP-11, and then, perhaps, bring other countries on board, ending up with a TPP-13 or a TPP-15, for example. Post-Trump America also might decide to return to the TPP fold if the door is left open. For example, according to Shujiro Urata^{ix}, Japan can invite other countries that have shown interests in joining the TPP, such as South Korea, the Philippines, Indonesia, and Thailand. By encouraging these countries to join the TPP, Urata believes that a TPP-15 can be achievable in the future.

Why should Japan stick to the TPP without U.S. participation? One reason is that the TPP is a very high-quality FTA -- a much higher standard than the RCEP -- and its coverage regarding scope and content is comprehensive. In Urata's view, the TPP is the best FTA so far, and it would be a shame if Japan let it die. Another reason is that multilateral trade regimes are more effective than bilateral ones. Economist Masahiro Kawai, suggests Japan should go ahead with the existing TPP without the U.S., while keeping the existing text and membership intact. He believes that the existing 11 countries are likely to go along with a rebooted TPP that they have already signed. There may be need to change Chapter 30, which defines conditions under which a TPP would be implemented. For example, according to Kawai, a condition in the TPP was six countries have to ratify, and 85 percent of GDP would have to be covered by those six countries or more. Now, the same condition need not be there. That means Japan would be the largest economy^x.

What about the notion that the RCEP would be an adequate substitute for a defunct TPP? The RCEP was envisaged to become a high-quality and mutually beneficial economic partnership agreement that would expand and deepen the existing FTA arrangements between ASEAN and FTA partners. But this description makes RCEP

appear to be a rubber-stamp mega FTA of existing bilateral arrangements. Not quite, however, since, compared to the TPP, the RCEP accommodates different levels of development of its member states, and that factor has complicated the negotiations to conclude the pact. The RCEP also is less ambitious regarding tariff targets and chapters; it is seen as far below the threshold set by the TPP. This lax feature, however, is in line with China's interests and other countries like India that are still emerging markets.

The RCEP may not match the quality or comprehensive rule-setting nature of the TPP, but Asian countries nonetheless see its conclusion as important for trade liberalization in the region. It may become the default regional architecture in the absence of the TPP. If Japan has its way, the RCEP could develop new trade rules for Asia, and unsnarl the "noodle bowl" of overlapping bilateral trade agreements that already exist between countries across the region. The RCEP also has a lot of political push behind it from leaders in the region. Prime Minister Abe and ASEAN Economic Ministers are eager to see an RCEP deal concluded this year. They are touting it as an alternative to protectionism, as a bulwark for promoting economic openness, multilateralism, and regional integration^{xi}.

Despite potential benefits to the region, the RCEP could have adverse side effects on the U.S., China and Japan. For example, a successful launching of RCEP could intensify the rivalry between the U.S. and China over regional power. The Chinese political leadership views the RCEP initiative as an attempt to avoid creation of a regional anti-China agreement, which they view the TPP as being. The U.S., however, has responded that once China meets the standards set by the TPP rules, it is welcome to join. China sees the RCEP in neutral terms, but critics in the U.S. see it as a China-led approach to prevent a US-centric formation of economic architecture in the Asia-Pacific. They see RCEP creating architecture of regional economic cooperation that would be advantageous to China. Furthermore, compared to the TPP, the RCEP is seen as more compatible with China's growth strategy and not then in the US' and Japan's interests. A senior fellow of PIIE, Jacob Kirkegaard, claims that the key purpose of the RCEP is to reduce tariffs among member countries, while the TPP includes provisions in other important areas, such as foreign investment and public procurement. Compared to the TPP, the RCEP is a much more narrowly conceived trade agreement. This may conflict with Japan's interests of which importance is foreign investment^{xii}.

With that factor in mind, Japan is not going to accept the status quo as the bottom line for signing on with the RCEP. Having supported the TPP for its high trade liberalization standards, Japan will now seek the same in the RCEP, such as high levels of intellectual property protection. Indeed, intellectual property was one of the key topics discussed in the Kobe meeting, which was the 17th round of RCEP negotiations^{xiii}. If Japan has influence in setting the agenda, it can make the RCEP factor in aspects of trade issue resolution contained in the TPP.

Before the US withdrew from TPP, Japan's goal was to increase the proportion of EPAs/ FTAs that have been signed from 22.3-percent to 70-percent in 2018^{xiv}. Thus, the TPP has great significance as part of Abe's economic growth strategy. In fact, Japan has long focused on the promotion of multilateral solutions through the WTO, while supplementing its external economic policy with regional and bilateral agreements, such as FTAs and EPAs.

During his visit to Australia in January 2017, Abe met with Prime Minister Turnbull and the two leaders reaffirmed that the implementation of the TPP remained an indispensable priority^{xv}. The two also stressed that a high-quality regional cooperation program, namely, RCEP, would deepen economic ties in the region and provide opportunities for regional integration. At the same time, Japan has continued its policy course of FTA and EPA negotiations, though the pace of progress is rather slow (see Table 1).

Table 1: Japan's FTAs/EPAs^{xvi} (In Force or Signed)

• Japan-Singapore EPA (Enacted in November 2002 and revised in September 2007)
• Japan-Mexico EPA (Enacted in April 2005, enacted the additional protocol in April 2007 and revised in April 2012)
• Japan-Malaysia EPA (Entered into force in July 2006)
• Japan-Chile EPA (Entered into force in September 2007)
• Japan-Thailand EPA (Entered into force in November 2007)
• Japan-Indonesia EPA (Entered into force in July 2008)
• Japan-Brunei EPA (Entered into force in Jul. 2008)
• Japan-ASEAN* EPA (Entered into force in December 2008) ^{xvii}
• Japan-Philippines EPA (Entered into force in December 2008)
• Japan-Switzerland EPA ((Entered into force in February 2009)
• Japan-Vietnam EPA (Entered into force in October 2009)
• Japan-India EPA (Entered into force in August 2011)
• Japan-Peru EPA ((Entered into force in March 2012)
• Japan- Mongolia EPA (Entered into force June 2016)
• The Transpacific Partnership (TPP) (Signed in October 2015)

(Source: Minister of Foreign Trade of Japan)

The above table of Japan's FTAs/EPAs shows that Japan has achieved a network of comprehensive, high-level FTAs covering a broad range of areas. Japan has signed FTAs/EPAs with 13 countries and 1 region, which are now in force. For Asia and Pacific area, countries include Singapore, Malaysia, Thailand, Indonesia, Brunei, Philippines, Vietnam, India, Australia and Mongolia. For Central and South America, Japan has

established FTAs with Mexico and Chile. For Europe, Japan has a FTA with Switzerland that has entered into force. Additionally, Japan and ASEAN countries started negotiations in April 2005. Each country of ASEAN signed the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) on April 14, 2008. This Japan-ASEAN EPA, or AJCEP (except for Indonesia), came into force on December 1, 2008.

In addition to FTAs/EPAs in force, Japan is negotiating trade agreements with countries in different regions, including Canada, Republic of Korea, Colombia and Gulf Cooperation Council (GCC), as well as conducting a joint study with Turkey. Japan also seeks to expand the network of FTAs/EPAs through the RCEP, Japan-EU and Japan-China-South Korea FTAs (see Table 2).

Table 2: Japan's FTAs/EPAs in Regions ^{xviii}(under negotiations)

• Japan-Korea EPA (East Asia; negotiations started in 2003, suspended in 2004)
• Japan-GCC EPA (Middle East; negotiations postponed)
• Japan-Canada EPA (North America)
• Japan-Colombia EPA (Central and South America)
• Japan-China-South Korea EPA
• Japan-EU EPA
• The Regional Comprehensive Economic Partnership (RCEP)

(Source: Minister of Foreign Trade of Japan)

In sum, Japan has placed a great importance on FTAAP and RCEP negotiations and views them as FTAs that will provide enormous economic and strategic benefits in the future. But so far, no mega free trade agreement has been concluded, expect the TPP. Regarding mega-regional cooperation, the RCEP might be useful in creating the world's largest trading bloc, deepening the collective's economic cooperation in the region, and providing implications for the global trade.

The TPP is envisioned to achieve a series of comprehensive and high-level rules that attain broader opening of markets than prior trade agreements. Member countries agreed to impose zero tariffs on trade under the TPP. In this way, the TPP tends to set rules beyond the WTO framework. In contrast, the RCEP is a proposed free trade agreement having less ambitious tariffs and contents. This feature is in line with China and other developing countries. Despite the difference between the two trade agreements, both perceive benefits for Asia and the Pacific region in supporting the international production network.

Some scholars believe that the RCEP could be used by the Japanese government to pressure for domestic structural reforms in Japan, specifically, the agricultural sector. Professor Shujiro Urata, who advocates a liberalizing trade regime and further opening

up of Japan's agriculture sector, thinks FTAs can play a complementary role in promoting the domestic structural reforms necessary for activating the Japanese economy^{xix}. Similarly, there are hopes that the RCEP can promote domestic reforms that are complementary to achieve regional goals. But the RCEP must first overcome the tendency to protect sensitive sectors during negotiations and expand the goals of trade and investment liberalization.

Analysis of RCEP

The RCEP is considered more narrowly focused and limited in scope than the TPP. It mainly seeks to lower tariffs; it does not aim at setting new high standards or rules. Also, the RCEP does not address "behind border issues," such as preferential treatment of government procurement. But government procurement strategy is important regarding different communities, which is especially relevant in the agricultural sector^{xx}. Naturally, developing countries fear the free trade pact would have an impact on their domestic companies and industries. The TPP, in fact, would require states to end their preferential treatment given to state-owned enterprises (SOEs), and developing countries that rely on SOEs were reluctant to do. But with the RCEP, states can restrict competition by giving preferential treatment to certain groups. Based on these, the RCEP seems to be easier for developing countries to accept.

The proponents of the RCEP argue that it could help develop supply chains in Asia^{xxi}. Others counter that it basically sets a multilateral framework over existing production networks in the region. In fact, if the RCEP is locking countries into existing regional supply chains, they will have to generate their ultimate benefits elsewhere^{xxii}. Due to huge number of types and subcategories of commodities in a trade deal, negotiations of any agreement such as the RCEP are bound to be complex. So it is no surprise that the talks have dragged on so far for years, exceeding original deadlines. Still, the RCEP as a goal remains on the center stage in Asia. If the deal is successfully concluded, it can change the structure of Asian trade by placing China at the region's commercial center. This has raised some alarms among counties that a China-led RCEP will give China more political and economic power than other RCEP members are willing to share.

Would RCEP Be China-led?

China has been actively participating in the RCEP negotiations, with its leaders hoping for an early conclusion. In March 2017, Premiere Li Keqiang delivered the government's work report to the National People's Congress. One of the focus areas was on developing the One Belt One Road (OBOR) infrastructure-building initiative, the need to accelerate RCEP negotiations, and the goal to forge an Asia-Pacific free trade area. The RCEP is seen by China as a pathway to a greater Asia-Pacific free trade area.

Despite China's enthusiasm, it does not mean that the RCEP is a China-led agreement. Some of the other countries in RCEP would not accept China's leadership. According to Vinod Aggarwal^{xxiii}, the argument that posits a China-led RCEP is misleading. The concept of an RCEP was initiated by ASEAN. Moreover, Japan, essentially China's rival, is an active participant, and India, known for its fierce independence, is a major player in the RCEP talks. Aggarwal also rejects the argument that sees a TPP versus RCEP scenario, or as a bipolar struggle between the U.S. and China for hegemony. From a logical point of view, the two mega-FTAs would seem to be more complementary than confrontational.

In fact, there is no evidence that the RCEP would be led or dominated by China. The leadership of the RCEP can be discussed from four aspects: initiation, scale, agenda-setting and regional vision. First, it was not China that initiated the RCEP but ASEAN, and some analysts highlight Japan's significance in its initiation. The origin of the RCEP was to harmonize existing free trade agreements: straighten out some of the noodles in the bowl. So ASEAN FTA partners and the 10 ASEAN members began negotiating a trade deal. Second, there is no question that China leads the RCEP in terms of economic scale. It is indeed the second largest economy in the world. But the RCEP also has big players, namely, Japan and India. The combination of those two economies eclipses China.

Third, the size of an economy does not necessarily translate to being able to control the setting of the agenda. It is true that the RCEP has lower standards that favor China's domestic conditions. For example, China still has a relative restricted services sector and has no intention to further open it up. Moreover, other countries have enough clout to set the agenda in ways that might not be in line with China's interest. One example is the inclusion of the chapter on intellectual property rights pushed by Japan. The other is India's request for a three-tiered tariff schedule, which tailors the RCEP agenda towards India's interests. Finally, the RCEP contains only countries bordering the Pacific and/or Indian Ocean. This does not match the geographical periphery of China's regional vision for it shifts the gravity of economic activity towards Eurasia, not China.

Some scholars criticize China for not aspiring to take leadership in the RCEP. According to Masahiro Kawai^{xxiv}, with the rise of China and its expanding economic size, China is expected to provide more international public goods to the rest of the world. Moreover, China should contribute more to the international community regarding which way it might be economically organized. But China is not taking such leadership, and it needs to open up its economy in ways that embraces as many countries as possible. On the one hand, Japan, Australia and New Zealand are pushing high quality trade arrangements within the negotiation. On the other hand, China, India, and countries like Indonesia claim that a high quality FTA is not realistic and a low quality FTA is what

they want to pursue. In Kawai's view, there has to be some compromise between the two sides.

Currently, the RCEP is negotiating between the 10 ASEAN (Association of South-East Asian Nations) countries and their six FTA partners: Australia, China, India, Japan, New Zealand and South Korea. And participation in the RCEP negotiations is exclusive; only an ASEAN-FTA partner can join the RCEP negotiations. According to the "Guiding Principles" for the RCEP^{xxv}, an external country can join the RCEP only after the completion of negotiations.

Table 3: A Summary of RCEP's Agenda (as of Dec 2016)

	'Guiding Principles and Objectives' for the RCEP
Investment	Intent to pursue 'promotion, protection, facilitation and liberalization' of investment.
E-commerce	Initially none, though added to agenda during seventh negotiating round
Intellectual Property	Reduce IP-related barriers to trade and investment
Services	Will build on existing provisions in the ASEAN+1 FTAs
Economic and technical cooperation	Extend existing initiatives in ASEAN+1 FTAs, with aim of narrowing development gaps in region
Special and differential treatment	Special and differential treatment in agreed commitments, consistent with differing developmental levels of members
The RCEP does not have guiding principles for these areas in the current agenda, including Transparency/Anti-Corruption, Environment, State-owned enterprises, Telecoms, Financial services and Labor.	

(Source: Wilson, Jeffrey D. "The Regional Comprehensive Economic Partnership: An Indo-Pacific approach to the regional trade architecture.")

Evaluation of the RCEP

Launched in 2001 by the members of the World Trade Organization (WTO), the Doha round sought to cut tariffs and farm subsidies, as well as liberalize trade in services on a global basis. With the failure of the WTO Doha Round to achieve its goal, the TPP was then seen as a backdoor means of achieving what the Doha Round could not. Now, with TPP sidelined, the RCEP as a regional FTA is seen as the next-best choice to complement the WTO regime of globalization. A regional arrangement is seen as having more flexibility, an aspect that will help developing states or small states to adapt to a free-trade regime gradually. This section evaluates the effectiveness of the RCEP and its significance in three ways: 1) multilateral vs. bilateral in the economic framework; 2) the promotion of an FTA among Japan, China and Korea, and its relevance to the RCEP; 3) the difficulties for ASEAN countries to adapt to a new regime.

First, as a multilateral economic framework, the RCEP is more responsive and effective than bilateral arrangements for trade liberalization in the Asia-Pacific area. Though negotiating multilateral trade agreements is more complicated due to the various interests of the countries involved, once launched, they are much more effective in sustaining a regional architecture. The RCEP in the absence of the TPP could be a suitable substitute.

Second, assuming that Japan, China, and Korea will successfully conclude their trilateral FTA that is now being negotiated, this trade deal would account for over 70% of the GDP of the ASEAN+6 countries now negotiating the RCEP. The trilateral deal alone would revitalize trade and investment in Asia, and provide the prerequisite for realizing the RCEP. Japan would like to see RCEP become an agreement of high quality that would help facilitate Japanese companies' supply chains and value chains, but this goal seems unattainable in the near term. Since China's service and investment sectors are still relatively restricted, and Japan would like to improve its access to the Chinese market, the intermediate step, prior to RCEP, of realizing a Japan-China-Korea FTA is expected to remove some restrictions to entry to China's service and investment sectors. According to Keidanren, a Japan-China-Korea FTA can address key areas for which business groups have high hopes, such as protection of intellectual property rights, enhancement of the business environment, and transparency in states' regulatory issues. With a high-quality trilateral FTA, achieving higher standards in all these fields can be expedited^{xxvi}.

Third, Asian FTAs have generally been lower in standards and have not contributed much to the integration of the region. Moreover, ASEAN countries have tended to leave outstanding trade issues untouched, such as tariff reduction. ASEAN now finds itself at a crossroads as to where it as an economic community should go. Some have argued that the TPP could have created the window for a highly-integrated framework for integration when it came into effect and then expanded. Its best bet now would seem to be the RCEP, which could help the ASEAN countries resolve their internal differences and move expeditiously toward an integrated regional framework.

In sum, the RCEP is an attempt to establish an alternative trade regime to the now moribund TPP. The RCEP emphasizes flexibility for developing economies, though the content of the pact is much less ambitious than was the TPP. Still, the RCEP is committed to trade liberalization and regional integration within a multilateral economic framework. But some argue that the RCEP is almost nothing unless there is a trilateral trade agreement among Japan, China, and South Korea, which is being negotiated separately. Still, ASEAN remains important to Japan as sites for the production network built by Japanese companies.

It will not be easy to conclude the RCEP agreement due to the complex structure of the region and the diversity of the economies involved in the talks. Once it is concluded, along with its innovative chapters, the RCEP could become the alternate

springboard to the TPP for broader regional agreements. It could become the building block for a regional architecture in the Asia-Pacific. Still, it will take time. Even after the RCEP is concluded, it will be years before the mega-FTA is fully operational.

Implications

How will the RCEP affect the regional architecture in Asia-Pacific? The new regional framework will first of all be able to set the agenda, the standards, and the rules. In the future the RCEP will likely to have an accession clause, allowing in new member countries. But currently, the RCEP is a closed club, only open to countries that have an FTA with ASEAN. In this sense, the conclusion of the RCEP agreement will only significantly impact those countries. Unless other countries join the RCEP after it is launched, it will have limited effect on reshaping the regional architecture of the Asia-Pacific? Moreover, since RCEP rules will be WTO-consistent, it initially will not make any major change in trade rules.

Assuming that China will have a lead role in the RCEP, being the largest economy, it is possible that trade competition in the region between the U.S. and China may intensify. Will this leads to the shift of power, and will the US and China compete for regional hegemony or being the leading economic power? On the one hand, some hold a view that China is using the RCEP and the planned FTAAP to create economic blocs that are in its favor, and these various moves toward the formation of regional economic areas overlay confrontations between the US and China. This argument is based on neorealist ideas that emphasize confrontational relationships among states, especially among great powers, or balance of power relationships, and changes to this balance. On the other hand, others argue that the TPP and other regional economic groups, such as the RCEP, are complementary to each other. From this point of view, the levels on which the TPP and the RCEP aim to function have always been distinct. Thus, the groupings are mutually complementary. Furthermore, the establishment of an FTAAP is a long-term goal. This argument goes that the TPP and the RCEP would both contribute to that goal.

Finally, what would be the regional political and security impact of the RCEP? Two aspects can be envisioned: 1) the RCEP could strengthen ASEAN's role in regional security; 2) there being no comprehensive regional security mechanism, the RCEP would provide a "second best" means to help maintain regional peace and security.

Economic Implications

Many analysts believed that the TPP and the RCEP would divide ASEAN and East Asian countries. Countries would have to choose between two competing regional economic agreements, which would impede trade integration in Asia. China, South Korea, and India did not participate in the TPP negotiations, but threw in their lot by

actively supporting the RCEP process. Their choices may now accelerate the regional economic integration process in the Asia Pacific. But the economic benefits of the RCEP will vary depending on the country. Kirkegaard calculates that countries like Singapore, Japan, and South Korea are likely to benefit the least from the RCEP because the pact does not include agreements such as foreign direct investment that are of most importance to them. Also, countries like Indonesia that export commodities to China are unlikely to benefit much from the agreement^{xxvii}. In that sense, the TPP would have been a better choice than the RCEP for those countries.

Political and Security Implications

Because ASEAN initiated the RCEP negotiations, the pact will consolidate ASEAN's position as the default center for trade and investment in East Asia. Assuming that the ASEAN +6 members can conclude the RCEP in the near term, ASEAN's central position will be firmed up, enabling the RCEP to be effective in stabilizing China's long-term relationship with the U.S. and Japan. Hank Kim indicates that the current structure of ASEAN is unlikely to have a significant impact on political and security issues. At this juncture, ASEAN is unable to play a major role in stabilizing the region and solving disputes in the South China Sea or other areas. To do so, it would require a more cohesive ASEAN, as well as strong leadership. In Kim's view, if the RCEP is successfully concluded expeditiously, it could give ASEAN a foothold to positively influence regional security. ASEAN could establish a platform based on a set of principles that could be used for crisis-prevention or consensus building. Such a regional order could become a framework for economic prosperity and regional stability^{xxviii}. There are a lot of "ifs" in such expectations of ASEAN and the RCEP. For ASEAN to achieve unity on regional security or political issues, as a starter, might be unattainable, given the diversity of the governments, leaderships, and interests of the 10 countries. The more likely scenario would seem to be economic, where ASEAN and its RCEP partners agree to enjoy the fruits of their labors to forge a new mega-FTA, and steer clear of contentious political or security issues in the region.

The Future Regional Architecture in the Asia Pacific

The Asia-Pacific region has been integrating economically for decades. Countries like Japan and South Korea have built production networks across the region with great success. The TPP would have allowed the 12 countries that participated in the talks to go far beyond the status quo and construct a new regional architecture, complete with a new rules and standards, which over time could be expanded to include other countries in the region, such as the FTAAP concept that would include APEC members. But whether the region can move in the direction of the European experience and reproduce an EU in the Asia-Pacific is at this point doubtful.

Richard Weixing Hu (2009) has provided a detailed analysis about how a regional architecture in the Asia-Pacific might be built. He predicts that regional institutional architecture could be designed by “architects” coming from the upper echelons of central governments or supra-national organizations, and applying a “top-down” approach. Hu points out, however, that history shows that regional architecture is not always designed or intentionally built by such top-down elements. On the contrary, it emerges in a natural way, with the development of coherent, stable institutions. Thus, Hu concludes that regional architecture building in the Asia-Pacific region will not be able to duplicate the framework that Europe was able to construct in the postwar decades. Although specific events could act as catalysts in the development of a regional architecture, the impact of the end of the Cold War on Europe led in one direction – fusion, while the Asian financial crisis in 1997 had the opposite centrifugal effect. Moreover, the construction of regional communities is not necessarily based on sharing the same values and visions in the process. Instead, it has followed Gregor Mendel’s “law of independent assortment.” Asia-Pacific nations are less institutionalized, they do not share similarities regarding norms or ideas and they have different perceptions of threats or crises. Thus, nations may have different views on the prospects of constructing regional architecture, which impose difficulties and uncertainties in building up a highly integrated region. In short, the region, politically, tends to sort itself into independent actors rather than to coalesce as one.

Conclusions

In sum, this paper, having factored in Japan’s trade policy, mega free-trade agreements like the TPP and the RCEP, and regional political and security conditions, concludes that these ingredients alone will not be sufficient to serve as the building blocks of an Asia-Pacific regional architecture. Economic regional integration has grown over the decades as production networks and markets are built, but the idea of a political or security mechanism to bring the region together has been still born. TPP was a noble attempt to build a coherent regional architecture based on trade and investment, but it has been trumped by President Trump, who signed an executive order formally withdrawing the U.S. from the TPP. The ripples on global trade from a gutted TPP are far reaching. In the post-TPP (or TPP-11) era, Japan faces a formidable challenge from a protectionist-minded U.S. presidency apparently obsessed with the notion of signing bilateral FTAs with Japan and other trading partners, while scuttling multilateral agreements that are perceived as not in the U.S.’s narrow interests. The notion of RCEP replacing TPP in the region is worth considering, but the limitations of that pact, as detailed above, may ultimately leave the region rudderless (absent the U.S.) and without a coherent architecture.

The complex mix of diversely different countries in the Asia-Pacific region makes a compelling case for efforts to build a coherent regional architecture. And RCEP, which is still being negotiated, could become a stepping stone in that direction – particularly if the next target is an APEC-wide FTA (FTAAP). If RCEP is concluded with innovative chapters, it will make it easier to forge a future regional agreement. However, even with an early agreement on the RCEP, it will take time before the pact is up and running. And uncertainties in the policy stances of different participating countries could significantly change the outcome of the agreement.

Nevertheless, no matter what the final version of the RCEP looks like, the pact will have huge implications for the region, the trilateral relationship among the U.S., China, and Japan, and the WTO-based global trade system.

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Endnotes:

ⁱ Regarding the decision about the US withdrawal from the TPP, Trump claims that the US should pursue bilateral trade negotiations to promote American industry, protect American workers, and raise American wages.

ⁱⁱ Shinzo Abe spent considerable political capital to get the TPP agreement through Parliament. Mr. Abe was enthusiastic about the final arrangement even after making politically painful concessions on agricultural imports that the United States had sought.

ⁱⁱⁱ The Japanese government announced the plan to pursue a TPP-11 in May 2017, while some representatives from Japan's foreign trade affairs expressed that the TPP without the US would be meaningless in February.

^{iv} In the interview with Mr. Naoyuki Haraoka, who serves as Executive Managing Director in Japan Economic Foundation, he thinks that TPP without the US is legally possible but meaningless.

^v Both Japan and ASEAN expect that RCEP to be concluded by this year. This eager was expressed by Mr. Abe when he met economic ministers from ASEAN countries in April 2017.

^{vi} According to Miles Kahler, the US is likely to push for a "WTO-plus" style arrangement. It wants precise and binding agreements in the TPP, while Japan is going to seek to protect services and investment. Kahler is a senior fellow at the Council on Foreign Relations.

^{vii} "Balancing Acts: The U.S. Rebalance and Asia-Pacific Stability," , accessed May 18, 2017, http://www.bing.com/cr?IG=BF0C936B68794A17B0374DF92343E39D&CID=257E6D94F36E61760E1E6712F2FE60FF&rd=1&h=JL5WFmCw2VGpgQHjYads4DYTAHDDz2A7WICj7l10kiA&v=1&r=http%3a%2f%2fwww2.gwu.edu%2f%2f7esigur%2fassets%2fdocs%2fBalancingActs_Compiled1.pdf&p=DevEx,5063.1.

^{viii} "Abenomics and the Japanese Economy," Council on Foreign Relations, , accessed May 18, 2017, <http://www.cfr.org/japan/abenomics-japanese-economy/p30383>.

^{ix} Information is adopted from the lecture "Japan's Trade Policy in an Era of Growing Anti-globalism," which was held by the Brookings Institution in February 2017. Shujiro Urata is dean and professor of economics at the Graduate School of Asia-Pacific Studies, at Waseda University; he is also a senior research advisor to the president of the Economic Research Institute for ASEAN and East Asia.

^x Information is adopted from the lecture at Brookings institutions: "the Geopolitical Impact of China's Economic Diplomacy."

^{xi} One official meeting was held in Kobe, Japan—the 17th Round of Negotiations for RCEP—through February 27 to March 3 this year. Another one was between Prime Minister Shinzo Abe and economic ministers from ASEAN countries, which was held at Prime Minister Shinzo Abe's official residence in Tokyo, Japan on April 6, 2017.

^{xii} Deutsche Welle (www.dw.com), "RCEP free trade deal is 'no substitute for the TPP' | Asia | DW | 02.12.2016," DW.COM, , accessed May 18, 2017, <http://www.dw.com/en/rcep-free-trade-deal-is-no-substitute-for-the-tpp/a-36621736>.

^{xiii} The trade ministry said Wednesday that the Kobe meeting, the 17th round of negotiations, would focus on trade in goods and services, rules of origin, investment, intellectual property and e-commerce

^{xiv}

^{xv} See news at link:<http://www.japanpolicyforum.jp/archives/economy/pt20170417030121.html>

^{xvi} Source from Minister of Foreign Trade of Japan. Accessed at http://www.meti.go.jp/policy/trade_policy/epa/english.html

^{xvii} *EPA with ASEAN (AJCEP) is in force except for Indonesia. (as of Jul. 2014)

^{xviii} Source from Minister of Foreign Trade of Japan

^{xix} Information is adopted from the lecture "Japan's Trade Policy in an Era of Growing Anti-globalism."

^{xx} Public procurement is the process by which government and public entities purchase goods, services, capital and technologies for their own or public use. Government is the largest single buyer of goods and services in most economies, with expenditures by governments often amounting to 20% to 30% of GDP.

^{xxi} Japan's State Minister for Foreign Affairs, Kentaro Sonoura said in this way.

^{xxii} From "Revival of the Regional Comprehensive Economic Partnership"

^{xxiii} Dr. Vinod Aggarwal, Professor of Political Science and Director of the APEC Study Center at UC Berkeley.

^{xxiv} He is the representative director and director-general of the Economic Research Institute for Northeast Asia.

^{xxv} Guiding Principles and Objectives of Negotiating the RCEP, Principle 6. The document can be accessed at <http://dfat.gov.au/trade/agreements/rcep/documents/guiding-principles-rcep.pdf>

^{xxvi} "Proposals for Redefining of Trade Strategy (2013-04-16)," Keidanren, , accessed May 18, 2017, https://www.keidanren.or.jp/en/policy/2013/034_proposal.html?v=s.

^{xxvii} Deutsche Welle (www.dw.com), "RCEP free trade deal is 'no substitute for the TPP'"

^{xxviii} Hank Lim, "Economic & Political Implications of the Regional Comprehensive Economic Partnership (RCEP)," , accessed May 18, 2017, https://www.jef.or.jp/journal/jef_contents_pdfloader.asp?c=4141&t=. Hank Lim is currently senior research fellow at the Singapore Institute of International Affairs (SIIA) and the first Singapore representative to APEC's Eminent Persons Group (EPG)

Class Research Trip to Japan, March 2017: Photo Album



Urasenke Tea Ceremony



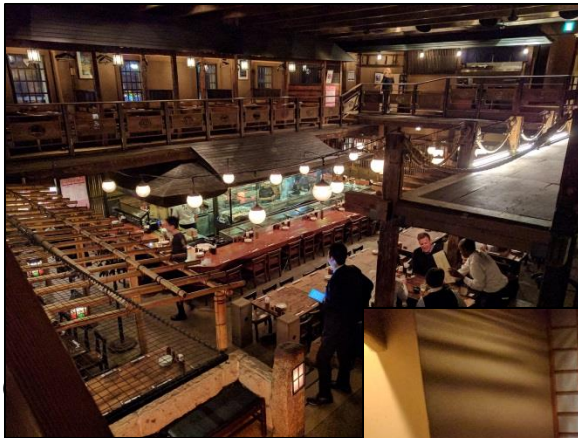
Seminar at the Japan Institute for International Affairs (JIJA)

Session at Temple
University Japan

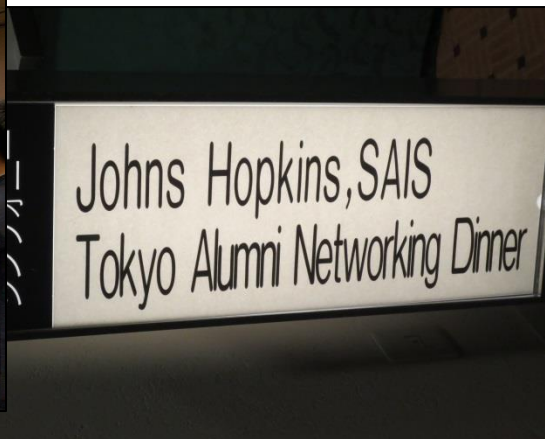


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Group Dinner at Gonpachi



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Washington, D.C. 20036

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