

THE EDWIN O. REISCHAUER CENTER  
FOR EAST ASIAN STUDIES



THE UNITED STATES AND JAPAN IN  
GLOBAL CONTEXT: 2015

THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES  
THE JOHNS HOPKINS UNIVERSITY  
Washington, D.C.





Edwin O. Reischauer

October 15, 1910 – September 1, 1990





## **Yearbook Class of 2015**

From Left to Right: Sung Hui “Sophie” Yang, Jeffrey Bond, Ju Hyung Kim, Luoxi Dao, Ji Won Kwon, Malcolm Whitehead, Michael Wakcher, Professor William Brooks, Evan Sankey, Benjamin Garton, Ian Hamilton, Michael Kotler, Waichiro Katsuda, Yiwei “Jenny” Pan

## TABLE OF CONTENTS

<b><u><i>The Year at the Reischauer Center</i></u></b>	<b><u>1</u></b>
<b><u>Reischauer Center Events, 2014-2015</u></b>	<b><u>7</u></b>
<b><u>Introduction</u></b>	<b><u>10</u></b>
<i>William L. Brooks</i>	
<b><u>For U.S.-Japan Relations, the JET Program Is a Hidden National Treasure</u></b>	<b><u>46</u></b>
<i>Malcolm Whitehead</i>	
<b><u>U.S.-Japan Cultural Exchange in a New Era of Public Diplomacy</u></b>	<b><u>73</u></b>
<i>Michael Wakcher</i>	
<b><u>New U.S.-Japan Partnership in Disaster Management and Japan's Role</u></b>	<b><u>95</u></b>
<i>Waichiro Katsuda</i>	
<b><u>India and the US-Japan Alliance</u></b>	<b><u>113</u></b>
<i>Evan Sankey</i>	
<b><u>Prime Minister Shinzo Abe's Central Asia Strategy: Is it Effective?</u></b>	<b><u>129</u></b>
<i>Ian Hamilton</i>	
<b><u>Trilateral security cooperation in Northeast Asia</u></b>	<b><u>157</u></b>
<i>Ju Hyong Kim</i>	
<b><u>Japan's Trade Agreement Strategies: Three Case Studies</u></b>	<b><u>172</u></b>
<i>Ji Won Kwon</i>	
<b><u>Changing Trade Patterns among the U.S., Japan and China: Does Politics Trump Market Forces?</u></b>	<b><u>205</u></b>
<i>Jenny Iwei Pan</i>	
<b><u>Impact of "Abenomics" on Mergers and Acquisition Trends in Japan</u></b>	<b><u>222</u></b>
<i>Luoxi Dao</i>	
<b><u>Japan's Long Road to Corporate Governance Reform</u></b>	<b><u>240</u></b>
<i>Ben Garton</i>	

<b>Building Japan's Entrepreneurial Ecosystem</b>	<b>258</b>
<i>Jeff Bond</i>	

<b>Class Research Trip to Tokyo, March 2014: Photo Album</b>	<b>281</b>
--	------------



## THE YEAR AT THE REISCHAUER CENTER

The 2014-2015 academic year, during which the Reischauer Center celebrated its thirtieth anniversary, was a historic one—for the Center, SAIS, and for trans-Pacific relations. Internationally, the Center co-sponsored three conferences—an all-time record. At home in Washington, it hosted an unusually large and cosmopolitan group of nine Visiting Scholars from four nations, including its first two scholars from European universities, and convened 35 events of great variety. The alumni network expanded steadily to new corners of the globe, with former Visiting Fellows serving in international locations ranging from Hanoi and Manila to Teheran, as well as Tokyo and Washington. The Center also hosted student interns from Japan and South Korea, as well as the United States.

One special highlight of this year was the award to Reischauer Center Director Kent Calder of the Order of the Rising Sun with Gold Rays and Neck Ribbon, one of the highest honors awarded to foreign nationals by the Japanese government, for his contribution to academic research on Japan in the United States, and to the US-Japan relationship. A student of Professor Edwin O. Reischauer at Harvard University, Calder has published eleven books dealing with Japanese politics and comparative political economy in Asia, eight of which have appeared in both English and Japanese. He has also served as Special Advisor to the US Ambassador to Japan, Japan Chair at the Center for Strategic and International Studies, first Executive Director of the Harvard University US-Japan Program, Lecturer on Government at Harvard, and as a tenured professor at Princeton University, before moving to SAIS in 2003. Professor Calder received his award from Ambassador Kenichiro Sasae, at a special ceremony at the Japanese Ambassador's residence in Washington, on October 17, 2014. Professor Calder is pictured here at the awards ceremony, together with his wife Toshiko, as well as Ambassador Sasae.



The award to Professor Calder was noteworthy, not so much for his personal accomplishments, as for the remarkable record it set in the broader world of Japan Studies. Calder was the *fifth* faculty associate of the Reischauer Center to receive the Order of the Rising Sun, in the short thirty-year history of the Center, with his faculty colleague Rust Deming having received the same award the previous year. Before Calder and Deming, George Packard, founder of the Reischauer Center and SAIS Dean; William Sherman, former Deputy Chief of Mission at US Embassy Tokyo; and Nathaniel Thayer, former Public Affairs Officer (PAO) at US Embassy Tokyo, all had previously received the Order of the Rising Sun. Few if any universities—let alone research centers within universities—can match that record.

The Reischauer Center's achievements go far beyond career contributions to trans-Pacific relations. In early fall, an unusually able group of nine Visiting Scholars arrived at the Reischauer Center for the academic year. They included representatives from Japan's Ministries of Finance, Defense, and METI, as well as from the private sector, media organizations as well as major universities. A special first this year was the participation of two visiting fellows from European universities—one from the Free University of Berlin, and a second from the University of London. The Fellows participated in academic seminars and conferences, while also presenting their own research at informal brownbag luncheons. These luncheons and related receptions also provided opportunity for informal dialogue with current and former officials in Washington, including Marc Knapper, Director of the Office of Indian Affairs, and Suzanne Basalla, former Special Assistant to US Ambassador to Japan John Roos; as well as prominent business people, such as Paul Sheard, Chief Economist of Standard and Poors. The Visiting Fellows, together with Reischauer Center staff, as well as MA students in Japan Studies, are pictured below.



Lectures are a traditional part of the Reischauer Center's academic activities, but this year was unique. The Center was pleased to have Japanese Ambassador Kenichiro Sasae deliver a special

Reischauer Memorial Lecture, dealing with “New Dimensions of US-Japan Cooperation”, on February 3, 2015. Ambassador Sasae is pictured below, as he was delivering his address at Kenney Auditorium, to be followed by a reception in his honor.



Although Ambassador Sasae’s lecture was a policy highlight, the Reischauer Center also hosted numerous other major speakers across the year. A full list is appended to this volume. Among these contributions to the Center’s intellectual life, Charles Morrison, President of the East-West Center, and a SAIS alum, spoke on “Asia-Pacific Megatrends” (below). Michael Plummer, Director of SAIS Europe, spoke on “ASEAN Economic Cooperation and the Asia-Pacific Future”. And Louis Forster, former Senior Managing Director at Cerberus Capital Management Japan and a Johns Hopkins University Trustee, spoke on “Distressed Private Equity in Japan.”



International conferences were an unusually prominent dimension of Reischauer Center activities this year. On September 8, the Center hosted a major conference on “Korea, Turkey, and Eurasian Continentalism”, co-sponsored by Yonsei University, with support from the Korea Foundation, and keynoted by Korean Ambassador to the United States Ho-Young Ahn. On September 30, the Reischauer Center hosted a second major conference, dealing with the US-Japan alliance in the 21<sup>st</sup> century, and co-sponsored with the Japan Economic Foundation. Speakers included former Japanese Ambassador to the United States Ichiro Fujisaki, as well as recent International Energy Agency Director Nobuo Tanaka and senior current US officials from the US State Department and the US Treasury. Scenes from the conference are pictured below.



A third Reischauer Center international conference was perhaps the most historic. On June 22-25, 2015, the Center, jointly with the National University of Mongolia, explored “Eurasian Continentalism”, at a gathering in Ulan Bator, Mongolia involving US, Russian, and Mongolian diplomats, as well as scholars from those three countries. This was reportedly the first academic conference ever to be held in Mongolia and sponsored by SAIS; the participants are pictured below.



SAIS scholars were also active in an individual capacity outside Washington. Ambassador Rust Deming was involved in numerous gatherings in Japan, including the Mt. Fuji Forum, sponsored by the Japan Economic Research Center. Professor Bill Brooks spent the summer of 2014 in residence at Waseda University, conducting research. And Professor Kent Calder received the Japan Chamber of Commerce and Industry’s Eagle on the Sun Award in November, 2014, and then spoke at its annual New Year’s Symposium in January, 2015.

During this academic year the Reischauer Policy Research Fellowship Program, founded in May, 2013, began to take on stronger and stronger momentum. Chosen through a nationwide search, Fellows participate actively in major research projects at the Reischauer Center while also engaging more broadly with the Washington policy community. Fellows during this academic year included Michael Kotler of Claremont McKenna College, who did summer internship work with Morgan Stanley; Sung Hui Yang of Mt. Holyoke College, who participated in the historic Mongolia conference and worked actively on Eurasian continentalism as well as Japanese political economy; Yun Han, outstanding 2015 graduate of SAIS Japan Studies, researching

China-Europe relations; and most recently Katie Botto, Johns Hopkins '15, working on global political cities. These new Reischauer Policy Research Fellows for the 2015 year are pictured below.



Michael Kotler



Sophie Yang



Yun Han



Kathryn Botto

As it completes its thirtieth anniversary year, the Reischauer Center continues to emphasize student education and research, as it has since its foundation. This yearbook is representative of that work, and the Center is proud to present its conclusions to the broader world. The yearbook's editor, Professor William Brooks, symbolizes the combination of academic rigor and policy sensitivity that we always strive to maintain. Together with the yearbook, and hopefully synergistic with it, the Reischauer Center is actively coming to terms with an emerging global world, as chronicled in this short report, and will intensify that effort in the years to come.

## Reischauer Center 2014-2015 Events

### Reischauer Center Seminars:

<i>Date</i>	<i>Speaker</i>	<i>Title</i>
9/8/2014	Conference Co-sponsored with Yonsei University	Korea, Turkey, and Eurasian Continentalism: An International Conference
9/18/2014	Professor James Foster, Keio University	The US-Japan Internet Economy Dialogue
9/25/2014	Alicia Campi, President, The Mongolia Society, Visiting Scholar, Reischauer Center	Mongolia's Deepening Role in Eurasian Geopolitics
10/1/2014	Kent Calder, Director, The Reischauer Center for East Asian Studies	Asia in Washington: Implications for Japan
10/2/2014	Charles Morrison, President, East-West Center	Asia Pacific Megatrends: What We Know and Don't Know About the Future
10/14/2014	Tatiana Mitrova, Head of Oil and Gas Department, Energy Research Institute of the Russian Academy of Sciences (ERI RAS)	Russia and the New Energy Age
10/14/2014	Dr. Fumio Ota, Vice Admiral (Ret.), Japan Maritime Self-Defense Force	Sun Tzu and Contemporary Chinese Strategy
11/6/2014	Dr. Paul Sheard, Chief Global Economist Standard and Poor's	Abenomics and its Global Implications
11/6/2014	Kanji Yamanouchi, Minister for Economic Affairs for the Embassy of Japan	
11/6/2014	Professor Erin Chung, Charles D. Miller Associate Professor of East Asian Politics and Director, Program in East Asian Studies	Gender, Marriage, and Migration in Japan and Korea
11/20/2014	Professor Min Ye, Boston University	Asian Diasporas and Economic Development

12/4/2014	Dr. Tsedendamba Batbayar, Embassy of Mongolia	Mongolia's Growing Integration into Northeast Asia
1/29/2015	Bill Brooks, Former Director of Media Analysis and Translation, Former Economic Officer, American Embassy Tokyo; Senior Advisor, Reischauer Center for East Asian Studies	TPP and the Japanese Political Process
2/3/2015	Ambassador Kenichiro Sasae, Ambassador Extraordinary and Plenipotentiary of Japan to the United States of America	New Dimensions of U.S.-Japan Cooperation: Security & Economy
2/12/2015	Mike Plummer, Director, SAIS Europe, Eni Professor of International Economics	ASEAN Economic Cooperation and the Asia-Pacific Future
3/12/2015	Louis Forster, Former Senior Managing Director at Cerberus Capital Management Japan; SAIS Board of Advisors; JHU Trustee	Gaijin at the Gate: Distressed Private Equity in Japan
3/26/2015	Jonathan E. Colby, Managing Director, The Carlyle Group	Private Equity Investment in Asia: Opportunities, Risks and Rewards
4/9/2015	Quansheng "John" Zhao, Professor of International Relations; Chair of Asian Studies Program Research Council at American University	Japan's Foreign Policy Debates and China-Japan Relations
4/16/2015	David Shambaugh, Director, China Policy Program, Professor of Political Science and International Affairs, George Washington University	Deconstructing International Relations in Asia Today: Conceptualizing Complexities
4/30/2015	Kent Calder, Director, The Reischauer Center for East Asian Studies; former Special Advisor to the US Ambassador to Japan	The Abe Washington Visit: Implications for US-Japan Relations and Global Affairs
	Bill Brooks, Former Director of Media Analysis and Translation, Former Economic Officer US Embassy Tokyo; Senior Advisor, Reischauer Center	

**Brown Bag Luncheons:**

<i><b>Date</b></i>	<i><b>Speaker</b></i>	<i><b>Title</b></i>
9/12/2014	Boo-Seung Chang, Korean Ministry of Foreign Affairs	Sources of Japanese Conduct: The Reactive State Concept
10/1/2014	Professor Eunjung Lim, Korean Studies, SAIS	Grassroots Nuclear Energy Politics in Japan
10/22/2014	Jacopo Pepe, Free University of Berlin and Reischauer Fellow	Recent Developments in Eurasian Continentalism: emerging rail and transport infrastructure interconnectedness Chinese Views of the Post-Cold War US-Japan Alliance
10/22/2014	Sheri Huang, King's College London and Reischauer Fellow	
11/19/2014	Takahiro Ishii, Deputy Director, Automobile Division of the Ministry of Economy, Trade and Industry (METI)	A Strategy for Japan's Automotive Industry in 2014
12/3/2014	Seiichi Miyashita, Deputy Director, Nuclear Policy Planning Division of the Ministry of Economy, Trade and Industry (METI)	Japan's Renewable Energy Policy
1/29/2015	Japan Studies Students and Professors	Spring Semester Kick-Off Lunch
2/20/2015	Seiko Mimaki, JSPS Postdoctoral Fellow, Waseda University, Reischauer Visiting Scholar	Historical Reconciliation as an Essential Step Toward a "Normal" Japan
2/27/2015	Suzanne Basalla, Executive Vice President & COO, U.S.-Japan Council	US-Japan Relations and the Tomodachi Initiative
3/10/2015	Marc Knapper, Deputy Chief of Mission at US Embassy Seoul; Former Director of the Office of India Affairs and former Director of the Office of Japan Affairs, US Department of State	Off the Record Luncheon
3/13/2015	Takeo Azuma, Political Reporter, Yomiuri Shimbun; Reischauer Visiting Scholar	How Long Can Shinzo Abe Stay in Power?
4/3/2015	Arthur Lord, Strategist, Department of Defense, Office of the Secretary of Defense for Policy	The Role of Alliances in U.S. Defense Strategy and Implications for Japan
4/10/2015	Yuki Tatsumi, Senior Associate, The Stimson Center	Evolution of Japan's Security Policy-Making Structure
4/17/2015	Atsushi Sakurai, Ministry of Finance	Japan's Public Finances and Taxes under Abenomics
4/24/2015	Kiyoyuki Tomita, Research Fellow, Tokyo Foundation	Obamacare's Effects on Global Health Care: A Common Perspective between Japan and the US

## **Introduction**

The Reischauer Center of Johns Hopkins University's School of Advanced International Studies (SAIS) annually offers a unique course on U.S.-Japan relations in which the students, mainly M.A. candidates, most of whom are Japan concentrators, write original research papers of publishable quality that reflect some of the main themes chosen as representative of bilateral ties between the United States and Japan in a global context. This year's arching theme has been the remarkable record of the administration of Japanese Prime Minister Shinzo Abe in setting and implementing a bold security, diplomatic and economic policy agenda that aims at restoring Japan as a "first-tier" nation in the international community. The successes of the Abe Cabinet by mid-2015 so far are adding up, but significant challenges remain, including how to repair relations with Asian neighbors soured by differing historical perceptions and territorial disputes. Another challenge has been the waning of cultural and educational exchanges between Japan and the United States – seen as the backbone of friendly ties between the two nations – and what to do about it.

The papers in this issue of *The United States and Japan in Global Context 2015* reflect these arching themes by looking in depth at such issues as disaster management between the U.S. and Japan, trilateral security cooperation among the U.S., Japan, and South Korea, Abe's proactive diplomacy in Central and South Asia, economic relations with China during a time of bilateral tensions, Japan's free-trade-agreement strategies, the effect of "Abenomics" – Abe's economic policy agenda -- has affected foreign investment, startups, and corporate governance, and how Japan and the U.S. are addressing the need for cross-cultural understanding.

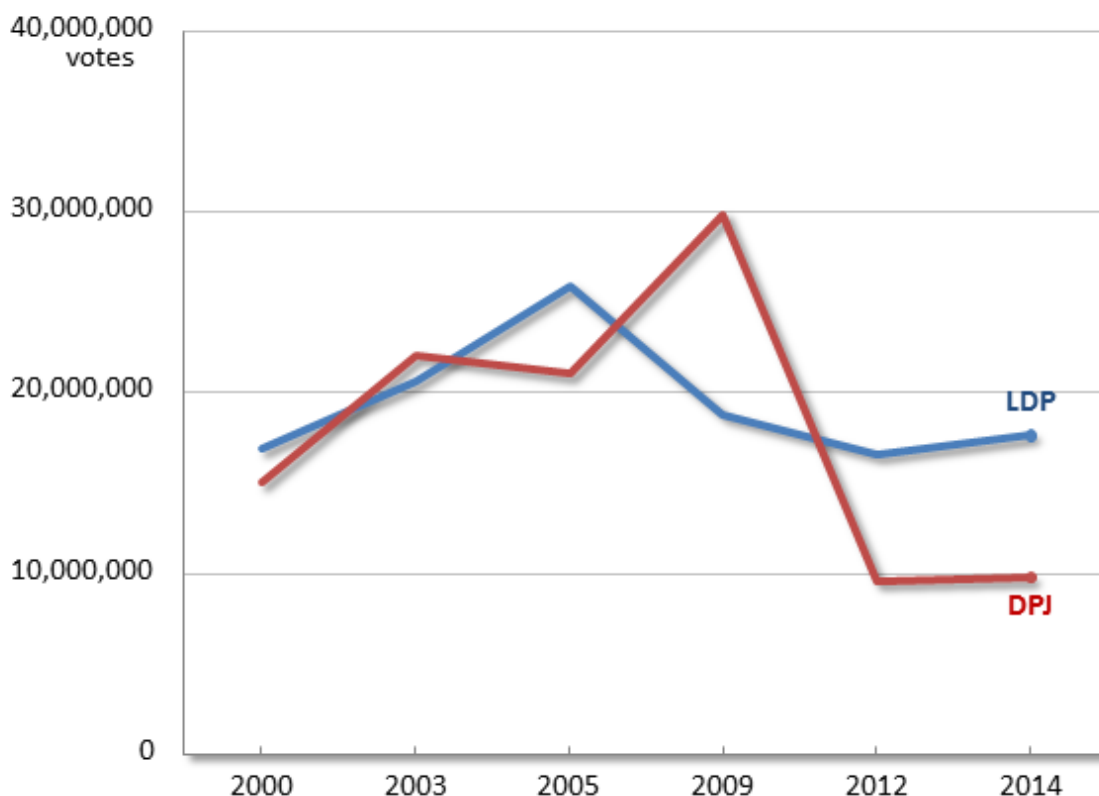
### **Lower House Election Gives LDP a Victory**

If the theme of this yearbook on U.S.-Japan relations is the successes and challenges of the Abe administration, there is no doubt that the decisive win by the ruling Liberal Democratic Party (LDP) and its coalition partner, Komeito, in the snap election for the House of Representatives called by the Prime Minister in December 2014 provided Abe with a major boost in implementing his bold policy agenda. The Abe administration has embarked on a major shift in Japan's security posture, further deepened and broadened alliance cooperation with the U.S., introduced long-overdue structural reforms in the economy, and become highly proactive in its diplomacy backed by strategic application of Japan's soft power. There are even signs of a slow thaw in relations with China and South Korea that could lead to significant improvements in ties,

depending heavily on the Prime Minister's words and deeds this year to mark the 70<sup>th</sup> anniversary of the end of World War II.

Abe's expected longevity in office is another factor that works in favor of his being able to implement much if not most of his policy agenda. The Lower House election dealt a heavy blow to the fragmented and ideologically split opposition camp in the Diet, from which it will take years to recover. Although the Democratic Party of Japan (DPJ) remains the second largest opposition party, based on its single-digit support rates in opinion polls and lack of internal unity on security and other policy issues, it has a long ways to go if it is to ever recover its former status as a viable ruling-party alternative to the LDP. The opposition camp in the Diet has the capability of delaying but not blocking key measures introduced by the Abe government, and so far, though the public remains wary of some of the proposed changes – such as security measures now before the Diet – Abe's support rate in the polls remains at levels far above the “danger zone” for a prime minister.

**Trend in numbers of proportional representation votes garnered by the Liberal Democratic Party of Japan and the Democratic Party of Japan in elections for the House of Representatives**



## **Abe's "Proactive Pacifism"**

Since he launched his second administration in December 2012 following the LDP's return to power, Prime Minister Shinzo Abe has been promoting "proactive pacifism," his hallmark security policy that includes international cooperation soon to be enhanced by the passage of legislation based on a new set of defense cooperation guidelines with the United States. Abe's main policy goals have centered on building a stronger alliance with the U.S., dealing with China as a rising economic and military power, and embarking on globetrotter diplomacy. Abe already has visited 55 countries and regions as of mid-2015, surpassing his predecessors in terms of overseas tours made while in office.

Abe's proactive pacifism, as seen in new defense cooperation guidelines with the U.S., also calls for sending Self-Defense Forces (SDF) troops overseas and stepping up their rear-area support for the U.S. and other countries involved in combat operations so Japan can contribute more to global peace.

In April 2014, the Abe government reviewed its three principles of arms exports and lifted a long-standing arms embargo, opening the door for the country to conduct arms development with the U.S. and other countries. The new Japan is now an international supplier of weapons and military technology to carefully selected countries. Japan has agreed with the U.K. already to jointly develop missile technologies, and it seeks now to supply Australia, as a "quasi-ally", with the technical know-how to build attack submarines. Abe wants in this way to work with Australia to counter China's maritime advances in the region.

As of mid-2015, the French government is now exploring the possibility of collaborating with Japan to win a contract to build new Australian submarines, according to press reports. The possibility of such a French-Japanese collaboration reportedly will be discussed when French Prime Minister Manuel Valls visits Japan in October. Australia plans to choose a partner by the end of this year for the construction of up to 12 submarines from the three candidates of Japan, France and Germany after comparing their submarine technologies. The Japanese Maritime Self-Defense Force's Soryu-class submarines are seen as a prime candidate to replace the Australian navy's Collins-class vessels.

## **Mr. Abe Goes to Washington**

There is absolutely no doubt that the highlight of relations between Japan and United States in 2015 was Prime Minister Abe's late April visit to Washington, where he held a summit meeting with President Barack Obama and delivered a landmark speech to a joint meeting of the members of the U.S. Congress.

The Prime Minister's arrival in Washington was preceded on April 27 by a "two-plus-two" meeting of the defense and foreign ministers of both countries, formally the U.S.-Japan Security Consultative Committee. The ministers issued a statement finalizing the first updating of the U.S.-Japan Defense Cooperation Guidelines in 18 years. Reflecting the rapidly changing security environment in the region and the rest of the world, the new guidelines are the boldest ever to be issued since they remove geographical constraints for Japan Self-Defense Forces (SDF) rear-support for the U.S. military and ensure that both forces will cooperate in a "seamless" manner in both peacetime and during contingencies. The guidelines reflect such changes in the security environment as China's increasingly aggressive maritime activities in regional waters, as well as the resurgence of international terrorism and other non-state threats to international security across the globe.

Prime Minister Abe on his part has presented to the Diet in May a set of security bills that would enable such guidelines-related security cooperation with the United States. He has also developed a "proactive" diplomacy that contributes to global peace and reinforces the cooperative security role of the U.S. and Japan overseas.

The bilateral defense guidelines are based in large part on the Abe Cabinet's landmark – and controversial – decision in July 2014 to reinterpret Article 9 of Japan's war-renouncing Constitution to allow the limited use of collective self-defense – removing a self-imposed ban set in 1972. Collective self-defense could be exercised, once Abe's set of legislation is passed, under certain circumstances and conditions in the context of the alliance with the U.S. and the Charter of the United Nations. One example that Prime Minister Abe has cited is cooperation with the U.S. in minesweeping operations in international sea lanes of critical importance to Japan's security, like a blockaded Strait of Hormuz, through which 80 percent of Japan's oil imports are shipped.

Abe's visit to the U.S. was not without controversy, specifically his handling of the history issue in his speeches and remarks. For example, a group of 25 members of the U.S. Congress sent a letter to the Prime Minister urging him to "formally reaffirm and validate" apologies made by his predecessors for Japan's wartime aggression.

In his April 29 speech to a joint meeting of Congress, the Prime Minister elicited the first standing ovation of his address at the outset, when he quoted his grandfather Nobusuke Kishi, who stood at the same podium as then prime minister in 1957 and said, "It is because of our strong belief in democratic principles and ideals that Japan associates herself with the free nations of the world." Abe expressed "deep repentance" over Japan's role in World War II, "striking a note of measured contrition," according to the liberal Asahi Shimbun (4/30/2015). He stopped short of issuing his own apology, but upheld the statements of his predecessors. The speech, which focused largely on the future of the alliance, was an attempt also at reconciliation

between former war enemies that aimed at bringing that tragic part of U.S.-Japan history to closure.

### Different expressions used regarding perception of history

Statement by then Prime Minister Tomiichi Murayama on 50th anniversary of end of World War II (Aug. 15, 1995)	Japan...through its colonial rule and aggression, caused tremendous damage and suffering...[I] express here once again my feelings of <b>deep remorse</b> and state my <b>heartfelt apology</b> .
New Year's press conference by Prime Minister Shinzo Abe (Jan. 5, 2015, in Ise, Mie Prefecture)	Over these 70 years, Japan has earnestly built up a free and democratic nation while feeling <b>deep remorse</b> regarding World War II...The <b>Abe Cabinet</b> upholds in its entirety the position taken on recognition by previous administrations, including the <b>Murayama statement</b> .
Prime Minister Abe's address to joint session of U.S. Congress	Post war, we started out on our path bearing in mind feelings of <b>deep remorse</b> over the war. <b>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.</b>

Abe stressed that reconciliation between Japan and the United States had been ongoing since the end of the war 70 years ago, though he avoided such words as “apology” or “aggression.” He specifically mentioned “Pearl Harbor,” as well as “Bataan,” where many Americans died on their way to prison camps during a long march ordered by the Imperial Japanese Army. “History is harsh. What is done cannot be undone,” Abe said. Referring to the WWII memorial in Washington, Abe stated, “With deep repentance in my heart, I stood there in silent prayers for some time.”

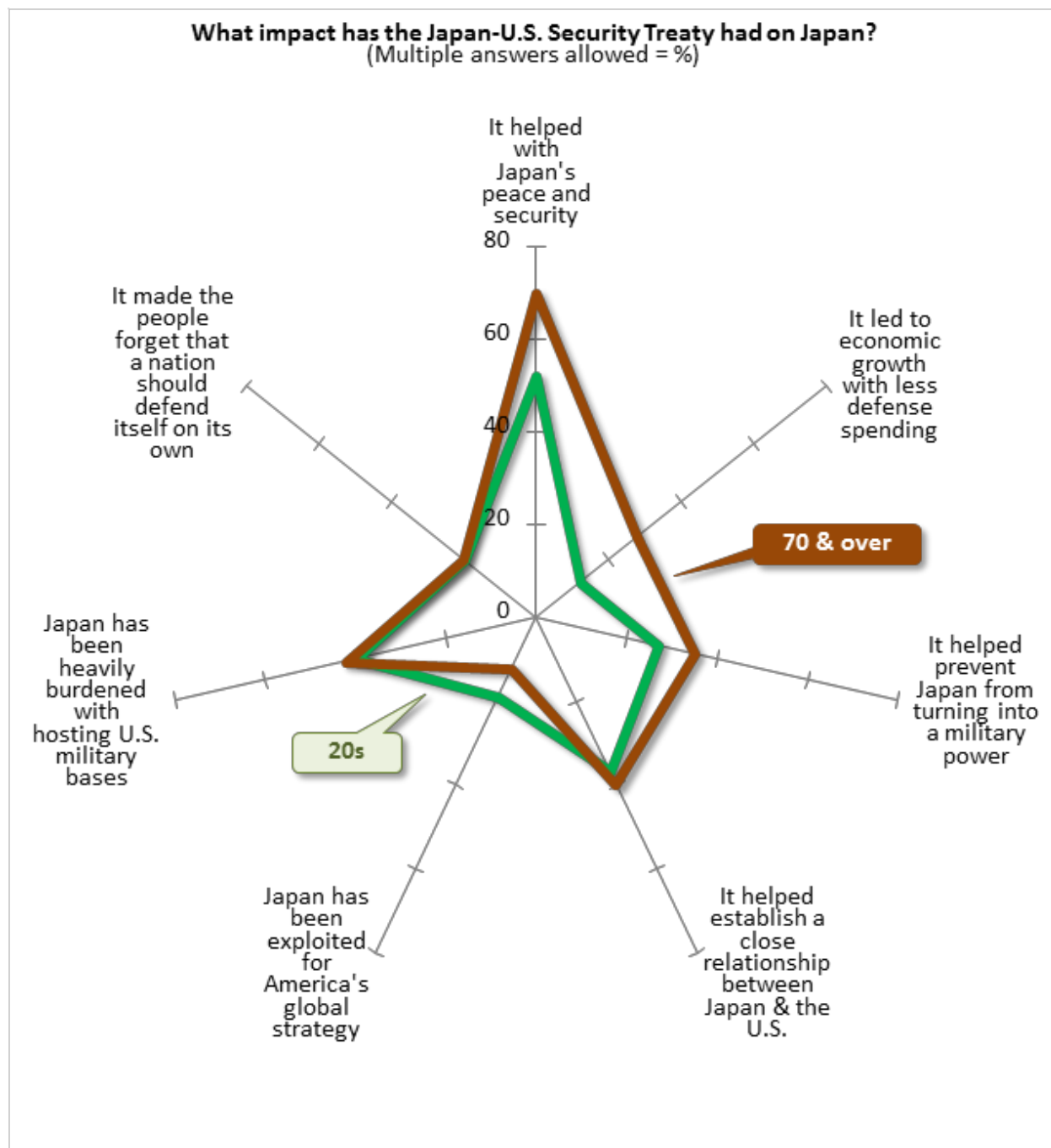
Abe then revealed that in the gallery was a man who had been a U.S. captain in command of a marine company that came ashore on Iwojima, an island that saw some of bloodiest fighting of the Pacific War. He introduced former Internal Affairs and Communications Minister Yoshitaka Shindo, who was also in attendance and is a grandson of Gen. Tadamichi Kuribayashi, the commander of the Japanese garrison during the battle on the island. “Enemies that had fought each other so fiercely have become friends bonded in spirit,” Abe noted, paying tribute to efforts reconciliation between two nations that are now friends and allies..

Abe's speech pleased the Obama administration and the Congress. Vice President Joe Biden commended Abe for stating Japan's responsibility for the war. But Abe did not satisfy his critics who had wanted a new apology that included Asian countries. Reactions from China and South Korea, too, were negative.

Abe had hoped to head off criticism of his seeming reluctance to take an apologetic stance on WWII by visiting Arlington Cemetery, where he laid a wreath, and the Holocaust Museum in DC. Abe came to Washington carrying much historical baggage, and his critics did not let him forget it. Since his emergence on the political scene in the 1990s, Abe has been associated and even has been a key member of a group of conservative lawmakers with revisionist views toward Japanese history, particularly World War II. His visit in December 2013 to Yasukuni Shrine, where Class-A war criminals are enshrined along with the millions of war dead, set off an uproar among Asian neighbors, and even prompted the American Embassy in Tokyo to issue a statement of “disappointment” with his action.

Still, with a public approval rating consistently around the 50 percent range, depending on the poll, Prime Minister Abe’s visit to the U.S. was to most Japanese a great success. A Yomiuri Shimbun poll in May found 70% of respondents giving high marks to Abe’s summit meeting with President Obama and 67% were pleased with Abe’s Congressional speech.

In February, the *Yomiuri Shimbun* carried out a survey of Japanese attitudes toward the U.S.-Japan Security Alliance. The following graph, courtesy of the U.S. Embassy Tokyo, illustrates the state of play of views in Japan based on age groupings:



## **Opposition to Security Legislation**

The Japanese public, however, remains wary of the security legislation now before the Diet (as of this writing in mid-June) that would enable the implementation of the bilateral defense cooperation guidelines announced in Washington. A public opinion survey conducted by Jiji Press on June 5-8, in which the rate of support for Prime Minister Abe was suddenly down 2.2 points to 45.8%, found more than 80% had misgivings about the bills, 12% saying it should be scrapped and another 68.3% wanting extensive debate in the Diet not timed to early passage of the package.

One main reason for the public's caution or outright opposition to the set of 11 security bills Abe has sent to the Diet stems from a "fear of entrapment" in an American war that has permeated thinking about the alliance with the U.S. from its earliest days. At the other extreme, there is also a "fear of abandonment" that if Japan did not go along with the demands of the U.S. on its ally, the Americans would abrogate the security treaty, leaving Japan alone in a dangerous world.

One can see a "fear of entrapment" driving views in an Asahi opinion survey issued on May 11, 2015. The poll found 60% of the public opposed to passage of the controversial package of security legislation during the current Diet session. Only 23% approved. Asked about their main reason for opposing the bills, 68% of the respondents disagreed with Abe's promise that there was no possibility the legislation would result in Japan being dragged into a war waged by the U.S.

There is also a "fear of abandonment" that seems to explain in part the Abe administration's drive to expedite such a controversial security agenda. As reported in the Japanese press, in early 2014 when he was building political support for the major shift coming in security policy, Prime Minister Abe reportedly told a senior official in the Komeito, the coalition partner of the LDP, "Although the U.S. protects Japan, its presence is on the wane amid the harshening security environment surrounding Japan. We will need to protect our land by joining hands with the U.S." Abe was worried about U.S. resolve at a time when China was ramping up its defense budget and expanding its maritime ambitions into regional international waters. He wanted to do something bold to keep the U.S. military presence and commitment to Japan and the region solid. He reportedly felt a sense of crisis that Japan would not be able to defend itself in the current environment without strengthening its ties with the U.S. The result in large part was the new set of defense cooperation guidelines issued by the two governments this April

The security-related legislative measures, now before the Diet for deliberation, include a bill allowing Japan to send SDF troops as needed, even without creating a new or ad hoc law each time, to engage in rear-echelon support during international disputes and other events that would not have a serious impact on Japan. In the survey, respondents were asked whether they approve

of this bill. In response to this question, negative answers outnumbered affirmative ones, with “no” accounting for a total of 54% and “yes” for a total of 30%. Meanwhile, respondents were also asked whether they approve of another bill changing an existing law’s provisions so that the SDF will be allowed to back up U.S. forces all over the world in situations that would have a critical impact on Japan’s peace and security. To this question as well, negative answers outnumbered affirmative ones, with a total of 53% saying “no” and a total of 29% saying “yes.” On the other hand, the security legislation requires the government in principle to ask the Diet for its approval before sending SDF troops for activities overseas. In the survey, respondents were asked whether they think this requirement can serve to restrict the SDF’s activities, including its overseas deployment. To this question, “yes” outnumbered “no” at 48% to 32%.

In the meantime, the “Japan-U.S. Defense Cooperation Guidelines” have now been revised to expand the SDF’s cooperation with U.S. forces and strengthen the Japan-U.S. bilateral alliance. When respondents were asked whether or not they approve of this, “yes” outnumbered “no” at 45% to 32%. In the revised guidelines, the Japanese and U.S. governments have confirmed that the U.S. military will cooperate with the SDF in defending Japan’s outlying islands, including the Senkaku Islands of Okinawa Prefecture. To this question as well, “yes” substantially outnumbered “no” at 61% to 20%.

The public’s concern also stems from strong objections to the constitutionality of the legislation raised in the Diet and among constitutional scholars. The House of Representatives, Commission on the Constitution, invited three constitutional scholars to give their views about the security legislation and all of them categorically stated that they were unconstitutional. This set off severe criticism of the Abe administration by the opposition camp in the Diet.

The Abe government aimed to have the security legislation passed during the current Diet session, which is scheduled to close in late June, but due to the prolonged debate, it is now likely to be extended to the end of summer (as of this writing). In the same Asahi poll, the respondents were also asked whether they think allowing Japan to exercise the right of collective self-defense to a limited extent is necessary for its national security. To this question, “yes” accounted for a total of 46.8%, with “no” for a total of 37.4%. Other polls show either a majority opposed or split in two.

The right to collective self-defense is basically a right to joint defense. When a member of an alliance is attacked, this is regarded as an attack on all allies, so they have the right to respond jointly, including with the use of force, as exemplified in the North Atlantic Treaty. Its main purpose is deterrence to enhance national defense. Article 51 of the UN Charter recognizes both collective and individual defense right as an “inherent right” of member states.

## **Constitutionality of Security Bills**

The Japanese Constitution does not negate the exercise of the right of self-defense. This has been the position of the government since the Constitution was promulgated. The Supreme Court ruled in the Sunagawa case on Dec. 16, 1959: “Pacifism in Japan’s Constitution does not mean defenselessness or non-resistance... It must be said that the necessary self-defense measures can be taken to maintain peace and security and to sustain the nation’s survival as an inherent right of a country... Article 9 does not prohibit Japan from maintaining peace and security with the assistance of another country.”

Whether the Abe government’s reinterpretation of Constitution to allow the exercise of the right to collective self-defense is constitutional or not became a highly contentious issue in Diet deliberations on security bills enabling that right. Defense Minister Gen Nakatani asserted at the House of Representatives special committee on the peace and security-related bills on June 10 that the “basic logic of the Constitution remains completely unchanged,” but the opposition camp rejected his argument, charging that “legal stability is being compromised.” At this writing in mid-June, the Abe administration was pushing for a lengthy extension of the current Diet session from late June to late August to pass the security bills during the current session.

The opposition camp pointed out that more than 200 constitutional scholars had issued a declaration calling for the security bills to be withdrawn because they are unconstitutional. Only a minority of constitutional scholars consider the bills to be constitutional. It is possible that ultimately the issue may be presented to the Supreme Court, which traditionally has been reluctant to take up the constitutionality of bills before the Diet.

The only early Supreme Court decision was the above-mentioned Sunagawa case in 1959, which said that the right of self-defense pertains to “necessary measures to be taken to maintain Japan’s peace and security and ensure its survival.” Based on the Sunagawa decision, the government came up with a position in 1972 that recognized the right to individual self-defense, consisting of (1) the Constitution does not ban self-defense measures; (2) such measures must be limited to the minimum required; and (3) the exercise of the right to collective self-defense is not allowed. In its July 1, 2014, cabinet decision, the Abe administration overturned (3) and concluded that due to changes in the security environment, there are cases where the limited exercise of the collective defense right is allowed. This is the crux of the heated debate in the Diet over the validity of such a decision.

Although the Abe government argues otherwise in its June 9 claim that “logical consistency with the [1972] constitutional interpretation and legal stability are maintained,” the consensus among constitutional scholars is that “self-defense measures” in the Sunagawa decision did not include the right of collective self-defense. This is because collective defense right was not taken into

consideration at that time. Even some ruling party members believe that using the Sunagawa verdict as the basis for authorizing the exercise of this right will not work.

The opposition camp in the Diet is now attacking such “vulnerability” in the government’s constitutional interpretation. The next step indeed may be the Supreme Court. Although Nakatani asserted at first, “I don’t think it will rule that the bills are unconstitutional and invalid,” when asked several times what if such a ruling is made, he backed off and said: “In a country under the rule of law, if the Supreme Court pronounces its verdict, we will follow the ruling in an appropriate manner.”

### **Crisis Management: Japanese Hostage Tragedy**

Prime Minister Abe had his first bitter taste of the horrors of terrorism early in 2015 when ISIS or the Islamic State revealed that it had captured two Japanese citizens in Syria and demanded ransom for their release. The terrorist incident happened while Abe was visiting the Middle East January 16-21, making stops in Egypt, Jordan, Israel, and Palestine.

The Islamic State group initially demanded a \$200 million ransom in a video posted online that showed a knife-brandishing masked militant standing over the kneeling captives. It gave a deadline of 72 hours, which the video's release time suggests would expire sometime Friday. ISIS’s decision to kill two captured Japanese unless the \$200 million ransom was paid could have been sparked by Abe’s Jan. 17 speech in Cairo. In that speech, Abe pledged \$200 million in non-military humanitarian aid to countries and refugees in the Middle East, which ISIS took as aid to its enemies.

Indeed, segments of the Western press did misreport Abe’s aid intentions. Here is the headline and first paragraph of one such English language report from Europe:

#### **“Japan's Abe gives millions for Middle East to fight Islamic State terrorists**

Japanese Prime Minister Shinzo Abe says the world will suffer if terrorism spreads in the Middle East. The leader has pledged millions of dollars in non-military assistance to countries fighting Islamic State. “

Abe and other Japanese officials did not say directly whether Japan would pay ransom for the captives, freelance journalist Kenji Goto and Haruna Yukawa, the founder of a private security company. In past international hostage situations involving Japanese captives, at least one has been killed while most have been released. It is unclear how many times Japan paid ransom. The only confirmed case was in Kyrgyzstan in 1999.

The kidnapping and ultimately the beheading of two Japanese citizens by ISIS terrorists presented Prime Minister Abe a dilemma: whether to negotiate and ultimately give in to terrorist demands, or to adamantly refuse. He chose the latter, saying, "We will never give in to terrorism," but ISIS had already made its decision early on to execute the two Japanese. A change in their tactic to demand the release of Sajida al-Rishawi, a female suicide bomber who was captured by Jordanian authorities in 2005, in return for a Jordanian soldier held captive in Syria, was only a ruse, since that hostage already was dead. The terrorist group warned that Japanese would now be targeted.

For Abe, whose attempt to use the good services of the Jordanian government backfired, the real challenge is how to face terrorism in the future. Japan until now has had neither the tools nor the policy to deal with such incidents. The hostage crisis in which the two Japanese were killed by the militant group thus intensified a debate in Japan on whether the Self-Defense Forces should be allowed to use weapons for rescues of Japanese nationals overseas in the event of emergencies. The Abe administration would like the SDF to engage in police-like activities involving the use of weapons as part of its planned security-related legislation, under certain conditions, such as winning the consent of the country in which the emergency is taking place.

But many lawmakers of both ruling and opposition parties have remained cautious about such a move, due to concerns that the SDF could end up exercising force, banned under the constitution's war-renouncing Article 9, by returning fire after an unexpected attack. Abe told a meeting of the House of Councillors Budget Committee on February 3 that his government was preparing a law amendment to make it possible for Japan to exercise police authority in situations in which there is consent from the host country and also no quasi-state armed organization in the area. "The use of weapons would be possible," Abe added.

Since the "Islamic State" has now singled out Japan as a target, the government plans to enhance counterterrorism measures at home and abroad. In order to prevent terrorists from entering Japan, "containment measures at points of entry" such as airports are being enhanced. In addition, security measures will be strengthened for public transportation systems and important facilities, and steps will be taken to ensure the safety of Japanese nationals abroad. The government will also enhance cooperation with the international community to strengthen the coalition against the Islamic State.

The government will collect and analyze terrorist information in cooperation with foreign intelligence agencies and make utmost efforts to strengthen security measures to protect public transportation systems and U.S. military and Self-Defense Forces facilities, as well as to ensure the safety of Japanese nationals at Japanese schools and other facilities overseas.

PM Abe said on Feb. 1, “I will work with the international community to hold [the Islamic State] responsible,” and expressed his intention to provide countries vulnerable to terrorism with support to improve their police capabilities. Foreign Minister Fumio Kishida cited the following specific measures when he addressed the press on the night of Feb. 1: 1) financial assistance for the improvement of police capabilities in Middle East countries; 2) prevention of money laundering to cut terrorist funding; and 3) travel restrictions to deal with the issue of foreign fighters.

The government disclosed on Feb. 17 a new foreign policy of offering \$15.5 million (about 1.83 billion yen) to support counterterrorism capabilities in the Middle East and Africa. The government intends to strengthen antiterrorism measures in multiple ways, such as providing nonmilitary aid and attaching importance to dialogue with countries in the Middle East. Senior Vice Foreign Minister Yasuhide Nakayama will announced the aid measures during an international antiterrorism conference held in Washington on Feb. 17-19.

### **Crisis Management: Natural Disasters**

Another aspect of Japan’s cooperation with its ally, the United States, lies in the area of disaster prevention and management, a significant issue for Japan given that nation’s ordeal following the triple disaster on March 11, 2011, of a massive earthquake, tsunami, and nuclear power plant accident in northern Japan. The UN World Conference on Disaster Risk Reduction was held in Sendai in March, with Prime Minister Abe attending. Japan’s has had much experience on disaster prevention and management efforts, including the progress made in reconstruction after the Great East Japan Earthquake. It has much to share with the international community regarding reconstruction in disaster areas.

In that context, **Waichiro Katsuda** in his well-researched paper on U.S.-Japan disaster management looks at the past, present, and future of joint responses to natural and man-made disasters in Japan and the region. The paper points out both the successes as well as the challenges of past experiences, focusing on the aftermath of the massive earthquake in 2011 in northern Japan. In pointing out areas where improvements are needed in order to enhance joint cooperation, such as better communication and coordination, the paper outlines an agenda for future cooperation that could contribute to regional security as well as strengthen the U.S.-Japan alliance

### **70<sup>th</sup> Anniversary of the End of World War II**

Perhaps the single most challenging fete for Prime Minister Abe this year will be his handling of the 70<sup>th</sup> anniversary on August 15 of the end of World War II, specifically, his promise to deliver

a commemorative statement that would address the tragedies of the wartime and colonial past, chronicle the contributions to peace of postwar Japan, and look ahead to Japan's international role in the future

Prime Minister Abe's initial commitment to the anniversary statement came in his policy speech to the Diet on January 28:

“For the 70th anniversary of the end of World War II, I would like to issue a statement on Japan's remorse for the past war, its history as a peaceful country after the war, how it will contribute to the Asia-Pacific region and the world from now on, and what kind of country it intends to become based the collective wisdom of its people. The Abe administration adheres to the overall position of the Murayama Statement and statements [of apology] issued by past cabinets and will continue to do so.”

Regarding formal apologies of Abe's predecessors, dozens have been made in the past, with Prime Minister Junichiro Koizumi issuing one during his administration to mark the 60<sup>th</sup> anniversary of the end of the war. In addition, Japan issued a formal apology to American POWs for their wartime mistreatment in 2009 and again in 2010, with some representatives invited to Japan as special guests in order for them to obtain a positive view of the Japanese people.

At this writing, the statement has yet to be issued, but elaborate preparation is underway and much pressure has been exerted on the Prime Minister at home and abroad to use apologetic language in the historical part of the statement that would convince Asian neighbors of his sincerity.

Abe has a panel of experts to advise him arguing intensely about the statement's preferred contents. And a flood of letters, petitions, and warnings has besieged the Prime Minister's office, including a large group of academics in Japan and Western countries who sent letters exhorting the Prime Minister to do the right thing in issuing his statement.

### **Issue of Historical Revisionism**

Since the 1990s, conservative groups of academics, journalists, commentators, and politicians, some organized into associations or think-tanks have sought to revise Japanese history, starting with school textbooks, to reflect a glorified view of Japan's past, even if that means denying certain historical facts and events that scholars all over the world have accepted as true.

Prime Minister Abe, based on some of his writings, interviews, and statements in the Diet, as well as his membership in certain associations, is considered widely to be a historical revisionist, though he has denied it in public statements. But some of the Prime Minister's statements on

historical issues have been questionable and sharply criticized at home and abroad, and some of his appointees to cabinet and other positions are unabashed historical revisionists. Many of his conservative supporters and colleagues are outspoken about their desire to rectify or justify Japan's wartime actions, and have been unequivocal about denying atrocities by the Japanese military that unquestionably happened, such as the Nanking Massacre, or dismissing as a fiction the existence of a military-run "comfort-women" system of brothels for Japanese soldiers during the war.

The Prime Minister's December 2013 visit to Yasukuni Shrine, where Class-A war criminals are enshrined, upset even the United States, but to Abe, paying homage there to the millions of war dead is a natural thing for a Japanese leader. Here is what he said about it in an exchange in the Diet on February 11, 2014:

**Akira Nagatsuma of the Democratic Party of Japan:** The United States released a comment that it was disappointed [at your visit to Yasukuni Shrine]. Haven't you considered the idea of building a different memorial facility at which the nation's top leader pays his respects while he is in office?

**Prime Minister Shinzo Abe:** Many [of those enshrined there] lost their lives while following orders of the nation. So I think [paying homage to the shrine] is the responsibility of the nation's leader. Some may say that it's wrong, but I don't think so.

On February 23, 2015, Tomomi Inada, policy chief of the LDP, made a statement in Diet Budget Committee hearings that explains why so many lawmakers are unconcerned about the enshrinement of Class-A war criminals at Yasukuni Shrine: they do not believe they were legally convicted of committing any crimes. Inada questioned the legal basis of the Tokyo Tribunal that convicted 25 Japanese military and political leaders of being Class-A war criminals. Inada, who claims that the Nanking Massacre in China was a fabrication, explained her Diet statement to the press later: "There are legal doubts ... because criticism has arisen in international law conferences that refer to [the Tokyo Tribunal] as ex-post facto law." She went on to say, "There was no law under international law that looked into the responsibility of individual leaders (of war) at the time the Potsdam Declaration was accepted (by Japan)."

Abe has not visited Yasukuni Shrine since December 2013, though he continues to send an offering on special occasions, and members of his Cabinet regularly pay homage there. With August 15, 2015, approaching, speculation has been growing about his paying another visit to Yasukuni, but at this writing, based on his commitment to issue a wartime memorial statement around that time, it seems unlikely that the Prime Minister will go again. Abe, who calls himself a patriot, may wish to pay homage on that day to the war dead, but there are other venues to do that, such as again joining the Emperor at the secular ceremony at Budokan. Moreover, another

Yasukuni visit would rupture beyond repair relations with China and South Korea, now on the slow mend, as well as undermine the solid relationship of trust he has painstakingly rebuilt with Washington.

The historical issue in the hands of conservative politicians instead of historians always has the potential of creating frictions with Japan's neighbors, but it should not be forgotten that the U.S., too, has long been the target of the revisionists. For example, according to press reports on June 18, 2015, the Liberal Democratic Party will set up a team to examine the post-World War II occupation of Japan by the General Headquarters of the Allied Forces, or GHQ, and the International Military Tribunal for the Far East in Tokyo. "There are calls within our party for scrutinizing developments during the occupation period, including the process of drawing up the current constitution," Tomomi Inada, chief of the ruling party's Policy Research Council, said at a press conference. "We have no intention at all to deny the results of the trials," Inada stressed, "but the rulings include faulty views on history and therefore should be scrutinized," she added. However, Inada is well-known for her denialist views, considering the Nanking Massacre to be a fabrication, the military-run comfort-women system as a fiction, and denying that the Japanese military ordered mass civilian suicides during the Battle of Okinawa.

Inada's panel is expected to be launched after the LDP's special committee aimed at restoring Japan's honor and international trust in the country releases its recommendations as early as late June. At a meeting on Thursday, committee members called for a revision to the 1993 statement by then Chief Cabinet Secretary Yohei Kono on "comfort women," or Korean and other women forced to provide sex to Japanese soldiers before and during the war. Needless to say, such activities threaten to undermine the efforts of Prime Minister Abe to put the history issue behind him by his statement this summer on the 70<sup>th</sup> anniversary of the end of the war.

### **The Okinawa Problem Only Gets Worse**

Despite Abe's successful alliance building efforts that led to the issuance of new defense cooperation guidelines, an unresolved U.S. basing issue in Okinawa continues to be the proverbial "thorn in the side" of the bilateral relationship.

Since coming into office in December 2012, Prime Minister Abe has vowed to resolve the Okinawa basing problem, which is centered on the relocation of a U.S. Marine base, MCAS Futenma, from the middle of a crowded city to a planned new facility next to Camp Schwab at Henoko Point in the lightly populated northern part of the main island of Okinawa. The highly contentious issue of relocating Futenma has been complicating alliance relations since 1996, when the base relocation was first announced in order to lighten the security burden on southern Okinawa. Other U.S. military facilities also are scheduled for reversion to Japan, and up to 9,000 Marines will be transferred out of Japan as part of the bilateral agreement.

Despite Abe's resolve to get the Futenma replacement facility built without fail, political resistance in Okinawa has continued unabated, and even escalated in 2015 after the gubernatorial election in November 2014. Former Naha Mayor Takeshi Onaga, an anti-relocation activist, won against incumbent Governor Hirokazu Nakaima, who had shifted to supporting relocation and signed papers allowing reclamation work off Henoko Point to start. The new prefectural governor has demanded that the Futenma facility be closed and removed from Okinawa, something neither Tokyo nor Washington is willing or able to do, and he has even traveled to Washington to make his case. Washington was unmoved.

In addition to losing the governor's seat, the ruling LDP, which was able to win nearly 300 seats in the House of Representatives election in December 2014, lost in all four single-seat districts in Okinawa. This was seen, too, as a demonstration of the popular will in Okinawa against the relocation of the Futenma Air Station within the prefecture. The Japanese Communist Party (JCP) candidate won in the first district of Okinawa after a fierce battle. This was the first time in 18 years that the JCP has been able to win an electoral district seat in that prefecture.

Moreover, an incumbent mayor who is opposed to the Henoko relocation was reelected in the Nago mayoral election in January, defeating the pro-relocation LDP candidate. The results of the elections indicate that the Okinawan people have declared their rejection of Henoko relocation three times this year. However, Prime Minister Abe stated at his news conference on the day after the election: "Henoko relocation is the only solution. My position remains unchanged."

Governor Onaga has tried every legal means possible – so far unsuccessfully -- to roll back the approval given by his predecessor Hirokazu Nakaima to conduct reclamation work at the site of the proposed Futenma Replacement Facility. For a while the Abe administration snubbed Onaga when he sought high-level meetings. Eventually, he met Prime Minister Abe on April 17, but both parties just repeated their standard positions. If the governor somehow finds a legal hook to revoke the permit, the central government would then use legal overriding means to reinstate it. The courts in the end may decide which side is right: Okinawa or Tokyo, but this is likely to be the most volatile showdown between the prefecture and central government since Okinawa reversion in 1972.

In the adding insult to injury category, the timing of two events by the Abe administration has further infuriated Okinawans. April 28, 1952, is known in Okinawa as a "day of humiliation," for on that day, Okinawa formally came under U.S. rule, until reversion in 1972. The U.S. bases built by land expropriation during those 27 years are mostly still there. In fact, 74% of exclusive U.S. military facilities in Japan are concentrated in Okinawa Prefecture.

But on April 28, 2015 (still April 27 in the U.S.), the U.S. and Japanese governments issued in Washington the defense cooperation guidelines which reconfirmed that the Henoko relocation plan is the “only solution” to avoid the continued use of Futenma. As a result, 2,500 demonstrators marched in Naha, Okinawa, in protest, saying, “Of all days, the Japanese and American governments dared to choose this ‘day of humiliation’ to conclude that ‘Henoko is the only solution’. We cannot tolerate that.”

May 15, the date that Okinawa was returned to Japan in 1972, is traditionally the occasion for a peace march to be held in that prefecture. This year’s march was particularly galling to the demonstrators for on that day, the Abe administration sent to the Diet a set of security bills transforming the nature of the SDF and its roles and missions, and further wrapping Okinawa into new strategic plans.

### **Abe Doctrine Targets ASEAN**

In a keynote speech delivered at the Asia Security Summit (Shangri-La Dialogue) in Singapore on May 30, 2014, Prime Minister Abe showcased his “Abe Doctrine” defining his administration’s security policy. He also announced Japan’s support for ASEAN’s own security mechanisms that are seen as an effort to counteract China’s maritime advances in the region.

Tension between China and Vietnam and the Philippines has intensified because China claims sovereignty over the Spratly (Nansha in Chinese) and Paracel (Xisha in Chinese) Islands in the South China Sea. China has been reclaiming land and building installations to nail down its claims. For Japan, the South China Sea disputes resonate since China also claims the Senkaku Islands (Ishigaki City, Okinawa) that Japan administers.

While Abe did not mention China by name in his speech, he stressed the importance of the “rule of law” and “freedom” of navigation, and indicated Japan’s determination not to allow “attempts to change the status quo by force.” He also took a stance of upholding “international public property,” such as airspace and the open seas, and declared that Japan would play an active role in safeguarding freedom of navigation and aviation and the international order.

Abe expressed Japan’s determination to work together not only with the ASEAN nations, but also with other countries of the world to expand the regions of peace and prosperity through his “diplomacy with a global perspective.”

The Abe Doctrine underscores that Japan has consistently advanced as a peaceful country for the nearly 70 years since the end of World War II. Using the keywords “future-oriented approach” and “global contributions and response,” Abe in his speech stressed Japan’s intent to make greater efforts for world peace based on the policy of “proactive pacifism.”

#### **Main points of Abe Doctrine**

- Future-oriented approach; global contributions and response
- Promotion of proactive pacifism
- Japan's and the U.S.'s support for the ASEAN security mechanisms
- Rejection of attempts to change the status quo by force; respect for rule of law
- Safeguarding international public property

#### **Abe Diplomacy: Strategic Partnerships**

Under Abe's "proactive pacifism," Japan is building "strategic relationships" with Australia, the Philippines, India, and certain other Asian countries. Such a relationship is what Japan and the Republic of Korea should also be cultivating, if it were not for their inability to overcome the negative legacy of the past and the emotionally-charged territorial dispute.

For example, the Philippines and Japanese coast guards held in early May 2015 anti-piracy drills in a show of maritime cooperation amid rising tensions in Asian waters. The pressing issue, of course, for both countries is China's growing assertiveness over territorial claims in the South and East China seas. Prime Minister Abe cannot take credit for the concept of building strategic relations. The May 6 drill with the Philippines was the first since the two countries signed a "strategic partnership" pact in 2012 – when the Democratic Party of Japan was in power. Also, ironically, the drill was watched by coast guard officers of 17 Asian countries, including China, which is also battling piracy and other transnational crimes.

Abe thus has continued what the DPJ had started. Even more significantly, Japan and the Philippines held two joint naval drills this year, the first on May 12, and the second on June 22-26. On May 12, two Japanese destroyers and one of the Philippines' newest warships held maneuvers less than 168 miles from the Philippine-claimed Scarborough Shoal, which is now under Chinese control. Japan in June also sent a P-3C Orion patrol aircraft to the Philippines for a two-day search-and-rescue exercise as a further sign of deepening security ties.

Moreover, Philippine President Benigno Aquino and Prime Minister Abe announced in Tokyo in early June that the two governments would start negotiations for the transfer of defense

technology and equipment. The agreement may include the export of Japanese hardware to the Philippines, including anti-submarine reconnaissance aircraft and radar technology. The two leaders also expressed "serious concern" over China's construction of artificial islands in the South China Sea, which they said violated a 2002 regional agreement. Moreover, Japan and the Philippines are reportedly negotiating a visiting forces agreement that, if concluded, would allow Japanese military aircraft, such as the Lockheed Martin P-3C, to use bases in the Philippines for refueling.

In that context, just as the details of the joint exercise between Japan and the Philippines emerged, Japan warned China on June 17 that its extensive land reclamation in the disputed South China Sea does not make ownership “a done deal”, after Beijing announced it had almost finished its controversial island-building. The rebuke came after Washington urged China against militarization of the area, saying it risked escalating tensions, even as satellite pictures have shown a runway long enough to let even the biggest aircraft land. “We hold serious and significant concerns about the unilateral actions aimed at changing the status quo, which are bound to increase tension,” Chief Cabinet Secretary Yoshihide Suga told reporters. “With the completion of the reclamation, we must not accept the land reclamation as a done deal. We demand (China) not take unilateral actions that bring irreversible and physical changes,” he added. Responding to the comments, Beijing countered that “it makes no sense” for Japan to press China on the issue. “China has indisputable sovereignty over the Nansha Islands and we do not need to prove this by building facilities on the islands and reefs,” foreign ministry spokesman Lu Kang told a regular press briefing, using the Chinese name for the Spratly Islands in the South China Sea.

## **India Card**

In Japan’s drive to counter China’s growing regional influence, Japan has made India the other main target of its search for strategic partners in the region. In his paper, **Evan Sankey** focuses on India not only in its growing strategic relationship with Japan, but also on how that relates to the U.S.’ own strategic ties with that country. His paper examines the state of India’s cooperation with the U.S. and Japan in bilateral settings, and then assesses the potential of a trilateral arrangement, linked to the U.S.-Japan Alliance, emerging in the future.

## **Is Abe Missing the Strategic Boat with Central Asia?**

**Ian Hamilton** has written an intriguing paper outlining Japan’s relations with Central Asia which concludes that Prime Minister Abe may be missing the boat in strategic partnership terms by not putting more policy emphasis on a region that could eventually be important for Japan’s economic and political interests.

Central Asia may not be a particularly pressing region for Japanese foreign policy, falling under the general rubrics of peace, stability, prosperity, and cooperation. Moreover, Prime Minister Abe doesn't appear to have a particular strategy for Central Asia outside of disbursement of ODA and pursuing certain economic interests. He is concerned, however, about China's presence in the region. Uzbekistan, followed by Kazakhstan, has the closest relationship with Japan. Hamilton shows in his paper that Central Asia should be treated as more important to Japanese interests, especially in balance-of-power terms. He argues that Japan, which is well liked in the region, might even play a constructive role in promoting strategic cooperation among all parties in Central Asia, including such potential regional adversaries as China and Russia.

### **New ODA Charter**

One of Japan's most effective soft-power tools increasingly being used in coordination with its strategic interests has been official development assistance (ODA). Japan has long used official development assistance (ODA) for poverty reduction in the developing countries in the postwar period, and it has increasingly targeted aid to recipients based on Japan's strategic interests. However, with the rise of the newly emerging nations and China and other countries becoming aid donors themselves, the consensus in Tokyo is that ODA has reached a major turning point. Accordingly, the Abe government has revised the ODA Charter, which lays down the principles of foreign aid, for the first time in 11 years and changed its name to Development Cooperation Charter. The main focus of aid is now not only poverty reduction, but will also be expanded to building peace and propagating democracy.

One of the major changes introduced is the authorization of ODA to military organizations if this will be used for nonmilitary purposes and will not aggravate conflicts. While the existing ODA Charter does not ban the provision of aid to the military outright, this has not been allowed in practice. The text of the Feb. 10, 2015 Cabinet decision on the new military use of ODA is as follows:

“Japan will avoid the use of development cooperation for military purposes or for aggravation of international conflicts. Cases where the armed forces or members of the armed forces in the recipient countries are involved in development cooperation for nonmilitary purposes, such as public welfare or disaster relief, will be considered on a case-by-case basis depending on their substantive relevance.”

One reason for easing this restriction is that the military plays a significant role in the developing countries in emergency aid and restoration of infrastructure during disasters. The same is true for maritime security and counterterrorism. The policy shift is probably also aimed at upgrading the maritime security capabilities of the Southeast Asian countries for naval security, in light of China's assertiveness in the South China Sea and East China Sea.

### **Slow Thaw in Relations with China**

On April 22, 2015, Prime Minister Abe met China's President Xi Jinping for the second time in five months. They talked for about 30 minutes on the sidelines of an international conference in Jakarta. The meeting received surprisingly positive coverage in Chinese press.

The two leaders agreed on the need to further contribute to stability and prosperity in the region, and to promote "a mutually beneficial strategic relationship," a buzzword that harked back to before the souring of ties in 2012. Photos of the two shaking hands show them calmer and more relaxed than the awkward ones taken last November.

Then, meeting with a delegation from Japan on May 23, 2015, President Xi again struck a friendly tone on relations with Japan, though he also touched on the history issue that has added to bilateral tensions. Since Xi and Abe met on the sidelines of the APEC meeting last November, ties between Beijing and Tokyo have warmed at all political levels, but the main differences over the territorial dispute and Japanese attitudes towards wartime history persist.

The Japanese delegation that was then visiting China consisted of about 3,000 people, mostly related to the tourism industry, and was led by Liberal Democratic Party General Council Chairman Toshihiro Nikai, a former economic minister who has long-standing ties with the leadership in Beijing. Speaking at a welcome reception in Beijing, President Xi said that China "attaches importance to the development of China-Japan bilateral relations, and this basic stance remains unchanged." Adding, "Peace and friendly cooperation between China and Japan is the common will of the people, and the general trend of events," he stressed that "friendship" between the countries "deserves cherishing and protecting."

During his meeting with Xi, Nikai delivered a personal letter from Abe, though the contents have not been revealed.

But Xi's second message to Japan was a warning not to forget the past. Echoing regular pronouncements from Beijing, Xi mentioned the 70th anniversary of the Japanese surrender in the World War II, stressing that "the facts of history cannot be distorted". "The efforts of anyone seeking to distort or beautify the facts of Japan's acts of militaristic invasion will not be accepted by the people of China," he added. As if to make sure that Japan heeds Xi's message, China is preparing a massive military parade in September to mark the 70th anniversary, and also creating a public holiday.

Nikai has been the point person for the Abe administration on improving relations with China. As Nikai handed him a personal letter from Abe, Xi reportedly responded, “If both countries push the strategically reciprocal relationship, it will bring about good results.” On the history issue, Xi reportedly said that Chinese people will not accept “any words or deeds that appear to distort or glorify the history of Japan’s militaristic aggression.” This was taken in Tokyo as a message to Abe, who will issue a statement this summer to mark the 70th anniversary of the end of World War II, that anything less than apologetic contents will trigger Beijing’s return to a hardline position.

Another sign of the thaw was a just concluded confidence-building measure between the Japanese and Chinese defense establishments. A press delegation from China's Ministry of National Defense (MOD) led by its spokesperson Geng Yansheng visited Japan's Ministry of Defense on June 16-17, 2015, where the two sides exchanged opinions on their respective defense white papers and publicity work, according to a Chinese MOD announcement on June 18. The meetings stem from a 2014 four-point agreement between China and Japan, in which they pledged dialogues on a variety of topics, including defense, as confidence and trust building exercises. The two sides reached a consensus that such exchanges can enhance mutual understanding during the two-day talks. The communication mechanism between the publicity departments of the two defense ministries was established in 2010, but was suspended in 2012 after Japan upset China by purchasing the disputed Senkaku/Diaoyu islands.

The MOD delegation said it hoped that the Chinese military could be presented more objectively in Japan's defense white papers and urged the Japanese side to stop playing up the Chinese military threat. The Japanese side expressed its hope that China could make its deployment of equipment and troops “more transparent,” according to press reports.

Prime Minister Abe already has begun to respond to Xi’s blunt message on history. In an interview on June 15 with a Chinese-language TV station, Hong Kong-based Phoenix TV, Abe said that Japan has learned profound lessons from World War II, and he assured China that his proposed security legislation would not lead to conflict between the two countries. “Seventy years ago Japan made a pledge that the horror of war must never be repeated,” Abe said in the interview at his official residence, referring to “profound remorse” for the harm Japan caused in Asia. “This will not change in the future.” When asked about a potential conflict between the two Asian neighbors, he said such a situation could not be imagined as a result of the new legislation.

The prime minister pledged “constant effort” to improve Sino-Japanese relations, which have been troubled by China’s lingering bitterness over the war and territorial disputes in the East China Sea. The interview was the latest sign that tensions between the two may be easing, following Abe’s meeting with Xi Jinping in Indonesia in April and Xi hosting a delegation of 3,000 Japanese visitors in June in Beijing.

On Abe's statement commemorating the 70th anniversary of the country's defeat in's World War II, the Prime Minister told Phoenix TV he would include reflections on the war, on the harm done to the Asian people, and on Japan's commitment to peace.

Abe cited his most recent meeting with Xi as evidence of the willingness by the two sides to improve ties. "President Xi and I both want to further expand bilateral ties," Abe went on: "We share this view. Most people would probably feel our second talk was more open than the first one, and we got to candidly exchange opinions. We're of a similar age, and I can feel that he shoulders the responsibility of the 1.3 billion Chinese people."

### **China's Economic Concerns**

The conciliatory stance shown by Xi, according to some analysts, is believed to reflect his strong concerns about the slowdown of economic growth that is a key to the stability of his administration. China has repeatedly reduced interest rates to prop up the economy, but it has failed to produce visible results as consumption remains sluggish. Japan's investments in China have declined steeply while the cooperation and exchanges between the companies have stagnated. Xi is believed to be aiming to get back Japanese tourists, who have declined in number, as well as obtain Japanese technologies and funds.

Chief Cabinet Secretary Yoshihide Suga evaluated Nikai's China visit as "extremely significant." The expansion of trade and investment and stable Japan-China relations are indispensable also to the Abenomics economic policy. In her paper on the effects of politics and policy on trade patterns between China and Japan, **Jenny Yiwei Pan** argues that while investment has plunged in recent years due to political tensions, as well as market forces, the overall trade pattern between the two countries has not changed that much, reflecting both the growing economic interdependence of the two economies and the desire of Japanese companies to continue to court China's growing consumer market. A return to normalcy in the bilateral political relationship will likely see a resurgence of new investments targeting China's domestic market.

Japanese investment in China already could be picking up. Toyota announced on April 11, 2015, that it plans to build a new \$1.25 billion auto-assembly plant in Tianjin, China, and another in Mexico. The company plans a joint-venture in China to produce fuel-efficient cars that meet strict environmental standards. China's auto market is considered to be the world's largest.

On another positive note, there has been a sharp increase in Chinese tourists visiting Japan, often for the purpose of going on major shopping sprees; and a rise in the number of Japanese studying in China and vice versa. Moreover, Japanese politicians like Nikai have been building new

channels between Japan's ruling parties and the Communist Party of China. And China's minister of civil affairs came to Japan in March, marking the first cabinet-level visit in three years. Then, on March 21 the foreign ministers of China, Japan, and South Korea held their seventh trilateral meeting in Seoul. Although the meeting lasted only 90 minutes, it was followed by the issue of a joint press release. While the three ministers focused on the expansion of trilateral cooperation in what might be called minimal areas, such as disaster management, the environment, and youth exchange, historical perceptions were also discussed at some length. In an oblique reference to this issue, the press release included the phrase "in the spirit of facing history squarely and advancing toward the future."

### **Can Abe and Park Ever Get Along?**

With June 22, 2015, marking the 50th anniversary of the normalization of relations between Japan and the Republic of Korea (ROK), few in each country could be found celebrating the event on that day. Relations between the two countries, which have swayed back and forth from lukewarm to icy over the decades, are now at what is arguably the worst since normalization. Yes, events in Seoul and Tokyo were formally held to mark the occasion, but neither President Park Geun-hye nor Prime Minister Abe will be traveling to attend. Instead, Fukushiro Nukaga, chairman of the Japan-ROK Parliamentarians' Union plans to attend the Seoul anniversary event, reading a message on Abe's behalf. And Foreign Minister Yun Byung-sae will take part in the counterpart ceremony in Tokyo, after which he will pay a courtesy on Abe. This exchange of visits is one of the few signs of a thaw in political relations.

Japan and South Korea have a lot in common, despite their seemingly irreconcilable differences over historical and territorial issues. Both countries developed through great efforts into modern industrialized democracies and share the same values and principles. Their competitive industries overlap considerably. Both countries share some of the same problems, too, ranging from aging populations with low birthrates to a lack of natural resources, including energy supplies, that puts them at the mercy of sometimes volatile international market forces.

But unable to overcome the past, both countries in recent years have taken to taunting each other, aided by a tabloid-like media, with accusations that only feed nationalistic emotions on each side.

### **Japanese, ROK publics "don't trust" each other**

The vitriol flowing back and forth has taken its toll on public views in Japan and South Korea toward each other. To mark the 50th anniversary of the signing of the Treaty on Basic Relations between Japan and South Korea, which normalized their diplomatic relations, the Yomiuri Shimbun and the Hanguk Ilbo (Korea Times) conducted a bilateral joint public opinion survey in

Japan and South Korea. In Japan, a total of 73% answered that they “don’t trust” South Korea, hitting an all-time high since 1996 as in the previous survey conducted in May last year. In South Korea, those who “don’t trust” Japan accounted for a total of 85% (83% in last year’s survey).

In the survey, Japanese and South Korean respondents were asked about the current state of relations between their countries. In Japan, those who answered that the two countries’ relations are in “bad” shape accounted for a total of 85%, the second highest figure after hitting an all-time high of 87% in last year’s survey. In South Korea as well, “bad” accounted for a total of 89% (86% in last year’s survey), the highest ever as in 2005.

Meanwhile, respondents were also asked about the fact that Japan’s prime ministers have repeatedly apologized over history in the past, such as colonial rule. In the survey, they were asked whether they think Japan’s past apologies are “enough.” In response to this question, “yes” accounted for a total of 76% in Japan and for a total of only 4% in South Korea. Prime Minister Abe will release a statement this summer to commemorate the 70th anniversary of the war’s end. In this regard, respondents were asked whether they think Prime Minister Abe should express remorse or apology for [Japan’s] colonial rule and aggression in the past. To this question, “yes” accounted for a total of 39% in Japan but totaled 93% in South Korea. As to whether Prime Minister Shinzo Abe should use such words as “regret” and “apology” about Japan’s colonial rule and aggression in a statement he plans to issue this summer on the 70th anniversary of the end of World War II, 39 percent of Japanese were negative about using the words, while 93 percent of South Koreans said he should do so.

Regarding the Japanese government’s efforts to address the subject of so-called comfort women, 54 percent of Japanese respondents said they supported the efforts, compared to 3 percent of South Koreans.

The figures showed that a wide gap remains over historical perceptions between the two countries, 70 years since the end of the war and a half-century since the normalization of diplomatic relations.

### **South Koreans prefer Kim Jong Un to Abe**

The Asan Institute for Policy Studies, a South Korean private think tank, released on March 5, 2014, a public opinion survey of South Koreans that asked respondents how much they like the leaders of Japan, the United States, China, Russia, and North Korea. Prime Minister Shinzo Abe was at 1.11 points out of 10, lower than North Korea’s Korean Workers’ Party First Secretary Kim Jong Un (1.27 points) and ranking lowest. Prime Minister Abe fell below First Secretary Kim in popularity for the first time. In the popularity ranking of countries as well, Japan ranked

lowest at 2.27 points. This seems to reflect the effectiveness of anti-Japan campaigns conducted by the South Korean government and media.

President Obama ranked first in popularity at 6.19 points, with Chinese President Xi Jinping ranking second at 4.78 points and Russian President Putin in third place at 3.47 points.

In the survey, respondents were also asked about relations between South Korea and other countries. In the breakdown of answers to this question, a total of 74.1% said Japan and South Korea are in “a relationship of rivalry,” with a total of 18.9% saying the two countries are in “a relationship of cooperation.” For China and South Korea, “rivalry” accounted for a total of 31.9%, with “cooperation” for a total of 59.1%. The survey was conducted March 1-3, targeting a total of 1,000 persons.

### **Signs of a Thaw**

On June 22, the two countries mark the 50th anniversary of the establishment of their formal diplomatic relationship without resolving the historical issue that has poisoned bilateral relations to even the grass roots levels. But a meeting in Tokyo between Foreign Minister Fumio Kishida and his counterpart Yun Byung-se seems to hold out the promise of a slow thaw emerging between the two countries that could lead to a summit meeting later this year.

The two ministers reached a compromise on a festering historical issue involving Meiji Period industrial sites, and agreed to senior level talks on the comfort-women issue.

Officials on both sides have been increasingly concerned because the feud between Japan and South Korea had even extended to cultural levels. Japan has proposed to the United Nations that the 23 factories dating back to Japan’s industrial revolution in the late 19th century be accepted as UNESCO World Heritage sites. South Korea objected because it claimed that 57,900 forced laborers had been brought over from Korea during the colonial period to work in seven of the factories.

This issue has been resolved. On June 21, 2015, Yun told Kishida in their meeting that South Korea agreed to Japan’s proposal to explain at the relevant sites, the historical background of the use of requisitioned workers. Such a compromise hopefully will become a model for others in areas of contention.

Moreover, Abe and Park in their separate statements on the anniversary stressed the need for a future-oriented relationship in the next half a century.

"South Korea is the most important neighboring country for Japan...Both (nations) should move forward their relations through mutual trust," Prime Minister Shinzo Abe said in an address at a South Korean Embassy-sponsored reception at a Tokyo hotel. "I would like to cooperate with President Park (Geun Hye) to work (for stronger bilateral ties)," Abe said, noting the nations share strategic interests.

"Strengthening cooperation between Japan and South Korea as well as among Japan, South Korea and the United States are invaluable for peace and stability in the Asia-Pacific region," Abe said, bearing in mind regional security concerns such as North Korea's nuclear and missile development.

In Seoul, Park said, in an address at a commemorative event organized by the Japanese Embassy in Seoul, "It is important to lay down the heavy burden of history issues, which are the biggest barrier (for bilateral ties), through the spirit of reconciliation and coexistence."

If efforts for such an end are made, this year could pave the way for a better future for bilateral ties, said Park, whose remarks could be interpreted as a call to Japan to take measures within the year to resolve rows over wartime history, including what is euphemistically called in Japan the "comfort women" issue.

### **Strategic Convergence and Trilateral Security Cooperation**

For the U.S.' policy of rebalancing to Asia, strengthening relations with traditional allies Japan and South Korea is essential for many reasons ranging from Washington strategy of regional economic integration to the need to deal with North Korea's nuclear ambitions and counter the rising regional influence and assertiveness of China. But Washington's longstanding high-priority goal of developing a trilateral cooperative relationship with Japan and the ROK remains a work in progress.

U.S. efforts to convince Tokyo and Seoul to work closely together for the greater strategic good have been frustrated at every turn. It is not only because of the strained ties between the two neighboring countries, particularly acute under the tenures of Prime Minister Abe and President Park, but also because of the lack of a strategic convergence between the two countries that would override personal animosities and cyclical squabbles over historical and territorial issues.

The apparent disdain felt by Abe and Park toward each other – easily seen from the photos of them seated close together at the APEC summit in Bali last year – reflects the overall dysfunctional relationship these days between Japan and South Korea. The two have yet to hold a summit meeting, and Abe has not helped by his visit to Yasukuni at the end of 2013.

However, during the June 21 meeting between foreign ministers Kishida and Yun, the idea of trilateral cooperation was resurrected, according to press accounts:

The two sides affirmed trilateral cooperation among Japan, the U.S., and the ROK in dealing with North Korea's nuclear arms and missile issues. They also agreed to cooperate in resolving humanitarian issues, including the DPRK's abduction of Japanese nationals (*Sankei Shimbun*, June 22, 2015).

In his paper on trilateral security cooperation among the U.S., Japan and the ROK, **Ju Hyung Kim** looks beyond the bilateral divides, such as the negative historical legacy, to examine the gap between the changing regional and global security environments and the U.S.' aging structure of alliances in northeast Asia, particularly, the one with South Korea, which still reflects the Cold War era. Japan's alliance with the U.S., he notes, has just been updated with a new set of defense cooperation guidelines, creating a security divide between the two countries as well. His advice: "The ROK and Japan need to find a way of focusing less on unsolvable historical and territorial issues, or in other words, "beating a dead horse", and seek areas where the two countries' national interests converge. In that sense, policy cooperation in the security area with *practicality* is a necessity."

### **Abenomics: The Third Arrow Is Crucial**

The Abe administration's economic policy agenda, dubbed "Abenomics", consists of three arrows. The "first arrow" (bold monetary easing by the Bank of Japan) and the "second arrow" (flexible and timely fiscal spending) were released early as quick fixes for the economy. One result has been a boost in the stock market and a significant weakening of the yen. Economic growth, however, has been spotty. In an April 2015 opinion poll, the business daily Nikkei found that 78% of the public felt they had no tangible sense of economic recovery. The success of Abenomics thus is dependent on the efficacy of the policy measures accompanying the release of the "third arrow," a long-range growth strategy.

That growth strategy was first unveiled in June 2013. Listing numerical targets, such as increasing per capita income by 3%, the growth strategy depends on such structural reform measures as deregulation and the promotion of investment from abroad to achieve those goals

Under the strategy, the government will develop new industries, such as medical services, in order to establish an environment in which not just men, but women as well ("womenomics") can realize their potential. To help improve industrial competitiveness, the government will also help companies grow by creating special zones where regulations have been eased.

The Abe government has selected six areas as national strategic special zones to promote deregulation, a core element of the Prime Minister's "Abenomics" growth strategy, tapping into such sectors as medicine, agriculture, and employment that have been regarded as "sanctuaries." The six areas are expected to lead the government's efforts to break through rock-hard regulations.

### **Abenomics: Effect on Overseas Investment**

The first arrow of Abenomics that featured quantitative easing in monetary policy has served to boost prices in the stock market and depreciate the yen. Over 10% of Japanese manufacturers which have operations overseas returned their production back home as a result of the rapid depreciation of the Japanese currency over the past two years, a government annual report revealed. The 2014 version of the White Paper on Manufacturing Industries, issued by the Ministry of Economy, Trade and Industry, surveyed 25,000 firms from November to December in 2014 with responses from 4,446 companies.

The report says that 98 firms out of 738 with overseas operations, or 13.3%, responded they brought production back to Japan within the past two years. A leading 34.4% cited the reason that they faced the difficulty in meeting quality standards and delivery deadlines abroad, followed by "domestic production turning profitable" and "increases in overseas production costs," which came to 24.4% each. The yen traded at over 120 yen against the dollar in December last year, compared to the 80-yen range in November 2012.

Asked about the roles of domestic factories, 60% responded that they make domestic production distinctive from overseas production. Specifically, 38.6% said they use domestic facilities to incubate innovations. Turning them into "mother factories" to support overseas production came to 32.1%, followed by "flexible facilities" to produce a range of products in a limited volume, at 13.3%.

This issue of the yearbook has two papers on the impact of Abenomics on business investment.

**Jeff Bond** in his paper takes a close look at startups and ventures in Japan and comes up cautiously optimistic that thanks to the environment created by Abenomics and international factors, there is hope for a Silicon Valley to evolve in Japan, as well. Still, at present, entrepreneurs and investors alike are too risk averse in Japan since much of the restrictions and discouragements of the old system remain. He sees attitudes changing, however, to accept the alternative model of firm creation and innovation that the U.S. has built and spread quickly around the world. With its adaption, Japan, too, in due time can become an enormous source of output, employment, and innovation. The potential is enormous, and he sees in some areas, Japan gravitating towards this model naturally. The Abe administration is giving it momentum, too.

In her paper, **Luoxi Dao** focuses on the policy implications of Abenomics for Japan's cross-border Merger and Acquisitions (M&As) and the challenges of introducing structural economic reforms that are relevant to M&As. In broad terms, the first arrow of Abenomics -- expansionary monetary and fiscal policies -- are major contributing factors to a more favorable M&A environment. This is because these policies strengthen the financial strengths of Japanese companies and improve market expectations. In addition, Japan's already favorable regulatory environment, recent legal developments, and strong government support for M&A activities bode well for the future of such capital investments. But the most crucial component is without doubt structural reform -- perhaps the best hope there is to increase the competitiveness of the Japanese market, revive domestic industries, and fulfill Abe's goal of doubling inward foreign investment by 2020. However, over the short term, inward M&As will continue to lag due to the cultural barriers and weak corporate governance -- two areas that are not overly sensitive to policy changes.

### **Corporate Governance Issue**

In June 2014, the Companies Act was amended in order to encourage major companies to appoint outside directors. As a result, the trend toward hiring outsiders for corporate management is growing as part of the effort to enhance the transparency of management and weed out fraud. Another aim is to encourage aggressive investment.

The reason the government has been proactive about increasing the number of outside board members is that illegal operations such as window-dressing settlements of account will be reduced. The government views that the introduction of outside directors will lead to economic growth because corporations will be able to make drastic decisions on such matters as major investments and withdrawal from underperforming businesses.

Simply increasing the number of outside directors will not be enough. Outside directors are required to have the abilities to check business conditions in a fair manner. Critics of the new rule contend that given the practice of taking on retired senior bureaucrats at director posts at major companies, the number of *amakudari* ["descent from heaven"] posts will only increase.

In his well-argued paper, **Ben Garton** examines the anticipated effects of corporate governance reform under Abenomics on Japan's corporate culture. Is there a new model now that Japanese companies will seriously adopt? Will they willingly comply with a new corporate governance code or will such only be window dressing, given that the code is voluntary and not compulsory? There may be pressure to comply but if the legal changes are not enforced, companies may revert back to their old ways, such as appointing an "independent" director who is actually not. Garton

concludes that although there are signs of a change in attitude toward a willingness of some companies to change, many others are still resistant. There is still a long way to go.

### **TPP and Mega-FTAs: Ultimate Growth Engine?**

Japan has been heading into a period of growth based in significant part on its new willingness to join large-scale regional trade agreements, such as the U.S.-led Trans-Pacific Partnership (TPP) and the ASEAN-led Regional Community Economic Partnership (RCEP), as well as ink bilateral and trilateral free-trade pacts with trading partners.

The Ministry of Economy, Trade and Industry (MITI) released a study on Jan. 15, 2015, that predicted if all the mega free trade agreements (FTAs) Japan is currently negotiating are actually concluded, tariffs paid by Japanese export industries will be reduced by 2.5137 trillion yen. This tariff reduction is equivalent to a corporate tax cut of over 5% in Japan. The economic effects would be enormous, which explains why the Abe government is so eager for an early agreement in the negotiations for the TPP and other mega FTAs.

METI's estimates were based on total imports from Japan by all the negotiating partners for mega FTAs and the tariffs imposed on them. The study found that tariff reduction under the TPP will be 545.1 billion yen; 1.9573 trillion yen under the RCEP; 1.189 trillion yen under the proposed Japan-China-ROK FTA; and 236.8 billion yen under the Japan-EU economic partnership agreement (EPA), now being negotiated. Total tariff reduction is the sum of these amounts, minus the overlap.

Reduction of the tariff burden of export businesses will not only improve their profitability, but will also enhance their price competitiveness in overseas markets and increase exports. With the current trend of repatriation of production lines to Japan in light of a weaker yen and the reduction of the effective corporate tax rate, improved competitiveness of exports under mega FTAs will further spur the return of production lines and contribute to the maintenance and expansion of employment.

The benefits of mega FTAs are not limited to the reduction of tariffs. The Peterson Institute for International Economics in the U.S. has also studied the impact on GDP of the TPP and the RCEP through the elimination of non-tariff barriers and liberalization of services and investment, in addition to tariff reduction. According to its estimates, Japan's GDP in 2025 will grow by \$105 billion (approximately 12.3 trillion yen) and \$96 billion from the 2007 level, respectively, under the TPP and the RCEP. Since Japan regards the TPP as the "driving force" for mega FTAs, the achievement of an early TPP agreement should be its first priority.

In her ambitious paper, **Ji Won Kwon** tackles not just one free trade agreement – the mega-FTA of TPP – but three altogether – the elusive Japan-China-ROK FTA and the recently concluded EPA (Economic Partnership Agreement) with Mongolia. Each will bring different benefits, including political and strategic, to Japan, and each is intrinsically important to Japan in different ways. For example, Mongolia is of strategic importance to Japan because of its links to North Korea, as well as China, while it also a source of important natural resources that Japan may wish to import in the future. Her paper shows the sophisticated level that Japan has reached in utilizing FTAs to back up its national interests.

### **Educational and Cultural Exchanges**

One of the basic reasons why Japan has been falling behind the rest of the industrialized world -- particularly in terms of its economic competitiveness and level of internationalization -- has been traced to a notorious lack of English skills of its otherwise highly skilled and literate working population. The JET program was introduced decades ago to help fill that gap by bringing in English-speaking foreigners to assist regular teachers in schools across the country. Unfortunately, that part of the experiment has failed: children's English skills have not been noticeably improved by the JET program. But it has had another perhaps even more important benefit, according to **Malcolm Whitehead**, in his thoughtful and well-researched paper. This is best put in his own words taken from the paper's summary:

“Over the last few months of research and many hours of interviews both in the United States and Japan, I now believe that the JET program strengthens the very bedrock of U.S.-Japan ties. The program represents a shift from the standard indicators of military cooperation and mutual security interests. The program, as measured in grass-roots terms, has created a reservoir of good will and friendship built on the backs of thousands of personal relationships and experiences in a cross-cultural context. What we see with the JET program is a person-to-person cultural exchange that is also driving language acquisition on both sides. Personal bonds between individuals can endure indefinitely without cause and are the glue that can hold people together in tense times. This is what the JET program is building, and 18 years on we are just starting to see the real fruits of what was started in 1987.”

As for English skills, the Japanese government and academic community are well aware of the problem, and a number of new programs have been introduced recently that should help. For example, starting in 2014, a number of high schools were chosen to participate in the “Super Global High School (SGH)” program launched by the Ministry of Education, Culture, Sports, Science and Technology (MEXT) as an effort to develop internationally-minded human resources. Under the SGH program, high school students will be expected to hone their communication and problem-solving skills in addition to their linguistic abilities as they study

common issues shared by the region and the international community and think about international issues by taking part in the activities of Japanese companies operating abroad.

Of the 246 high schools that applied to participate in the program, 56 were selected — four national (central government-run), 34 public, and 18 private. Each of the schools will receive subsidies for the five-year duration of the project. For the first year, they will receive a subsidy of ¥16 million.

Miyagi Prefecture Sendai Nika Senior High School, which has conducted research on the world's water problems as an integrated study project, will draw comparisons between the Kitakami River, which flows through areas of Iwate and Miyagi prefectures, and the Mekong River in Southeast Asia, and conduct onsite research in Thailand, Cambodia, and other countries. The high school will study the history and problems of each river, and cooperate with the Japan International Cooperation Agency (JICA) and non-profit organizations (NPOs).

Shibuya Kyouiku Gakuen Makuhari High School in Chiba City places an emphasis on enabling its students enter overseas universities. The students will study food-related issues, holding debates and publishing a study on the subject. The high school is aiming to eventually organize an international conference in English and invite foreign high school students to attend.

Tokushima Prefectural Joto High School in Tokushima City will cooperate with Otsuka Pharmaceutical Co., Ltd. The students plan to visit the company's offices in Japan and abroad. High School Principal Ozaki said, "By learning about the operations of the local company, I hope the students will think about global issues while still being rooted in their local community."

Miyazaki Prefecture Gokase Secondary School, which is known as a pioneer in introducing an integrated system of junior high and senior high schools, aims to nurture "assertive global leaders." After learning about such issues as the declining birthrate and aging society and the stagnation of the agriculture and forestry industries, students will visit countries that are dealing with the same issues and seek effective measures.

To boost English skills of students, Education Minister Hakubun Shimomura announced in June 2015 that starting in the 2019 school year, all third-year junior-high students will be required to take a new test of English proficiency, and new measures to improve English skills will be introduced in grade schools. Long range goals to boost those skills to international levels will be backed up by giving the schools the tools to make such possible.

Rounding out this yearbook's diverse topics, **Michael Wakcher** in his paper focuses on cultural exchanges and public diplomacy, pointing out how important cultural exchange has become as a

backbone of strong and friendly U.S.-Japan relations. The U.S. State Department, and in this case the American Embassy in Tokyo, has over the past few years enhanced the importance of cultural exchange as a key element in public diplomacy. Past is the era of cultural exchange for its own sake; now is the era of cultural exchange to promote the real objectives of peace, economic growth, and beyond, he argues.

His paper eloquently explores how, in the long game of public diplomacy, demand for quantifiable results and control over the message of cultural exchange can ultimately be counterproductive when pursuing a policy of increased understanding between the U.S. and Japan. At the same time, Japan, he notes, is at a tipping point where it must choose to what extent, and in what ways, to give in to external pressures to change. On the one hand, Japan must globalize to be internationally competitive. In doing so, Japan must maintain its strong cultural identity, which is a significant export and tourism draw. His paper analyzes current themes and challenges in U.S.-Japan cultural exchange as interpreted and managed by a broad range of institutions and individuals with differing social and political objectives. He concludes that people-to-people contact between Americans and Japanese will for now and always be the foundation of the bilateral relationship.

### **Acknowledgements**

The class research trip to Tokyo is a vital part of the yearbook process. The papers as a result of interviews and meetings packed into a week's visit are richer, deeper, and much more knowledgeable. Without the continuing support and guidance of Dr. Kent Calder, Director of the Reischauer Center, and the sponsorship of the Tanaka Memorial Foundation, the annual trip could not be possible. Further, we would like to express our gratitude to Toyota Motor Corporation, Bourbon Corporation, and the Nissho Iwai Foundation for their continued support of the yearbook project.

The editor and authors of this yearbook on U.S.-Japan relations in global context would like to express their thanks and appreciation to Michael Kotler, the Reischauer Center's coordinator, for his efforts both on the Washington and Tokyo sides, and Izumi Sano, who handled lodging and other logistics for the trip on the Tokyo side. We also extend our appreciation to the American Embassy in Japan for arranging a briefing for us on the current state of U.S.-Japan cultural relations. Our special thanks again goes to Robert Dujarric, director of the Institute of Contemporary Asian Studies at Temple University's Japan Campus, for arranging briefings by experts, and to JIIA (Japan Institute of International Affairs) for setting up group and individual meetings with scholars and other experts. Our special thanks also to Toyota's Institute for International Economic Studies (IIES) for a group briefing on the economy. Our deep appreciation also goes to the Urasenke School of Tea Ceremony (Horiai) in Roppongi, Tokyo,

for giving the students the chance to witness and participate in one of Japan's most precious traditional arts.

Other organizations that helped include the Ministry of Foreign Affairs, Ministry of Economy, Trade and Industry, and Japan Business Federation. The list of scholars, officials and other experts whom the students met in Tokyo is long and impressive but will remain anonymous to protect the confidentiality of the interviews. Last but not least by any means, we would like to thank the visiting scholars from Japan at the Reischauer Center for their personal advice and help in setting in setting up meetings in Tokyo.

## **For U.S.-Japan Relations, the JET Program Is a Hidden National Treasure**

By Malcolm Whitehead

### **Introduction**

We define globalization in many different ways, but at the core of the myriad of definitions is an exchange of culture and worldviews that drives a global integration process: a flattening of human culture as the world becomes more connected and more interdependent. Good or bad, globalization will continue to happen as long as there are gains, economic and otherwise, to be had from greater international integration. For the nation-states of the world, globalization and the access it both provides to and requires from world markets leads to international prestige and influence—or for some countries, international relevance. Embracing globalization is not as simple as issuing new dictates; it requires a population that is not only willing to accept the influence of outsiders but also one that seeks to be influenced by outsiders to some degree. Developing and nurturing such a population is no easy task and is exponentially hard for nations — like Japan — that historically have a strong sense of identity.

The Japan Exchange and Teaching (JET) Program is an example of how one country in the OECD has attempted to use policy tools to promote cultural diversity in a homogeneous society. The JET Program, however, differentiates itself in the way that it attempts to “internationalize” a domestic population both in scale and method. In 1987, the Japanese government initiated the JET program to “import diversity,” as David McConnell laid out in his groundbreaking exposé of the same name (McConnell 2000). Of the program’s two main goals, the more abstract was “internationalizing” the Japanese society. The more objective goal, or at least measurable goal, was to improve English comprehension—a benchmark indicator used to judge the internationalization of populations all over the world. The program sought to meet its goals through the introduction of foreigners who speak native-level English into Japanese communities through the schoolroom. Most of these foreigners have been and still are from the United States. Almost paradoxically, 28 years later, the effect of JET on the internationalization of Japanese youth is hard to tease out but a sizable pool of Americans with a special affinity for Japan is growing ever larger.

Researching the JET program revealed a program that sought to expose Japanese school children to foreigners and to learn some English. But the unexpected result, which potentially may be just as important, has been the deepening of U.S.-Japan ties at the grassroots level by providing a

life-changing experience for young Americans. The experience of the JET participants living in Japanese communities has become a key element in changing mutual perceptions of the bilateral relationship from one of an alliance based on external threat-based cooperation to one based on mutual respect and understanding that can endure into the future. For many young Americans and the Japanese schoolchildren in their charge, the true image (*honto-no-sugata*) of each other's society has been revealed.

In this paper I look at the nature of the JET program, its successes and failures, and its benefits to the bilateral relationship. I will show how, despite the difficulty of quantifying its success, it is meeting goals that were never formalized, but have turned out to be highly worthy pursuits all the same.

### **What is the JET Program?**

The JET program might be best described in two ways: what it is in formal terms, and who the young people are who call themselves JETs. The Government of Japan (GOJ) created the JET program to expose rural, more isolated, Japanese communities to foreigners who speak English with native fluency. However, today's JET program has expanded significantly to include other languages and to promote cultural exchange through other activities — although English education and Americans still make up the vast majority of the program and its participants.



Figure 1: JET Program Logo

Based on a top-down directive to cultivate grassroots cultural exchange and internationalization, the JET program is not an organic process where people volunteer to seek a better understanding of foreigners. It is foremost a government policy mandating the exposure of the Japanese people to foreign culture and improved English education funded by taxpayers. As with any policy, proof of concept is important and English comprehension scores, an easily quantifiable statistic, become the benchmark for success. While the program has changed over the last three decades, it still does not aim to excite young Japanese to step out into the larger world around them. While the program may humanize foreigners for some Japanese people, brief contact with a foreign culture is typically not enough to excite an individual about the world outside to the point that it produces a change in attitude or motivation.

Although some observers have compared the JET program to the U.S. Peace Corps, such a comparison is fundamentally flawed. The Peace Corps sends Americans abroad while JET brings foreigners into Japan. One of the Peace Corps' main goals is to have their volunteers return from foreign nations and spread their newfound interest in and understanding of their host country back home. The Peace Corps experience changes the lives of the participants because the

prolonged experience in a foreign culture never fails to change an individual's worldview. Many of these same changes are observable in Americans that spend several years in Japan as a JET. However, it is hard to imagine this change taking place in the mind of a Japanese middle-school student whose only contact with someone from outside Japan is a few hours a week in English class. The experience is presumable not intensive enough to motivate that student to put in the hours of work needed to master English or to contemplate studying, living, or working overseas later on. Instead of exciting a handful of citizens about the larger world the program attempts to expose as many people as possible to light interaction with a foreigner.

Unfortunately, the JET program is often judged on its original goals of improved English education and internationalization of the Japanese youth. That has not happened. What JET does accomplish without question is create a group of young men and women in other countries with an enhanced understanding and awareness of Japan. Such JET participants carry their Japan experience with them throughout the rest of their adult and professional lives. The chief beneficiaries of a very expensive Japanese government program are the JET participants, not the Japanese with whom they interact. However, what JETs take away from their Japan experience and apply during their lives later on make the program invaluable to both Japan and U.S. – a cultural exchange with a multiplier effect that extends to the very foundation of U.S.-Japan relations and alliance. The JET program has become a peace alliance, if you will, strengthening the bedrock of the relationship.

### **Who are the JETs?**

JETs are recruited for 1-year contracts with an option for additional year extensions for a maximum of five years. Recruiting for the program is done from the consulates of the Ministry of Foreign Affairs (MOFA), which in the United States total 17 and are spread all over the country. Combined, the consulates select around 1,000 individuals a year for the program out of some 4,000 applications in the United States alone (“Japanese Embassy” Interview 2015).



Figure 2: ALT Team-teaching in Classroom

The number of selected individuals varies from year to year as it depends on prefectural demand for participants and how many current participants stay on for an additional year. The selection process is something of a black box. Officials with MOFA explained that they are looking for people with a demonstrated interest in Japan, as well as the personal characteristics they think are important for living in Japan (“Japanese Embassy” Interview 2015). They look for such characteristics as

cultural adaptability, and ease in assuming a work position in a rural community that brings with it a certain amount of prestige. A candidate must be a good ambassador of his or her country, with a personal cultural identity that is somewhat malleable in order to adapt to a decidedly different culture. Recently the demand for individuals who have Japanese language skills has become more of a priority, and a rise in applications and interest in the program has allowed the selection committees to be more selective.

In 2013, prefectures all over Japan hired or renewed annual contracts of enough JETs to fill 4,476 positions. While 55% (2,457) of the participants were from the United States, JETs from 41 other countries also participated (“Japanese Embassy” Data).

JET participants are recruited into three groups: Assistant Language Teachers (ALTs), Coordinators for International Relations (CIR), and Sports Exchange Advisors (SEA). SEAs make up a relatively new group of JETs working in Japan using sports instruction and coaching as a medium of cultural exchange. However, of the 4,476 JET participants in Japan for the 2013-2014 cycle, only 11 were SEAs, and none were from the United States (“Japanese Embassy” Data 2015). SEA participants are recruited through a nomination process that makes it wholly different than the rest of the JET program. Plus, as SEAs are on yearly contracts, it makes it difficult to find professional coaches that will leave jobs in the U.S. to work in Japan for just a year. CIRs are typically hired to work with local governments on projects related to international exchange. In practice there are some CIRs who are working on such high-profile projects like the establishment of sister cities or major tourism initiatives. However, many find themselves providing translation and interpretation services for the local government or teaching English classes to officials and local residents.

CIRs are required to have a working proficiency in Japanese, and all of the CIRs that I spoke with typically had passed level one of the Japanese language proficiency test (JLPT) – the highest ranking on the government sponsored test. In 2014, the number of CIRs made up less than 10% of total JET participants (“Japanese Embassy” Data 2015). CIRs also often served as the Prefectural Advisors, a point of contact for other JETs that are having issues ranging from the personal to professional.

ALTs, however, make up the main part of the JET program. Of the 2,457 Americans that participated in the JET program in 2014, 2,364 (96%) were ALTs. Their job is to assist Japanese language teachers in the classroom.

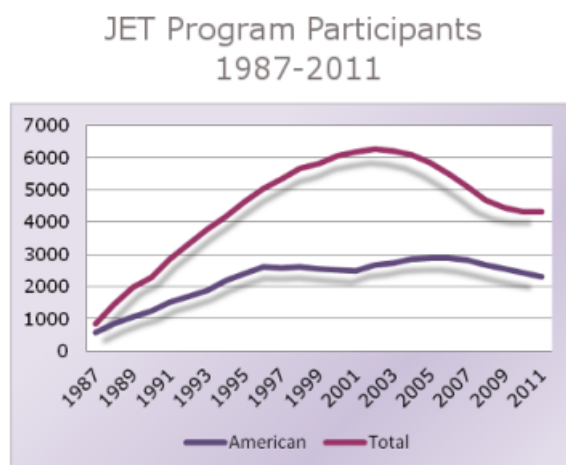


Figure 3: American vs. Total Participants

They are supposed to help develop lesson plans, “team teach” language classes, and engage in various other extra-curricular activities to expose students to a naturally spoken foreign language and the culture that goes with it. ALTs were called Assistant English Teachers (AETs) when the program first started. The name was changed to reflect the fact that the JET program now supports languages other than English, although English is still the required language of the vast majority of all ALT JETs.

All JETs often play a larger role in the community by participating in activities outside of the classroom. Activities as simple as joining a local baseball team allows for further interaction between the JET and the local community, deepening the experience for the JET participant and further humanizing foreigners in the community.

It is important to note that the JET participants are not volunteers. They are paid professionals who are employed directly by local governments. In 2012, the JET program shifted to a tiered compensation schedule and exposed JETs to Japanese income and resident taxes. At present, JETs in their first year of the program are paid 3.36 million yen a year (about \$33k depending on the exchange rate). The compensation increases year by year to 3.96 million yen in their fourth and fifth years (about \$40k) (“Japanese Embassy” Interview 2015). This compensation schedule is roughly commensurate with teacher compensation in Japan, and none of the JETs I spoke with seemed to think it unfair. That includes one individual who had moved to Japan with his family of three and still felt the compensation sufficient (AJET Interview 2015). That said, there was some discontent around the changing of the rules that now make JETs responsible for Japanese income taxes. Of course, many of the JETs in 2015 are not aware of the benefit enjoyed by their predecessors, and with time the grumbling will likely fade. All in all, most of the JETs I spoke with were much more interested in the experience than the level of compensation.

The other aspects of JET compensation, or benefits, are tied to the individual contracts that each JET signs with their prefecture. It is at this point that the JET experience diverges significantly for the different participants. Some prefectures will provide housing or even a car free of charge, while others leave all of that up to the individual, who is viewed in much the same light as any other prefectural or city employee (Multiple Interviews). The divergence in experience between JETs is a manifestation of complicated organizational structure.

### **The Complicated Structure of JET**

The administrative side of JET is complicated, and a bit convoluted. There is no building in Tokyo with a big sign out front that says “JET HQ.” Instead, the program is administered by three different ministries and the Council of Local Authorities for International Relations (CLAIR). CLAIR was set up in 1988 to help local governments become more directly involved in international activities but is responsible for the day-to-day administration of the JET program.

CLAIR also helps facilitate communication between the three ministries that govern JET: the Ministry of Education, Culture, Sports, Science and Technology (MEXT), the Ministry of Internal Affairs and Communications (MIC), and the Ministry of Foreign Affairs (MOFA). Finally, CLAIR works with the Contracting Organizations (CO), which are the prefectural governments and are referred to as the Contracting Organizations because they sign contracts directly with the JET participants.



Figure 4: The Organizations of JET

Each ministry has its role in the program. MEXT is responsible for the Japanese education system and sets the English curriculum that directly affects the program. In a bid to improve English comprehension, MEXT, in 2011, moved the start of English education into elementary schools starting in the 5th grade (equivalent) (Fukada 2011). This change has meant that some ALTs are starting to work in elementary schools and is partly responsible for the growing push for Japanese language skills amongst incoming participants (JETS Interview 2015). MOFA, as discussed earlier, handles all the recruiting of JETs (“Japanese Embassy” Interview 2015). Finally, MIC works on the administrative and funding side, much like the Office of Personnel Management here in the United States. MIC provides subsidizing funds for each participant that the COs sign to contract.

The Government of Japan (GOJ) plays two key roles in the implementation of the program: it recruits the participants from overseas, and it provides funding to the COs. While CLAIR works to get the JETs into the country and placed, there is little it can do to support the JETs once they are situated and become employees of the COs. Each JET participant is recruited through MOFA but signs a contract with a prefecture, becoming a paid employee of a specific city. This disconnect creates obvious problems for a large group of foreigners who are brought to Japan but only have the CO to rely on for support once there. While some guidelines are provided to shape these contracts, there are many differences from one town to the next. Of course the JET program can provide more support to its ALTs than individuals who find similar work outside of the JET program receive, however, there is still a strong disconnect between recruitment and implementation. This disconnect between the GOJ administration funding with local implementation creates weaknesses in both the support of the JETs and the effectiveness of the program. It also creates liabilities for a well-branded (if not well known), high visibility program

being coordinated by the government of Japan. The support vacuum that was created by implementation being left to individual prefectures led to the almost immediate founding of the Association for Japan Exchange & Teaching (AJET) in the year after the creation of the JET program.

### AJET's role



Figure 5: AJET Logo

The final piece of the JET puzzle is the Association for Japan Exchange & Teaching or AJET. AJET came into being in 1988 as the first few waves of JET participants recognized the gaps in support that existed due to the unique structure of the JET program. Early on, CLAIR ignored AJET as not being part of the official JET program but its position changed in the early 1990s with CLAIR recognizing the important role AJET played (McConnell). Specifically, it helped CLAIR funnel sentiments, concerns, and issues from the larger JET population back to CLAIR, which could then take action before a growing issue became a crisis (McConnell 2000). CLAIR even brought AJET on board by providing AJET representatives with a booth at the annual orientation so new arrivals could be aware of the support options offered by AJET (JET participant 1 Interview 2015).

AJET has structured itself by dividing Japan into 11 blocks, and it has yearly elections to select block representatives and officer positions within the organization. Over the years the JET program has ironed out many of the early, glaring problems and individual JETs tend to lean on the local community of JETs as opposed to the national, worker-union like organization that is AJET. Many current JETs are unaware or only casually aware of AJET's existence and the services that it has to offer (AJET and CLAIR Interviews). However, AJET is free, and every current JET is a member of AJET whether they know it or not.

AJET was and is a self-funded organization of JETs that provides everything from teaching aids to cultural adjustment and mental health support. In the past, AJET relied on sponsors to cover operating costs. These sponsors would provide funding in exchange for the ability to market to the JET community. Sponsor funding, among other issues, created some credibility issues for AJET and it recently gave up its sponsors (AJET Interview). The change in method of funding was also motivated by a move to seek nonprofit status in Japan. Without nonprofit status, AJET cannot accept grant funds. Without sponsor funding or grants the costs of running AJET (e.g. the website) are covered by the more active members of AJET, from their JET salaries (AJET Interview). Obtaining nonprofit status in Japan is no easy feat, as those who have tried can attest to.

According to AJET's survey data, the one matter that JETs turn to AJET for more often than anything else is teaching materials. With only a few days of orientation provided in Tokyo and most JETs not having much teaching experience in their background, access to materials for teaching an English class is crucial. Technically, the ALTs are not supposed to solo teach English classes. Instead they are hired to team teach classes with a Japanese instructor. However, survey data from AJET indicates that 50% of survey respondents in 2014 indicated that they had or were planning to teach at least one class on their own (AJET National Council 2014). This type of data is one of the areas in which AJET has collected invaluable information from JETs to share with CLAIR. However, AJET is still fighting for relevance both within the JET community and with CLAIR.

The most recent AJET election saw a voter turnout of around 10% (AJET Interview 2015). The low turnout is indicative of AJET's awareness problem. In the last couple of years, it has also been disinvented from JET orientation in Tokyo. This is significant as AJET's data indicates that anywhere from 40-50% of JETs first hear about AJET at orientation (AJET National Council 2014). It's not clear why AJET is no longer included in orientation but CLAIR has indicated that there are heightened fears at CLAIR of legal action brought about by CLAIR's support of a non-GOJ entity (CLAIR Interview 2015). This fear manifests itself in several ways. In one example of this, CLAIR removed the JETLine, a helpline for JETs that are having issues ranging from benign to serious. AJET has taken over this "service" but CLAIR does not endorse AJET's supportive role in this way and with AJET's diminished presence, awareness of the organization's existence is an issue.

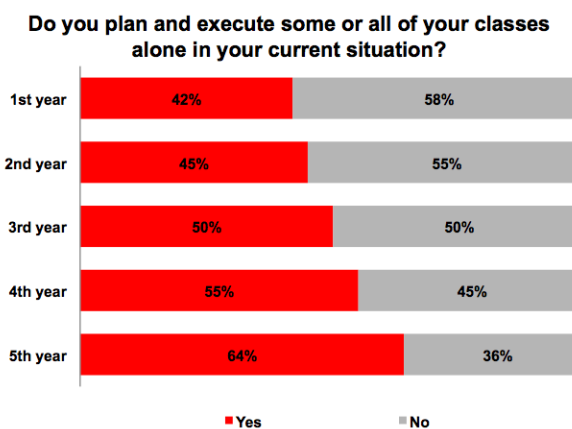


Figure 6: Survey Data from AJET

*"We are here for the JET community, if you are a JET and need our services great! We are here to help but if you don't that is fine as well and we'll continue to work for you behind the scenes" – AJET national council member*

Support of the JETs in Japan can take on many forms, everything from cultural adaptation and help with teaching to encounters with the law as victims or perpetrators. One such issue I discussed with both current JETs and representatives of the JET program from the GOJ is sexual assault or harassment. The issue of sexual harassment came up not because there are indications that it is a problem for JETs, but more because it hardly shows up on the radar screen and I was

greeted with surprise when I asked officials about the topic. Although Japan is a relatively safe country, sexual harassment and assault happens – just as it does anywhere else in the world—and the lack of statistics or programs for dealing with it was somewhat surprising. JET hires young men and women who often have little to no Japanese language skills and places them alone in rural locales. One must assume that in some cases, harassment or worse occurs, both reported and unreported.

Every new JET gets a handbook of over 200 pages that they are instructed to read before arriving. In the 2014 version, there is only one page covering sexual harassment. Under the topic of preventing such, JETs are told the following: “Be aware that inviting someone to your home, flirting, and the way you dress, move, or sit, can be misunderstood and seen as an invitation to take liberties” (CLAIR Handbook 2014). The handbook then goes on to say that if sexual harassment occurs, talk to your supervisor but be aware that if you choose to take action, other people, including the harasser, will likely be involved. A list of sexual harassment inquiry centers is provided with a note that not all centers will be able to answer questions in English. If one speaks Japanese, that JET can call a helpline that is not associated with JET and possibly receive assistance. Otherwise, the JET is expected to speak with his or her supervisor at the local contracting organization.

Both scenarios seem less than adequate for any possible victim. When I asked JET officials if this system seemed appropriate, I was told that JETs are adults and should be able to take care of themselves (“Japanese Embassy” Interview 2015). Even if approached from a purely bottom-line perspective, it seems like a public-relations nightmare waiting to happen. I point out this deficiency in the system not to point a finger at the JET program, but to hopefully illustrate an example of how JET’s organization has left gaps in the way in which JET can and should support its participants. AJET, as a self-funded group, however, has been trying to fill this breach and others like it.

The conflict between CLAIR and the JETs representatives in AJET is born out of CLAIR’s struggle around the legality of working with a non-GOJ group that advocates for JETs. This struggle has existed over the entire history of the program; however, both representatives at CLAIR and AJET independently described their relationship as good (“AJET” and “CLAIR” Interview 2015). AJET recognizes that the complex nature of the JET program means that the administrators at CLAIR can only do so much as directives are passed down from three different organizations, which are often politically driven (“AJET” Interview 2015). Plus, the officials at CLAIR often move on to other Japanese bureaucracies after three or four years at CLAIR and the AJET representatives can change every year with no one representative staying in country for longer than five years. CLAIR, for its part, recognizes the role that AJET is filling, even if fears of legal issues keep it from being more supportive of AJET activities (“CLAIR” Interview 2015).

One way in which AJET is trying to boost relevance is by increasing the size of the organization, recognizing that with the GOJ's push to increase the size of the program that the numbers of AJET representatives will also have to increase significantly. They are also, for the first time, trying to write down best practices from their experience to improve turnover from one AJET Council to the next ("AJET" Interview 2015).

### **How JET is funded**

The number of JETs assigned to a school is determined by the requests from the prefectural government. However, the JET participants' salaries are funded through Japan's system of Local Allocation Tax (LAT) grants. LAT grants are funded from the national budget, specifically the portion of national taxes dedicated mainly to help rural areas develop economically. When a rural town takes on an ALT, it is given a grant of about 4.7 million yen, 72,000 of which it pays to CLAIR for JET support ("CLAIR" Interview 2015). The 4.7 million yen is enough to cover the salary of the participant and many of the costs associated with bringing the individual in.

I had the opportunity to talk with a prefectural director who handled the coordination of the JETs in his prefecture. I asked why every prefecture does not request more JETs since the program is more or less free from their prospective. His response was that they wanted to keep a balance between the number of JETs and the Japanese teachers of English (JTEs) in their prefecture. Reading between the lines and coupled with information from other interviews, the disconnect between GOJ oversight of JET and the individual contracts on the ground means that often the individual schools that request JETs simply do not know how to use their time effectively. The JTEs, like other teachers, often work much longer than the typical 8-hour day and coordinating a JET only adds to their workload. It becomes easier to use the JET as a "Human tape recorder", as many JETs like to describe the task of saying certain words or phrases on cue, than to incorporate them into the English education process.

While there are other reasons for the less than optimal use of JETs in the classroom, the central reason prefectures are not asking for more "free" JETs has more to do with balancing the benefit of such versus the effort of supporting and using that benefit.

### **Missteps on the way to JET 2015**

1988 was not the first time the Japanese government was inspired to create a program resembling JET. Following the Meiji Restoration in 1868, there was a keen awareness among Japan's



Figure 7: First Group of British JETs in 1987

leaders at the time that industrialization was the only path to prevent the kind of Western colonization that was occurring in other parts of Asia from happening in Japan. However, for Japan to modernize, it needed skills that they didn't currently have, so the Meiji government brought in some 3,000 highly paid foreigners to train Japanese workers (McConnell 2000).

At the height of the Japanese economic miracle there was again recognition that change was needed, this time by a democratically elected government, and the first group of JET participants arrived in Tokyo in August 1987. The first wave of 848 JETs was attracted to the new program with offers of high salaries (3.6 million yen a year, more than first-year JETs are paid now) and special tax status that would allow them to avoid income tax while working in Japan.

In their zeal to promote the program, the government placed early advertisements promising tax-free work while in Japan. Unfortunately for JET, the offer was made without checking Japan's tax treaty status with the countries involved. This was the first of many such glitches until the JET program was finally up and running smoothly.

The program also attracted unwanted negative attention from the public, as such perks as business-class flights to Japan and upscale hotels in Tokyo for their orientation came to light. These types of incentives, combined with high salaries and tax breaks, had some Japanese asking why so much was being spent on this one program. The early problems were compounded by the size of CLAIR's original staff of 20 individuals (McConnell 2000).

With its top-down approach, the JET program ran into many early missteps that stemmed from the idyllic image the GOJ had of its exchange program. The realities that unfolded in the field were simply not anticipated. This disconnect still exists and is the cause of many of the issues in the program today. JETs are now in over 60 cities and prefectures, all of which have signed individual contracts of their own making with the JET participants. This leads to inefficiencies in the program that stem from discrepancies in the experience of individual JETs, creating friction among JETs and between the JETs and the GOJ or CLAIR.

For example, an early problem facing the program was a discrepancy in health benefits. The municipal governments that were hiring the JETs were required to sign all their employees, not just JETs, up for one of the two available state healthcare plans. One of the plans was several times more expensive than the other, and the cost of the plan was automatically deducted from their salaries. When JETs complained about the discrepancies in deductions from their salaries the GOJ looked into it and found that the municipal governments had been putting many of their employees on the national health plan designed for part-time workers. Part-time workers had been defined as workers that were supposed to be in the government's employ for less than two months (McConnell 2000). The GOJ indicated a massive audit was coming, and the municipalities switched the appropriate employees to the more expensive plan. This move in turn

led to a pension issue that was tied to the health plan. The more expensive health plan had mandatory deductions from the employee's salary that paid into the national pension plan—a pension that JETs, as foreigners, would never receive (McConnell). Today, participants can be refunded their pension contributions at the end of their time with JET. Although this is not a perfect solution, it is a solution that JETs accept. Cascading problems like this health care issue were quite common early on, and many are still being worked out today.

### **The perceived need for JET**

In a recent presentation, Dean Bruce Stronach of Temple University, Japan, stressed that Japan has reached a decisive juncture in its postwar history. If it wishes to remain a tier-one nation and internationally relevant, it must choose to change in the form of internationalizing its culture. If it chooses to remain as is, avoiding true internationalization, it must be content with accepting a role as a second-tier power in the world. The Japanese cannot have it both ways any longer (Stronach 2015).

The notion that Japan needs external pressure in order to change has long been conventional wisdom about that country, and that rule applied in 1987 when the JET program was launched. But Japan, having experienced slow economic growth since the 1990s and now facing a looming demographic crisis as its population shrinks, has no choice now but to embrace external pressure for change if it is to recover its social and economic dynamism. Moreover, the presence of foreigners working or otherwise residing in Japan remains miniscule, with the population in 2012 being 98.5% ethnically Japanese (Stronach). The growth of the Japanese diaspora in the '70s and '80s was spurred on by unprecedented economic growth, but the once thriving Japanese society is rapidly aging with almost a quarter of the population now over 65. With fewer babies being born each year, the population is not being replaced by adventurous young people eager to study abroad, or start their own companies, or even start their own families.

For the most part, if you are Japanese or speak Japanese, you live in Japan and if you are not Japanese and do not speak the language, chances are you are not living in Japan. This trend is self-reinforcing as it means that many Japanese children that do not live in large cities like Tokyo, Yokohama, or Osaka are likely to reach adulthood with little or no regular contact with a foreigner. Such insularity makes the perceived need for English at a young age seem very low. English capability is nice-to-have – perhaps even fashionable to study – but for most young people not a necessity. Japan's notorious struggles with the English language, and the notion these days that English skills may not be necessary seem incongruent with a nation that is the 3rd largest economy in the world with a GDP of \$4.7 trillion in 2013.

At the same time, these developments can be understood by examining the historical benefits of Japan's homogeneity. During Japan's rapid industrialization before WWII and in its economic

recovery and rise after the war, a common culture and language allowed for efficiencies of development that few other nations could copy. In 2015, however, the insular nature of Japanese society retards the country's ability to get back on a growth trajectory both because it demotivates the need for English acquisition and promotes the comfort felt from staying at home and advocating for continued societal homogeneity. Moreover, as the current demographic issues become more severe, the need for immigrants will force more openness—a change that if rapidly implemented could create serious social issues in Japan.

Working under the assumption that indeed “that which does not adapt perishes”, we can assume that Japan has chosen and will continue to choose to change. Prime Minister Shinzo Abe and his policies promoting structural changes may be a sign of a coming sea change. Hopefully, this change will be assisted through efforts like JET, and other long-term investments that will allow Japan to integrate further with the rest of the world, remaining both competitive and internationally relevant. There are visible signs of an understanding of this need – a national consensus building, if you will – through the efforts of the central government and its various ministries and agencies. Other than JET, there are important efforts coming from such organizations as the Ministry of Foreign Affairs (MOFA) and the Japan Foundation, a group charged with “promoting international cultural exchange through a comprehensive range of programs in all regions of the world,” as it says on their website. MOFA is also one of several ministries that were charged with the creation of the JET program in 1987 and is still responsible for all overseas recruitment of new JETs into the program.

### Program Goals and Meeting Them



*“The Goal of the JET program is to strengthen grassroots international exchange between Japan and other countries by enabling local authorities in Japan (prefectures, designated cities, and municipalities) to employ youth from other countries. By teaching foreign languages at schools nationwide and assisting with international exchange activities organized by local authorities, JET program participants engage in international exchange on a variety of levels with local residents. In this way, the program is expected to increase cross-cultural understanding on a local level both within Japan and in participants’ home countries as well as to contribute to greater internationalization efforts within Japan.” – JET Handbook, 2014*

Figure 8: The JET Handbook

The goals of the JET program have broadened since its launch in 1988. The broader, more inclusive statement above has replaced the simple goals of “internationalization” of the Japanese population and the improvement of English skills. The emphasis has shifted away from “importing diversity” that McConnell spoke of in his book and has been refocused on grassroots cross-cultural exchange and the idea that participants should return home to their countries and share what they’ve learned of Japan in their home countries. The shift in focus has truly been a natural evolution of the program, driven partially by the difficulty of measuring success in the internationalization of a population as compared to the relative simplicity of anecdotal evidence needed to demonstrate success of grassroots cross-cultural exchange. I asked officials in each interview how JET demonstrates success, and every time the answer was some version of “we don’t.”

While MEXT has made some surveys to try and demonstrate the value of ALTs in the classroom<sup>1</sup>, the statistic that most detractors have pointed to in the past are Japanese English test scores. In the 27-

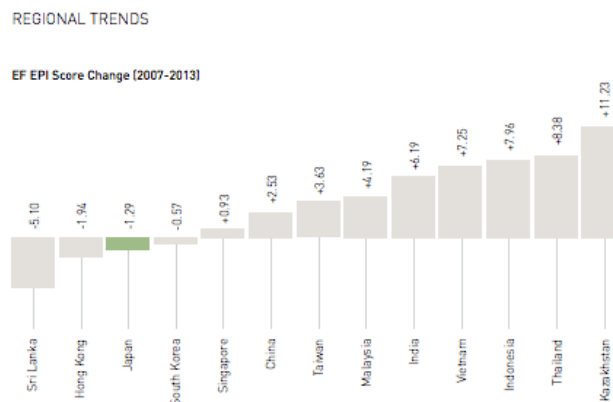


Figure 9: Japanese EPI scores 2007-2013

year history of the program, English test scores have moved very little. A report released by Education First, a group that has been tracking English test scores in Japan, showed that from 2007-2013 Japanese scores in English actually declined while many of their neighbors saw improvement (Education First). The trend holds if we look at TOEIC (Test of English for International Communication) scores from 2013 where Japan is well below its East Asian counterparts, with the obvious exception of the DPRK, and only slightly above countries like Vietnam (TOEIC 2015).

If internationalization is next to impossible to quantify and English proficiency has remained stagnant or even declined, the indicators for the program point to failure, and the program should have been ended long ago, especially when we consider Japan’s stringent fiscal situation. It is difficult to figure out exactly how much is spent each year on the JET program. This is partly due to the organizational structure of JET, which has government officials in three ministries devoting some time to the program. However, a rough idea of the cost to the Japanese government can be obtained by multiplying the 4.2 million yen spent per JET by 4,500, or the approximate number of JETs in any given year. When you convert the result to dollars you get a number just shy of \$200 million. While that amount is not a small number, when compared to the planned educational expenditures of \$53 billion in the 2015 national budget, it does not seem excessive<sup>3</sup>.

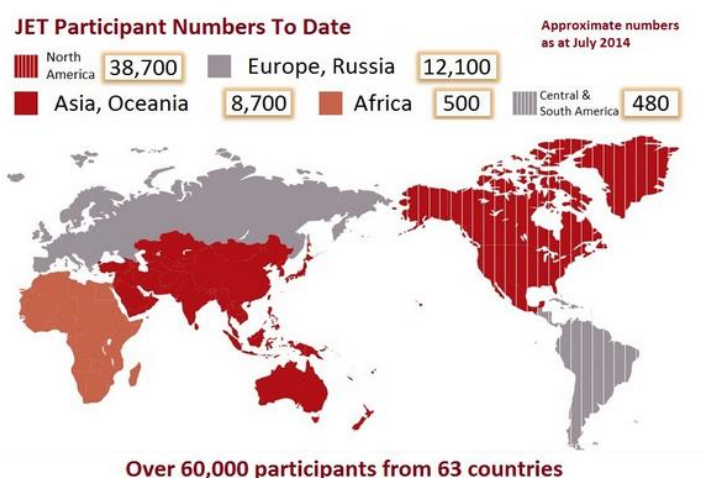
Quantifying the success or failure of the program is difficult when looking for hard numbers to demonstrate improvement. However, observing a classroom with an ALT and JTE in action leaves the observer with a deep sense of the potential of the JET program. I was lucky enough to observe a classroom in action and what struck me was not the fact that the JET in question had no prior experience teaching or that he was basically just walking through a game he had downloaded from the AJET website. What struck me was how the middle school students responded to him and how the JTE (Japanese Teacher of English) would effortlessly and without hesitation, turn to the JET to pronounce words he himself was struggling with.

The way words are pronounced, the syntax used, and the general flow and speed of speech is very different from a native English speaker and your typical Japanese English teachers, many of whom may not have spent any significant period in an English speaking country. When done right, despite a lack of formal educational training, the enthusiasm of the young JET bleeds into the lesson and the students respond to it. The students try to imitate the sounds the JET makes, and the teacher keeps the class on track but allows the students to enjoy the game of using English. ALT participation in the classroom is not an end-all solution to the problems Japan faces with English education, but their presence changes the way English is taught and absorbed.

The classroom, or more accurately the school building, presents an informal atmosphere for the students to interact with their JET. When the JETs have a basic command of Japanese as most JETs now do, they can form closer connections with the students in the relatively informal setting of school (a stark contrast to adult interactions in Japan). The students will pepper the JET with English questions or tidbits outside of the classroom, in the hallways between class, and in club events after school. Watching the interactions between the ALT and their students, one can almost see the humanization process-taking place. In the kids' faces you can see a sense of wonder at how this person is so very different from what they've only seen on TV.

*“The structure and form of the JET program make[s] the most sense when viewed as a vehicle for creating sympathy for Japan among young people in select western countries”*  
– David L. McConnell

Not an original goal of the JET program but later added as the benefits became clear, the burgeoning pool of JET alumni might be the easiest quantifiable positive for the program. As of July 2014, JET has produced over 60,000 alumni from 63 different countries with more than 38,700 of them from the



United States according to the program website. Each experience in the program is unique but when they leave, their view and understanding of Japan is changed forever in a way that is only possible from experience.

In many ways, JET has created something for Americans that resembles the third goal of the United States Peace Corps: “To promote a better understanding of other peoples on the part of Americans”. In this case, the other peoples are the Japanese and while not explicitly stated the pool of Americans who have a personal relationship with Japan is around 40,000 greater because of the JET program. This has significant implications for the U.S.-Japan alliance. While not all JET participants will spend the rest of their lives working in Japan or U.S.-Japan fields, they are people that will return to families in the States with a special place in their hearts and a sharpened awareness of what is going on in Japan and Asia. This is an intangible benefit for Japan, the United States, and the bilateral relationship that is hard to quantify but should not be discounted when measuring the success or failure of the program.

### **Current issues and policy uncertainty**

The JET program has enjoyed fairly strong political support in Japan despite issues with demonstrating quantifiable statistics of its worth. Both politicians in the United States and Japan have sung its praises as invaluable in creating person-to-person relationships between the young in both countries. That does not mean, however, that the program is not subject to the harsh realities of political winds and budget constraints. When the LDP (Liberal Democratic Party) was out of power from 2009 to 2012, the DPJ (Democratic Party of Japan) government, as part of a concerted effort to eliminate unnecessary programs, tried to curtail the JET program as a waste of taxpayers’ money.

In 2007, Prime Minister Shinzo Abe voiced his support for the JET program when he met with former JETs from all over America in Washington DC and said, “government-to-government relations are not enough...it is people-to-people connections that are absolutely essential.” But when the DPJ came into power, it created a government revitalization panel that included budget screening panel which went at budgetary waste with a buzz-saw. This panel reviewed the JET program in combination with several other programs and marked the program and CLAIR for possible discontinuation. Ultimately, the effort failed, thanks in part to the strong reaction by JET alumni, who by then had started to come into their own, many in leadership positions. The fight to defend JET was successful, and when the LDP returned to power in December 2012, the program found itself again on safe fiscal ground.

Prime Minister Abe hopes to see a doubling of JET participants by the 2020 Tokyo Olympics and an increase in the number of participants that are staffed in large cities. While the support of

the ruling party is crucial to the continuation of JET, the Prime Minister's remarks still highlight the perennial disconnect between the ideal of the program and the realities on the ground. The municipal governments have to request JETs, and the GOJ's role is to provide the funding to pay for them. In my discussions with prefectural authorities, I did not get the impression that they were overly enthusiastic to double the number of JETs in their cities (CO Interview 2015). Abe will have to do much more than make pledges if his plan is to succeed.

The organization of the program itself is the major issue standing in the way of the GOJ's desire to increase JET's size. As the national government acts as a sort of recruiting service providing not only top candidates for the municipalities to hire but also the funding for them to be hired, they have left an important part of the process to the discretion of the more than 60 contracting organizations—how best to integrate the new hires into the local communities and their jobs. They are providing the people and the funding but are not legally able or willing to do the micromanaging needed at the local level to make sure that JETs are being employed to the full potential of their abilities.

Worse, the contracting organizations (local governments) are not always clear on how they are allowed to use the JETs they have employed. There are no communal best practices that are uniformly shared between COs. I was aware that many Japanese people are unfamiliar with the JET program, but was surprised to discover that even within the group of teachers I spoke with that work or have worked with JETs, they were often unaware that the individual that they worked with was with the JET program, as opposed to just a local hire ALT. Speaking with teachers who have worked with JETs, I heard questions such as: Are they allowed to help in the creation of lesson plans? What are they allowed to actually do in the classroom? Can they help out after class? These questions are not often voiced directly to the participant, and when they are it may not be totally clear to the JET participant what the rules are either. This confusion is what creates a dampened desire for what is essentially a national, government-funded program to provide native English speakers in their local classrooms.

Without a better and more consistent understanding of who JETs are and what they do, it will be very difficult for the Abe administration to double the size of the program. Currently, JET numbers are based on requests from the COs and from my interviews I did not get the impression that a drastic increase was planned for JET requests. To be fair, part of Abe's plan to increase the number of JETs is to provide many more in major cities. While the absorption of large numbers of JETs into major cities will pick up some of the slack, without clearer expectations and more consistency the national government will struggle to double the size of this program as the COs just don't want that many participants.

## Outcomes

As I have argued throughout this paper, measuring outcomes for a program like JET depends almost completely on how you want to categorize the program. If you view the program as an English education program, then the program has failed without question. If you view it as a program to internationalize a more insular and rural population, how do you measure its success? However, if you view JET as a cross-cultural exchange program, the program is a wonderful success by almost all accounts, though it is hard to demonstrate with data.

The English education program in Japan is recognizably flawed. But it would be a mistake to point to the last 27 years of the JET program and say that it is not working because English test scores have not improved. JET cannot take the blame for that deficiency. JET is meant to enhance the English education program by providing access to native English speakers. However, enhancing a dysfunctional program will not improve outcomes. This paper was not an investigation into the Japanese educational system, but I believe there are some fundamental issues with English education in Japan that are the real culprits behind the lack of improvement in test scores. Japan has one of the highest literacy rates of any country in the OECD; they are also at the top of the list for math and science scores. The question of why the Japanese struggle to improve English scores seems to correlate better with the overall English education program more than it does with the supplementary function of JET.

Internationalization is difficult to capture as well. It is difficult to watch Japanese students interact with foreigners and not conclude that the experience at a young age has provided them with a better understanding of non-Japanese people. But how do you measure that? Japanese people don't seem to be in a rush to live and work overseas. Maybe that is partly due to the fact that despite 20 years of stagnate economic numbers, as of February 2015, the unemployment rate in Japan is 3.5% (Trading Economics 2015). Life in Japan, by most measures, is comfortable, and this may explain some desire to stay at home. But not wanting to venture out is different from a lack of global focus or understanding, and if the cultural exchange program has not had a lasting impact on Japanese students, it most definitely has had that impact on former JETs.

When it comes to the outcomes of the participants there are actually two, or maybe three, success stories. The first is the difference that JET has made in the lives of those who have participated in the program. The second and third are the benefits to Japan, the United States and the U.S.-Japan alliance. Here I'll focus on the participants themselves and touch on the impact on bilateral ties more in the next section.

The successful outcomes for JET participants have been captured anecdotally in many different places. Stories like that in the *Japan Times* of a Harvard Law graduate who, after his time in JET, went to law school and now works for a prestigious firm in Tokyo.<sup>21</sup> Or in my personal experience, I have met JETs who have gone on to academia or to work as research assistants for giants in the U.S.-Japan relations field.

Emily Metzgar's survey data of over 500 JET alumni in the United States is most helpful when trying to quantify who JETs are and what becomes of them post program. We know

Sector	Percentage
Self-employed	7%
Private, for-profit organization	25%
Higher education (public or private)	17%
Elementary or secondary education (public or private)	11%
International organization in the U.S.	4%
International organization outside the U.S.	1%
U.S. military	1%
U.S. government (excluding military)	7%
State or local government (excluding education	2%
Private non-profit (excluding educational & international organizations)	6%
Other	7%
Not employed	10%

*Note: 518 responses were collected concerning current sector of employment.*

Figure 11: Employment after JET

that all JET participants have to have a Bachelor's degree but in Metzgar's data we can also see that 91% had yet to complete any graduate school before JET and 63% are less than a year out of undergrad with only 6% waiting more than 5 years to join the program. This is important because it means that JET participants are coming to JET right on the heels of their undergraduate education—a period in people's lives where many are still trying to figure out career paths. JET is targeting young, educated Americans at a nascent time in their careers and altering the course of their career development.

This was especially evident in a 2013 survey conducted by AJET on current and former CIRs regarding their career plans before and after the JET program. Before JET almost 47% indicated a career in something to do with the Japanese language. After JET this number was reduced to about 20% with upticks in International Studies, Government, Management, and Education (AJET Opinion Exchange).

The spread of fields in which JETs start careers was also very diverse. From Metzgar's data we can see in Figure 5 how diverse that employment actually is.

Recently CLAIR has looked to strengthen this network with a greater focus on life after JET. CLAIR sponsors career fairs in Tokyo and the Kansai area as well as supports JET alumni associations abroad to help link former JETs with Japanese companies. The only thing surprising

about this development is that it took as long as it did. The JET alumni pool is full of college educated foreigners who passed the rigorous JET selection process, have some ability with the Japanese language, and 49% of whom have completed at least one advanced degree, with another 18% currently working on an advanced degree as of 2012 according to an AJET Opinion exchange. On paper that would seem to describe a group that would be of interest to businesses and governments both in Japan and here in the United States.

### **Impact on bilateral ties**

The impact of JET on bilateral ties gets to the root of the U.S.-Japan alliance. JET looks to foster cross-cultural understanding between the Japanese and a group of foreigners, 50% of whom are Americans. The most common cultural exchange between Americans and Japanese in Japan has to be between the United States military, other DOD employees, and all their dependents. In statistics put out by U.S. Forces Japan, the total number of such individuals was about 92,000 in 2008 (Yoshida 2008). The over 2,000 Americans who are JETs is small in comparison. Yet, they do provide a different perspective and they are much more evenly distributed throughout Japan, compared to the concentration of U.S. personnel in Yokosuka and Okinawa. Their presence is a counter balance to the sometimes-frequent news stories about American service members breaking the law. This is not to say that the U.S. military presence has a negative impact in Japan or that JET members have not been without sin. Beyond the high-level public relations aspects of the JETs' presence there is also the strengthening of ties through cultural exchange. And as with any cultural exchange, both sides grow from the experience.

For the local communities and school children, even if only 0.5% of students that work with a JET become motivated enough to really pursue a mastery of English, that is still an increase in the number of individuals who have gained the ability to communicate at a higher level with Americans. It should be noted too that the burden of communication between the U.S. and Japan is not solely the burden of the Japanese. However, the JET program has developed some renown and provides substantial takeaways for those that choose to participate. Takeaways that benefit both countries and their relationship.

The JET experience strengthens ties between the two countries year after year as the number of American alumni continues to grow. Not only is there a group of Americans that now actively follows events in Japan, but that group's demographics are also one of political activity and education—a subset of the American populace that has outsized influence on American policy both at home and abroad. Not only do over half of returned JETs go on to advanced degrees, but levels of political activity in the group are high: 49% of survey respondents in Metzger's survey said they had attended a political protest or rally in the last five years and 65% indicated that they had contacted a government official. Their political activity even extended to running for office, with 1% indicating they had run and 50% of that group winning. From the prospective of the

alliance, having a group of politically active and educated Americans that also trend toward working on or through the U.S.-Japan alliance in some form means that communication between the countries should be easier and more substantive. With the early era JETs now arriving in positions of leadership, one can only assume that the foundation of the U.S.-Japan alliance is growing stronger.

Closer ties between the U.S. and Japan provide regional stability benefits that should not be ignored when discussing a program that helps bring these two countries closer together. An alliance built on mutual respect and understanding, supported by personal connections is a rock, upon which the rest of the region can look to in times of chaos and uncertainty.

### **Weaknesses and areas for improvement**

There are a few things the JET program could do better. A lot of the issues facing the program, in my opinion, stem from the diffuse nature of the organization itself. Without a central headquarters there is a lack of accountability for the JET participants as well as no mechanism for gathering and disseminating lessons learned. Creating a JET program office and putting it under the purview of one ministry would help better coordinate the efforts of the program and ensure JET utilization and safety.

Safety is ignored at the peril of the program. As JET grows there needs to be an emphasis on safety of the participants. JET is a brand like anything else and a handful of bad experiences carried in the news could lead to a decline in U.S. applications. Not to mention the fact that treating JET participants like any other government employee in Japan is in direct contrast to the reasons given for their presence.

Finally, the JET program should be separated from the English education goals of the greater education policy in Japan. JET alone will do little to nothing in terms of improving English capabilities of the entire populace. The intrinsic value of JET is derived from the person-to-person cultural exchange that takes place. Leaving English education in the program's goals opens the program up to unfair criticism. This last issue has been recognized and a shift in the stated purpose of the program has begun; however, more distance would be better in my opinion.

### **Conclusions**

I started my research into the JET program believing that the program had good intentions but was not providing much benefit in terms of improving the mastery of English by Japanese students. I knew next to nothing about the program other than it was an effort to help Japanese students learn English by providing native English speakers in the classroom. Following that logic, after almost 20 years you would expect that the students from the late '80s and early '90s

would now be adults and demonstrating their superior grasp of English compared to the abilities of their parents. Never having participated in JET myself, my view was simplistic and born out of a lack of understanding of issues involved and the true nature of the JET program. I was looking at the trees and not the forest.

Over the last few months of research and many hours of interviews both in the United States and Japan, I now believe that the JET program strengthens the very bedrock of U.S.-Japan ties. The program represents a shift from the standard indicators of military cooperation and mutual security interests. The program, as measured in grass-roots terms, has created a reservoir of good will and friendship built on the backs of thousands of personal relationships and experiences in a cross-cultural context. What we see with the JET program is a person-to-person cultural exchange that is also driving language acquisition on both sides. Personal bonds between individuals can endure indefinitely without requiring the same driving force of the bonds between nation states and they form the glue that can hold those nation states together when times get tough. This is what the JET program is building, and 18 years on we are just starting to see the real fruits of what was started in 1987.

The program itself should look to make structural changes as it grows so as to improve the effectiveness of the program to the benefit of all. The consolidation of JET functions into one headquarters that hires the JET participants and provides them to the prefectures will allow CLAIR, or whatever the single controlling organization is called, to do several things. First, it will allow for a more consistent experience for the JET. It will untie CLAIR's hands so it can be more proactive in the support it provides to both the JET and the contracting organization that has requested the JET. It will allow CLAIR to gather best practices or lessons learned as it moves forward to continually improve the program. Support groups like AJET could be folded into the actual structure of JET, although an autonomous third-party group will more than likely always be needed to some degree. The structural change will help diminish the risk of safety issues by allowing CLAIR to provide direct emergency support to the JET participants without the legal hurdles of overstepping the authority of the contracting organization. Finally, by making the JETs part of a JET organization, there is money to be saved as the current structure of payments and subsidies is inefficient and undoubtedly creates redundant work among the three ministries involved.

The United States too, may wish to investigate how it can build on the success of JET and support further cross-cultural exchange and person-to-person relationship building. There are obviously large pools of Americans who are willing to spend a few years of their life in Japan for the experience, but perhaps there is a way for the U.S. to do something similar with Japanese nationals in the United States. The GOJ has a small pilot program that sends Japanese teachers of English to the United States so they can improve their English skills, but a cross-cultural exchange program that brings Japanese youth to America might re-enforce what JET has started

in Japan. The Fulbright program does some of this and a private non-profit called the Tomodachi Initiative has started to pick up steam in its mission to bring Japanese school children to the States for short visits. Waseda University has begun to experiment with a new program of educational exchange that will bring Japanese students to the U.S. and vice versa.

With the JET program it is very difficult to measure value-added in what is at base a long-term investment in young people. However, the focused way in which JET targets the participants it chooses and the unique experience it provides them is both good for Japan and good for those lucky enough to have participated. The dividends that Japan and its allies will reap from the program will only grow as the program expands and the number of its alumni multiplies.

## Images

Figure 1: *JET program logo*, The JET program <http://jetprogramme.org/>

Figure 2: *ALT Team-teaching in classroom*, The Government of Japan website, [http://www.japan.go.jp/tomodachi/JETProgramme/Ms\\_Fox.html](http://www.japan.go.jp/tomodachi/JETProgramme/Ms_Fox.html)

Figure 3: *American vs. Total Participants*, Asia Matters for America <http://www.asiamattersforamerica.org/japan/US-JET-prefecture-map-2011-2012>

Figure 4: *The Organizations of JET*, ministry and organizational logos are from CLAIR's website, <http://www.clair.or.jp/e/jetprogram/index.html>

Figure 5: AJET LOGO, the association for Japan Exchange and Teaching, <http://ajet.net/>

Figure 6: *Survey Data from AJET*, Assistant Language Teachers as Solo Educators<sup>25</sup>

Figure 7: *First group of British JETs in 1987*, Japan Times 1988

Figure 8: *JET Handbook*, 2014 handbook produced by CLAIR<sup>9</sup>

Figure 9: *Japanese EPI scores 2007-2013*, English proficiency Index 2014<sup>14</sup>

Figure 10: JET alumni by origin country, JET program website <http://jetprogramme.org/>

Figure 11: *Employment after JET*, Emily T. Metzger<sup>22</sup>

## References

- AJET National Council. *Opinion Exchange Report 16 December 2013, Life after the JET programme*. Tokyo: 2013. Electronic.
- AJET National Council. *Opinion Exchange Report 16 December 2013, Assistant Language Teachers as Solo Educators*. Tokyo: 2013. Electronic
- AJET National Council. *Opinion Exchange Report 16 June 2014, Assistant Language teachers as solo educators*. Tokyo: 2014. Electronic.
- AJET National Council. *Opinion Exchange Report 16 June 2014, AJET Activities and Services Review*. Tokyo: 2014. Electronic.
- AJET, Saitama. "AJET's role." Personal interview. 18 Mar. 2015.
- CLAIR. *Career Fair Flyer*. Tokyo, 2015. Print
- CLAIR. *General information Handbook 2014*. CLAIR, 2014. Electronic 10 Mar. 2015
- CLAIR, Tokyo. "CLAIR's role." Personal interview. 17 Mar. 2015.
- Contracting Organization Representative, Japan. "Why JETs" Personal interview. 20 Mar. 2015.
- Education First. *English Proficiency Index Report 2014, Japan*. EF, 2014. Electronic 13 May. 2015
- Fukada, Takahiro. "Are Schools ready for English?" *The Japan Times*. 26 Feb. 2011. Web. 16 April. 2015 <http://www.japantimes.co.jp/news/2011/02/26/national/are-schools-ready-for-english/#.VVPI5NNVikp>
- Government of Japan. Japan Foundation Website. GOJ, Web. 15 Apr. 2015  
<http://www.jpf.go.jp/e/>
- Government of Japan. *JET Program Website*. GOJ, Web. 26 FEB. 2015  
<http://www.jetprogramme.org/>
- Ito, Masami. "DPJ's promise to change the system failed" *The Japan Times*. 1 Dec. 2012. Web. 12 April. 2015 <http://www.japantimes.co.jp/news/2012/12/01/national/dpjs-promise-to-change-the-system-failed/#.VVTHWdNVikp>

Japanese Embassy, Washington D.C. "JET Recruiting." Personal interview. 4 Mar. 2015.

Japanese Embassy, Washington D.C. "JET Recruiting." Personal interview – Data Sheets. 4 Mar. 2015

Japan. Ministry of Foreign Affairs. *Draft Budget report FY2015*. Tokyo: MOFA, 2015, Electronic.

<http://www.mof.go.jp/english/budget/budget/fy2015/01.pdf>

Japan. Ministry of Foreign Affairs. *Prime Minister Abe Meets with Local JET Alumnus*. San Francisco: MOFA, 2007. Electronic

[http://www.sf.us.emb-japan.go.jp/en/e\\_m04\\_03\\_05.htm](http://www.sf.us.emb-japan.go.jp/en/e_m04_03_05.htm)

JET participant 1, Washington D.C. "Your experience." Personal interview. 25 Feb. 2015.

JET participant 2, Washington D.C. "Your experience." Personal interview. 4 Mar. 2015.

JETS, Tokamachi. "JET Experience." Personal interview. 20 Mar. 2015.

McConnell, David L. *Importing Diversity: Inside Japan's JET Program*. Berkeley: University of California Press, 2000. Print

Mie, Ayako. "JET alumni advocates for Japan." *The Japan Times*. 3 Sept 2013. Web. 14 May. 2015

<http://www.japantimes.co.jp/news/2013/09/03/national/jet-alumni-advocates-for-japan/#.VVTXG9NVikp>

Mie, Ayako. "LDP looks to double JET Program's ranks in three years." *The Japan Times*. 23 Apr 2013. Web. 27 March. 2015

Metzgar, Emily T. *Promoting Japan: One JET at a Time*. Los Angeles: Figueroa Press 2012. Electronic

Stronach, Bruce. "US - Japan Alliance." Temple University Japan. Temple University, Tokyo. 16 Mar. 2015. Lecture.

TOEIC. Test of English for International Communication report 2013. TOEIC, 2013. Electronic, 13 May. 2015

Trading Economics. *Japan Unemployment Rate*. Web 15 April. 2015  
<http://www.tradingeconomics.com/japan/unemployment-rate>

United States. Central Intelligence Agency. *World Fact Book*. CIA, Web. 25 Mar. 2015

Yoshida, Reiji. "Basics of the U.S. Military Presence." *The Japan Times*. 25 Mar 2008. Web. 14 May. 2015 <http://www.japantimes.co.jp/news/2008/03/25/reference/basics-of-the-u-s-military-presence/#.VVT1h9NViko>

## U.S.-Japan Cultural Exchange in a New Era of Public Diplomacy

By Michael Wakcher

### Introduction

Edmund A. Gullion, former Dean of the Tufts Fletcher School, coined the term “public diplomacy” in 1965 and defined it as “the means by which governments, private groups, and individuals influence the attitudes and opinions of other peoples and governments in such a way as to exercise influence on their foreign policy decisions.”<sup>1</sup> In the 50 years that have since passed, other definitions have surfaced, and there is no one agreed upon definition. Generally speaking, however, public diplomacy involves the attempt to achieve international policy objectives by way of inter-cultural communication through means outside the state’s formal diplomatic methods, such as discussions between leaders, foreign ministers, and diplomats. Public diplomacy instead relies instead on “a wide range of nongovernmental entities,” including but not limited to political parties, multinational corporations, trade associations, labor unions, educational institutions, the media, non-government organizations (NGOs) and faith-based organizations.<sup>2</sup> Of course drastic changes in the media-communications landscape since the advent of the internet, as well as ease of travel, has challenged what public diplomacy is, how it is implemented, and to what extent it can possibly be controlled. As Gullion put it, “Central to public diplomacy is the transnational flow of information and ideas.” It has never been easier for individuals to exchange culture across national boundaries, be it through travel, arts, exchanges, research partnerships, museums, language, film, or even pop.

Today, Japan and the U.S. see cultural exchange as an increasingly important component of their public diplomacy strategies.<sup>3</sup> But there exists an inherent tension when the outcomes of cultural exchange are adopted as policy objectives. The more tightly a given government controls the message and dictates the actions of the agents of public diplomacy, the less genuine the cultural exchange. I will argue in this paper that to the extent that a mutual cultural understanding is part of the intent of public diplomacy, governments cannot expect deep understanding to exist without relinquishing some control of the message and medium.

---

<sup>1</sup> Tufts University, The Fletcher School. “Definitions of Public Diplomacy.”

<sup>2</sup> Ibid.

<sup>3</sup> Adler, Jeff. Group Interview, The American Center, Tokyo, 3/16/2015

Take two extremes. On one hand, there is a country that employs absolute, total control over all aspects of media, communications, and cross-border interactions. That country would not have public diplomacy as such because it would be indistinguishable from traditional diplomacy conducted by the formal state. On the other extreme, an open country that takes a Laissez-faire approach to cross-cultural communications would not have any public diplomacy either because the state would be entirely uninvolved. At either extreme, public diplomacy does not exist. In fact, it only exists in a gray area between the two poles.

In this paper I also contend that the framework with which Japanese and U.S. agencies view cultural exchange is shifting today towards one in which cultural exchange is by nature, an element of public diplomacy rather than pursued for its own sake. As cultural exchange becomes a tool of public diplomacy in the U.S.-Japan relationship, tensions are arising in the gray area between free exchange and controlled message. As I will explore, the tensions are consistent, but manifests differently, in all institutions and agents participating in or promoting cultural exchange.

Separating cultural exchange from a nation's diplomatic objectives is not seen as possible in today's climate, and to insist that it is requires taking a defiant position. The key factors in the current U.S.-Japan relationship producing this shift, I believe, are Prime Minister Shinzo Abe and President Barack Obama's interest in deepening bilateral ties across the board, the gaiatsu (external pressure) factor on Japan to conform to global norms that is a product of globalization, and a renewed emphasis on the cultural understanding as a foundation of bilateral relations in general.

## **Methods and Aim**

The aim of my research is to create a comprehensive picture of the current state of cultural exchange between Japan and United States with an emphasis on the Japanese perspective. This means that I will concentrate on how Japan "exports" and "imports" cultural exchange, with less emphasis on the how Americans view Japanese culture at home.

I chose to conduct research by interviewing individuals representing a broad range of organizations in different areas of Japan-U.S. cultural exchange in the public, NGO, and academic sectors. I also interviewed individual artists who are among the direct agents of cultural exchange (as opposed to an institution that promotes those artists).

My research does not make a case study out of any one particular organization. Instead, I am aiming for a layer-cake view that explores how different organizations and agents at various levels approach the challenges of cultural exchange in its current evolving landscape. My

methods of data collection were varied. In some cases I had one on one interviews. In others I sat as one recipient of a small group presentation with the chance for specific follow up questions. In the case of TeamUp, a year-long campaign U.S.-Japan campaign to boost the number of American and Japanese undergraduate students studying in each other's country, I sat as an observer to a large panel discussion. Throughout the course of my 3 months of research I have also had the opportunity to conduct on the job research, while interning with three closely related organizations: The U.S.-Japan Conference on Cultural and Educational Interchange (CULCON), the U.S.-Japan Bridging Foundation (USJBF) and the Japan-United States Friendship Commission (JUSFC).

Below are listed institutions from which I was able to conduct research.

International House of Japan Nezu Museum Tomodachi Initiative U.S. Embassy, Tokyo U.S.-Japan Conference on Cultural and Education al Interchange	The Japan Foundation Temple University, Japan Campus Japan-United States Friendship Commission U.S.-Japan Bridging Foundation The TeamUp Panel
---	---

In addition to these institutions, I was also able to interview two 2015 JUSFC Creative Artist Exchange Fellows, American artists who are funded by the U.S. federal government to work and produce art in Japan.

Over the course of my research, as one might expect, certain themes and challenges in cultural exchange recurred often with variation existing between how each organization or individual interpreted and approached them. These themes will be explored throughout the paper and include:

Long Time Horizons Developing Sustainable Exchanges Pop-Culture as a Jumping Off Point The Role of Globalization	Difficulty in Measuring Impact Flexibility of programs Importance of People-To-People Contact Gaitsu: Pressure on Japan From the Outside
---	--

## Cultural Exchange Frameworks: A Shift in Approach

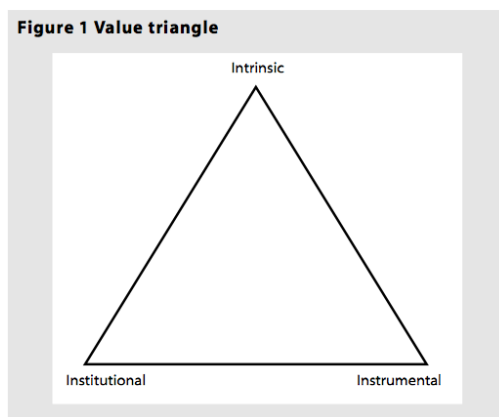
*“In the 1980s it wasn’t appropriate to discuss cultural exchange in a policy context.”*

*“There is a nostalgic sense for the good old days of cultural exchange as it is.”*

*“We must face the reality. We don’t have the luxury to claim that cultural exchange exists for its own sake. We have to admit that it should be in the realm of public diplomacy.”*<sup>4</sup>—

Junichi Chano, Executive Director, Japan Foundation

Japan and the U.S. are undergoing a parallel ideational shift in how they approach cultural exchange, which are reflected in the themes noted in the above section. This is not to say that the framework being shifted towards is new. In this paper I will examine two frameworks: “Intrinsic Value” (IV), which is the framework that U.S.-Japan cultural exchange is moving farther from, and the “Diplomatic Objective” (DO) framework, which cultural exchange is moving towards. These frameworks overlap to some extent with John Holden’s cultural value triangle.



*John Holden, “Cultural Value and the Crisis of Legitimacy,” 2006*

Holden’s research, as presented in “Cultural Value and the Crisis of Legitimacy,” models and examines cultural propagation in a domestic sense, particularly in Britain, in a study on the relationship between the public, the government, and private organizations that create and consume culture.<sup>5</sup> Much of his interpretation holds for my own research, but I will be adapting his research to my own findings in U.S. and Japan. Naturally, differences exist when adopting a

<sup>4</sup> Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015

<sup>5</sup> Holden, John. “Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate.” Pg. 15-17

purely domestic framework into an International Relations framework, which I will endeavor to describe.

The Intrinsic Value framework is predicated on the idea that cultural exchange has value for its own sake. Institutions such as the Japan Foundation and the International House of Japan (I-House, or Kokusai Bunka Kaikan in Japanese) were largely founded in this framework: that cultural exchange should be funded and promoted for its own sake, or (in the extreme) simply to make life worth living through the arts<sup>6</sup>. This is not to say that cultural exchange in IV cannot lead to practical objectives such as peace through understanding, intellectual collaboration, and community engagement. The thinking, however, is these practical benefits will be maximized only when cultural exchange is pursued as a goal in itself, because any attempt to control the outcome will paradoxically have a constraining or distorting effect.

In Holden's triangle he specifically refutes the "art for art's sake" idea in his own Intrinsic dimension, offering instead that "value is located in the encounter or interaction between individuals (who will have all sorts of pre-existing attitudes, beliefs and levels of knowledge) on the one hand, and an object or experience on the other."<sup>7</sup> I am in full agreement that interaction between individuals is crucial, and I will explore this idea in the "people-to-people" theme. By way of contrast, in my own research I find that regardless of how one wishes to objectively define the true source of intrinsic value, the fact remains that "art for art's sake" is still a powerful meme that is prevalent in the discourse and is in many cases a shorthand for the beliefs and principles as I have described them.

The Diplomatic Objective framework, by contrast, asserts that cultural exchange is part of public diplomacy, which along with traditional diplomacy, is an integral part of International Relations and therefore should be pursued and designed to meet particular political ends. The DO framework is made nearly explicit in the UNESCO constitution, particularly with respect to the avoidance of war. Seeing as the UNESCO constitution was written in the wake of WWII, there is no doubt that its guiding philosophy was rooted in a particular historical space. Nevertheless, the idea lives on.

*"That since wars begin in the minds of men, it is in the minds of men that the defenses of peace must be constructed."*

*"That ignorance of each other's ways and lives has been a common cause, throughout the history of mankind, of that suspicion and mistrust between the peoples of the world*

---

<sup>6</sup> Maeda, Manami and Nakayusa, Sawako and. Interview, International House of Japan, 3/19/2015

<sup>7</sup> Holden, John. "Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate." Pg. 12

*through which their differences have all too often broken into war.” –Constitution of the United Nations Educational, Scientific and Cultural Organization<sup>8</sup>*

Actively constructing the “defenses of peace” in the minds of men by educating one another about “each other’s ways” (culture), is here the expressed objective to be pursued directly, rather than as a byproduct of open exchange. The DO framework, as I interpret it, has components of Holden’s instrumental dimensions, in which instrumental values relate to “the ancillary effects of culture, where culture is used to achieve a social or economic purpose.”<sup>9</sup>

Holden’s third dimension, Institutional value, pertains primarily to institutions such as theaters and museums, that act as both “mediators between politicians and the public” that are actively engaged in “creation or destruction of what the public values” and had ought to be viewed as “instruments for generating cultural meaning, (and) as creators of value in their own right.” For this reason, I see elements of both IV and DO in Holden’s institutional dimension. This is because when a culture propagating institution such as a museum or theatre is viewed in a international cultural exchange context, as opposed to a purely domestic context, it must be considered in the framework of International Relations whether it is deliberately isolated from political objectives as in the Intrinsic Value framework, or if the institutions are funded and directed in the Diplomatic Objective framework. And so, Holden’s triangle flattens to a line on which in the world of international relations, cultural exchange can operate at various points between two extremes: a free market of ideas (absolute IV) at one pole, and a completely controlled message (absolute DO) on the other.

### **Themes in Modern Japan-U.S. Cultural Exchange**

While there is sometimes natural overlap between themes, I have nevertheless organized the most distinct themes, noted in the “Methods and Aim” section, by sub-section below. The theme “Importance of People-To-People Contact” is touched upon frequently, and will be further explored in the conclusion.

### **Long Time Horizons**

Nearly every agency I interviewed agreed that cultural exchange and/or public diplomacy only bears fruit in the long run. The timeline for the impact of cultural exchange is typically viewed in terms of a human lifespan/lifecycle. As put best by U.S. Embassy Tokyo’s Assistant Cultural Affairs Officer Jeff Adler, “Public Diplomacy is glacial.”<sup>10</sup>

---

<sup>8</sup> UNESCO Constitution

<sup>9</sup> Holden, John. “Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate.” Pg. 16

<sup>10</sup> Adler, Jeff. Group Interview, The American Center, Tokyo, 3/16/2015

How long does it take for cultural exchange to have a practical impact? How will the agents of exchange incorporate lessons from their travels into their lives and careers? How long will it take the culture visited to fully absorb the impact of their visitor?

In the IV framework, long time horizons are not problematic because the value of cultural exchange, even through public diplomacy, is fundamentally assumed. Any indirect social or political objectives in International Relations as a result of cultural exchange are optimally achieved through promotion of cross-cultural experience, or with a light touch, by creating an environment in which cultural exchange can thrive. No matter how long it may take, free exchange in the IV Framework is seen as the best way to get there. Sawako Nakayusa, the Arts Program Advisor at I-House, stood most firmly in the IV framework of my interviewees, described the process as follows: “Artistic impulses, which travel from one culture to another mature slowly within the individual artist, and the result is that society as a whole benefits.”<sup>11</sup>

But as the U.S. and Japan generally shift to a PO framework, the question of time to impact becomes very important. Most organizations I interviewed saw the benefits of cultural exchange as being most impactful when a youth exposed to cultural exchange eventually grows up to become an active participant, or even better a leader or mentor, in some sector of productive society.

Cultural exchange through sports and arts programs of the Tomodachi initiative, for example, will help shape the thinking of Japanese and American youth so they may grow up with a sense of understanding and positivity about the U.S.-Japan relationship.<sup>12</sup> The U.S. Embassy, Tokyo, CULCON, and educational institutions such as Temple University, Japan, are all quick to mention the fact that Prime Minister Abe studied Public Policy at the University of Southern California. This, in a way, makes Abe the holy grail of the potential positive benefits of cultural exchange, particularly with positive U.S.-Japan relations as a policy objective.

Of course not every individual, no matter how young they are when exposed to cultural exchange, can grow up to become a Prime Minister or President. This is not to say that U.S. and Japanese cultural exchange/public diplomacy programs do not predict value generated from cultural exchange in all levels and areas of society as the seeds of exchange mature, but it does highlight the fact that cultural exchange as a policy objective is engaged with the idea that of the countless participants in a robust cultural exchange apparatus, a select few outliers may mature in the future to be leaders in very high echelons of society whose experience can lead to a significant positive impact on diplomatic relations. In short, every dollar spent in promoting cultural exchange as an objective is high risk (in the sense that each individual marginal dollar or

---

<sup>11</sup> International House of Japan. “US-Japan Creative Artists Program”

<sup>12</sup> D’Arco, Alexia. Group Interview, The Tomodachi Initiative, Tokyo, 3/16/2015

hour may have negligible or immeasurable impact on future relationships) but high reward (as there is the possibility of a monumental payout.)

Katie Cercone and Monique Truong of the JUSFC's Creative Artists Exchange Fellowship, the two interviewees who were the direct agents of cultural exchange, were the only ones who offered a significantly different perspective on the issue of time horizons. Cercone, when asked about how she perceived the impact of her work and its potential to affect formal institutions in the long run, presented me with her personal experience of helping a Japanese woman who had been working in a "debilitating environment" for 15 years and had to redefine her role as a woman in society when the company she had worked for shut down.<sup>13</sup> Cercone's timeline for the potential impacts of cultural exchange were by comparison, very immediate.

Truong, meanwhile, takes a long to very long-term view on the impact of cultural exchange, and views her own fiction writing in that context. She hopes that the novel she is currently researching in Japan will be read "years from now as a commentary on immigration" a debate that she incidentally views as being in large part about the perceived costs and benefits of cultural mingling. Meanwhile the novel (her 3<sup>rd</sup>) will significantly feature content on the life of international writer Lafcadio Hearn( a.k.a. Koizumi Yakumo) who himself spent his youth as an American immigrant, but eventually moved to Japan where he wrote, taught, and became an naturalized citizen in 1896. Writing about a U.S. immigrant to Japan in the mid-late 19<sup>th</sup> century, with the hope that her work based on that material will be read in the future as a reflection of the immigration debate in Japan today, at the very least puts the timeline of cultural exchange that her work may one day represent easily in the realm of 200 years.

Whether or not institutions promoting cultural exchange take into account the particular perspectives of agents of cultural exchange such as Cercone and Truong, they see an uncertain long-term horizon and an unpredictability of impact, coupled uncomfortably with an acute desire to see returns on investment. These factors combine to produce two other themes in U.S.-Japan cultural exchange today: Difficulty in Measuring Impact and Developing Sustainable Exchange

### **Difficulties in Measuring Impact**

While the money spent on cultural programs or the number of individuals participating in this or that exchange may be useful quantitative yardsticks, the statistics alone do not speak to the quality of a cultural exchange. For example, President Obama and Prime Minister Abe set a goal to "to double student exchanges [between Japan and the U.S. by 2020]" to foster "bonds

---

<sup>13</sup> I do not here claim to represent the complete message of Cercon's work, but generally speaking her work heavily involves overt Feminist themes, making the experience she related to me highly relevant to her particular artistic aims as she engages in cultural exchange as they relate to specific issues Japanese women face in the workplace.

among our young people that can bring us closer together for decades to come.”<sup>14</sup> This is a quantifiable, measureable goal, but it must be accepted on faith that it will yield positive outcomes as reliably measuring the quality of these exchanges or how much “closer together” the U.S. and Japan are as a result of increased exchanges is perhaps an impossible (or at the very least impractical) undertaking.

Indeed, we do not know to what extent particular cultural exchange programs correlate with the objectives of cultural exchange in the first place. This is because the objectives of PO cultural exchange, or even the indirect objectives of IV cultural exchange, are difficult to measure numerically and hard to track over their long time horizons. Furthermore, even if we assume that a given cultural exchange program did result 20 years later in achieving a specific policy objective, proving causality would be extremely difficult. And even if by some advancement in the social sciences causality were proven, the question would then arise as to whether or not a given program of cultural exchange is in fact the *most* cost effective means of achieving that outcome.<sup>15</sup> The policy debate will rage on.

Holden argues that “these problems exist because, when it comes to instrumental benefits, culture creates potential rather than having a predictable effect.”<sup>16</sup> I would modify this statement by saying that the IV framework seeks to create potential by creating environments conducive to cultural exchange, with faith in positive outcomes, while the PO framework by nature seeks return on investment and views cultural exchange, as described earlier, as high risk/high reward, but is always pressured to find quantifiable solutions that are lower risk/higher reward.

To what extent were ideas shared? What similarities and differences were recognized and negotiated? How much more do the exchangeers appreciate one another’s culture? How much did this cultural exchange strengthen prospects for peace?

These questions, nebulous in the realm of International Relations, are nevertheless important. As Bruce Stronach, Dean of Temple University, puts it, the foundation of the U.S.-Japan relationship, or any other bilateral relationship, rests in their cultural understanding, without which everything from trade negotiations to defense agreements can break down.<sup>17</sup> Truong also argues “One of the greatest strengths of fiction [as a medium of cultural exchange] is that it

---

<sup>14</sup> The White House, Office of the Press Secretary. “Joint Press Conference with President Obama and Prime Minister Abe of Japan.”

<sup>15</sup> Holden, John. “Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate.” Pg. 16-17

<sup>16</sup> *ibid*

<sup>17</sup> Stronach, Bruce. Group Interview, Temple University, Tokyo Campus, 3/16/2015

fosters empathy, and that's a very strong agent for change."<sup>18</sup> Measuring this outcome is another story.

Universities and colleges are especially hungry (and under increased internal and external pressure) to produce quantifiable results to justify their programs, even as they acknowledge the value of exchange for its own sake. The success of an exchange, and education at all for that matter, is sometimes boiled down to future employment outcomes.<sup>19</sup>

Meanwhile the interviewees from I-House Japan, in line with their strong IV dispositions, insist that artists participating in the Creative Artist Exchange Fellowship Program be essentially not held accountable for any work during their 3-6 months<sup>20</sup> in Japan. Even the phrase "lack of accountability" seems antithetical to a federal agency (even an independent federal agency) such as the JUSFC that helps to select and sponsor the artists. Nevertheless, I-House argues strongly that artists participating in the exchange have no obligation to complete any work during their fellowship, believing that the benefits and influence of cultural exchange will mature and manifest in due course over the career of the artist, and that any effort to force a particular outcome would paradoxically infringe on these expected benefits.<sup>21</sup>

An important distinction remains, however, between guiding a message and facilitating exchange. In an effort to give Creative Artist Exchange Fellows complete control and independence, and to allow for near absolute immersion in Japanese culture, I-House aims to act primarily as "the point of entry for those artists sent by the JUSFC to Japan," while leaving issues such as housing and city orientation to the artist's own devices. The two artists I spoke to, however, strongly indicated that more guidance from I-House and/or the JUSFC would have been useful in getting established in Tokyo, especially considering the relatively short time frame of the fellowship.<sup>22</sup> Institutions that wish to give agents of cultural exchange maximum control

---

<sup>18</sup> Truong, Monique. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/19/2015

<sup>19</sup> TeamUp Panel, coconvened by CULCON at the American Center, Tokyo, 2/20/2015

<sup>20</sup> *The length of stay in future years is currently a subject of debate and will be elaborated on in the Flexibility section.*

<sup>21</sup> Maeda, Manami and Nakayusa, Sawako and. Interview, International House of Japan, 3/19/2015

<sup>22</sup> Ibid.

Cercone, Katie. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/18/2015  
 Truong, Monique. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/19/2015

over their affairs must make sure that they are not going so far as to inhibit the potential for exchange by mistaking facilitation for restriction.<sup>23\*</sup>

### **Sustainable Exchange (and the Principal-Agent Problem)**

As Japanese and U.S. institutions move towards using cultural exchange to achieve specific objectives, there has been created an urgency for cultural exchange programs to create sustainable cycles of cultural exchange that will reap benefits over successive generations. A particular policy goal compels a cultural exchange organization to devote resources to a community or program. Ideally, these interventions become self-reinforcing in an upward spiral of continuous, sustainable returns on investment. In order to achieve this end, institutions and agents alike are putting energy into promoting alumni networks and mentorship programs to bring one generation of cultural exchangees into the next.

Of course, the agents of cultural exchange who engage in person-to-person relations have varying goals, some of which may be inconsistent with the goals of the parent organization. Agents may be seeking cultural exchange for pure recreation or for professional advancement, and may have no the specific intention of acting as a de-facto U.S. or Japanese representative. This is a symptom of a broader issue in cultural exchange as public diplomacy that is essentially the principle-agent problem. The principle-agent problem is heightened the stronger the PO framework.

Indeed, some participants simply engage in cultural exchange in order to, as Holden puts it, enjoy the “context for sociability and the enjoyment of shared experiences.”<sup>24</sup> It is incumbent on the PO oriented organization to create programs that incentivize continued participation in cultural exchange as opposed to just enjoying the activity in itself, and in the case of funding individuals, to select among those who will have the potential to become future leaders or active participants in their fields. For example, the USJBF Bridging Scholarship program gauges an applicant’s interest in U.S.-Japan relations, as well the applicant’s potential for future leadership, as major criteria for selecting which American students will receive grants to study abroad in Japan.<sup>25</sup>

Another strategy by which institutions such as the Tomodachi Initiative, a public-private partnership (PPP) between the U.S. Embassy in Tokyo and the U.S.-Japan Council, attempt to

---

<sup>23</sup> \* *I am not taking sides in this potential debate between I-House and the Artists they support. My only aim is to illustrate the nature of the discussion, and how that discussion elucidates pitfalls to avoid, regardless of how the dynamic actually plays out in this case.*

<sup>24</sup> Holden, John. “Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate.” Pg. 17

<sup>25</sup> Personal Experience working with the USJBF

solve this problem without stifling the agents of exchange is to at once put absolute faith in the long-term process and at the same time try to create institutional avenues for future engagement as well as leadership opportunities. The Tomodachi Initiative outlines in its cultural exchange strategy a 4-part cycle that begins with “Exposure” at a young age (in their own words, “get ‘em while they’re young”) and ends with “Leadership Development and Alumni Programing.”<sup>26</sup>

In the partnership between I-House Japan and the Japan-U.S. Friendship Commission, both seek to reform the Creative Artist Exchange Fellowship to create a stronger, well-connected alumni base that can assist future fellows. As the Creative Artist Exchange Fellowship recognizes this need on the institutional level, Truong, as a participant artist noted, “I hope to be part of a larger process but they don’t have an alumni network,” adding, “I only happen to know other artists that received this fellowship.”<sup>27</sup>

U.S. and Japanese leaders in higher education, meanwhile, generally agreed at the 40-member TeamUp conference (March, 2015) that they are all interested in engaging alumni of their own exchange programs to promote future exchange and act as mentors for successive classes of students.<sup>28</sup>

### **Flexibility of Programs**

While I freely admit that the theme of program flexibility is minimally affected by the shift from IV to PO, it nevertheless is a recurring motif in the current U.S.-Japan cultural exchange discussion. If there is an effect from the shift, it is likely positive. As cultural exchange becomes an accountable diplomatic objective, intuitions funded by the federal government may be under more pressure to accommodate a broader range of would-be participants. Moreover, a general increased interest in generating value from cultural exchange and public diplomacy prompts advocates of programs and policies to optimize their structures. While all institutions from different countries must negotiate differences in order to facilitate exchange, I believe this motif is of particular importance to Japan as it is pressured from the outside to update its institutions due to the increasing demands of globalization and global integration.

Flexibility is of key concern in educational exchanges. In a group interviews with Dean Bruce Stronach at Temple University, Japan, the Tomodachi initiative, and in a panel discussion at the March 20<sup>th</sup> TeamUp event, the issue of calendar coordination between Japanese and U.S. universities was a constant. While I didn’t interview any private companies, I learned through discussions at the U.S. Embassy, the Tomodachi Initiative, and at the TeamUp panel that this

---

<sup>26</sup> D’Arco, Alexia. Group Interview, The Tomodachi Initiative, Tokyo, 3/16/2015

<sup>27</sup> Truong, Monique. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/19/2015

<sup>28</sup> Team-Up Panel, coconvened by CULCON at the American Center, Tokyo, 2/20/2015

calendar issue leaks into the corporate world. Convincing more Japanese companies to modify their hiring schedules to accommodate Japanese graduates of U.S. Colleges of Universities is a widely recognized goal.

The JUSFC and I-House, while previously debating on whether the artists exchange fellowship should be 3 or 6 months long, is now leaning towards creating an application form that allows would-be fellows to state their preference for length of stay and be funded accordingly. This aim of this policy is to better accommodate artists with varying familial, career, and financial considerations.<sup>29</sup>

### **Pop-Culture as a Jumping Off Point**

Every individual I interviewed, in groups or otherwise, expressed a near verbatim opinion on the limited value of pop-culture in fostering meaningful cultural exchange. Difference in opinions ranged only from “don’t underestimate its value” to “its usefulness is limited.”<sup>30</sup> Junichi Chano of the Japan Foundation articulated prevailing attitudes when he said that “pop-culture is a useable tool, but simply introducing it is not enough.”<sup>31</sup> Policy makers, he said, may hope to use it as a jumping off point for future engagement, but more often promotion of pop-culture, as with the Cool Japan initiative, is more about generating profits than it is about building lasting ties or forming deep bonds of mutual understanding.

The saving grace of pop-culture in cultural exchange and public diplomacy is that it appeals to the young, who (as described previously) are imperative to reach considering the long gestation period of the benefits of cultural exchange and the potential of today’s youth to become tomorrow’s leaders. Hello-Kitty (named Japan’s tourism ambassador in 2008), Pokémon, Dragonball, and anime/manga/video games in general can pique the curiosity about Japan of youth around the world. The hope is that young people take the next step and engage with Japan in travel or an exchange program to form a deeper cultural connection, but beyond hope there is little talk of how this is accomplished as an objective. As personal anecdotal evidence, I can at least attest that about a quarter of the 22 Bridging Scholar applications I reviewed this year while working with CULCON and the USJBF cited Japanese pop-culture in some form as the student’s initial point of contact with Japanese culture that inspired him or her to want to learn about Japan more deeply and apply to study abroad.

---

<sup>29</sup> Maeda, Manami and Nakayusa, Sawako and. Interview, International House of Japan, 3/19/2015

<sup>30</sup> These are not direct quotes, but are merely my summation of general sentiments.

<sup>31</sup> Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015

It could be argued that mass media pop-culture, delivered by way of screen, book, or perhaps in a pop-culture museum, is not cultural *exchange* as the flow is only one way, involving no reciprocal communication or person-to-person contact of any kind. Nevertheless, pop-culture is at the very least pre-cultural exchange and can be used as a stepping-stone towards the ultimate end, and therefore is a legitimate piece of the conversation. As to the seriousness of the subject, Chano also pointed out (with academic/intellectual exchange being a pillar of the Japan Foundation's mission) that pop-culture is a growing area of academic inquiry.<sup>32</sup>

In the pop-culture discussion, Cool Japan merits special attention. Cool Japan has existed in name since as early as 2002 and received a boost in funding in late 2013 with the central government's "Cool Japan Fund." The boost comes in the form of a maximum of 80 billion yen, managed by the Ministry of Economy, Trade, and Industry (METI), to support small to midsize private enterprises to engage in cultural export over the next 20 years. But why is it that Cool Japan is managed by METI when the Ministry of Foreign Affairs is responsible for foreign relations? I don't view this as a structural inefficiency but rather evidence that Cool Japan is far more about building brands and generating revenue for Japanese firms than it is about foreign relations proper. As evidence of this goal, I submit the description of the Cool Japan Fund whose description follows:

*Cool Japan Fund was founded in November 2013 as a public-private fund with the aim of supporting and promoting the development of demand overseas for excellent Japanese products and services.*

*Cool Japan Fund aims to commercialize the "Cool Japan" and increase overseas demand by providing risk capital for businesses across a variety of areas, including media & content, food & services, and fashion & lifestyle.<sup>33</sup>*

## **Uncertainty in Globalization**

Globalization is a complex, multifaceted concept that describes a broad range of phenomena, so it is admittedly difficult to address the topic here with much specificity. The important question for my research is how the idea of globalization affects the conversation about cultural exchange between U.S. and Japan.

One major area of concern is the perceived cultural flattening that occurs as a result of globally integrated markets, global communication, and multinational firms and NGOs. Among my interviewees, there was no real consensus as to whether this flattening will necessarily occur. To

---

<sup>32</sup> Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015

<sup>33</sup> Cool Japan Fund. "What is Cool Japan Fund."

present two examples on opposite ends of the spectrum, Stronach argued that the “ubiquity of goods does not equal globalization of culture.”<sup>34</sup> In this mode of understanding there is no sense fearing the loss of whatever cultural essence Japan and the U.S. may have just because you can buy Starbucks in Kyoto or UNIQLO in San Francisco. Cultural exchange, for Stronach and all others interviewed, is fundamentally a person-to-person exercise, and no amount of exchange of goods can change that.

Chano of the Japan Foundation had a different outlook: “Globalization accelerates and expands monolithic culture.”<sup>35</sup> If this is true, Japan is in a particularly vulnerable position. After all, Japan’s unique culture is one of its biggest tourism draws, as well as one of its chief exports. By succumbing to the effects of cultural flattening, the fear goes, Japan could lose some of its distinct luster. In this model, Chano argues that “cultural exchange could serve as an opportunity to make people think” about the distinct facets of a particular culture, and therefore a means of fighting the globalized culture wave as opposed to bringing about it.

In trying to find the truth between these two perspectives, I’ll start by saying that I personally believe that Stronach overstates his case. For example, I don’t believe that TPP negotiations were hung up on rice tariffs for so long only because of agro-political interests in Japan, undeniably powerful though they are. Homegrown Japanese rice, to the extent that rice is associated with the Japanese cultural identity, is perceived to have value for its own sake. Similarly, I don’t believe that so-called “voluntary” restrictions on exports of Japanese cars to the U.S. in the 1980s was only about protecting U.S. automakers (to make no claim as to the extent to which it succeeded). Watch any Ford commercial in which a red pickup truck rolls through amber waves of grain to fill even the most cynical American with some sense of identity. Did the American identity shape the brand, or does powerful branding tell an American what it means to be one? The reality is probably some combination of a feedback loop and an echo chamber. Is it possible that one day an American band could be better at selling to the Japanese what it means to *be* Japanese than even a Japanese firm? Marketing is such a powerful institution that I perceive this to be possible. But even in cases less extreme than that one, I believe that expecting some amount of cultural flattening as a result of globalization is warranted.

But here we come full circle to Stronach’s second point, which was that by his definition, “globalization is the ability to compete [internationally], not ‘internationalization.’”<sup>36</sup> By his reckoning, Japan needs to globalize in order to be competitive, lest it fall by the wayside as the global community accelerates without it. Doing that means among other things, making English learning viable in Japan, opening the doors to immigration, and updating institutions to be compatible with their foreign counterparts. But what then of the risks presented by Chano?

---

<sup>34</sup> Stronach, Bruce. Group Interview, Temple University, Tokyo Campus, 3/16/2015

<sup>35</sup> Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015

<sup>36</sup> Stronach, Bruce. Group Interview, Temple University, Tokyo Campus, 3/16/2015

If cultural flattening is occurring and is a consequence of policies designed to make Japan internationally competitive, then it especially behooves Japan (and any country for that matter), to make sure their own valued culture is still represented when the smoke clears. Successful globalization is, to combine their concerns, a balancing act between making the changes necessary to be globally competitive and integrated while at the same time promoting and securing ones domestic culture through domestic policy and cultural exchange programs.

In any case, like the ever distant long-term equilibrium of classical economics, a completely stable cultural flattening is not likely to ever occur, as the nations and cultures of the world continue to vie for influence and power.

### **One-Way Gaiatsu**

“Gaiatsu” is the “external pressure” to conform that Japan faces in the globalizing world. All individuals I spoke to agreed that global integration was very much in Japan’s interest and that immediate action was necessary, even if painful. A globalized Japan is in U.S. interests, as well, according to officials at the U.S. Embassy, Tokyo.

With so many perceived benefits, why is globalizing such an obstacle for Japan? Entrenched interests and fear of uncertainty are obvious hang-ups, but there nevertheless appears to be little patience on the American side in waiting for Japan to, for lack of a more delicate term, get its act together. Structural reforms, which make up the third arrow of Abe’s growth strategy, are indeed difficult to get out of the quiver.

As a matter of diplomacy, or rather “being diplomatic,” I believe that the U.S., to whatever extent it can convince Japan as to the advantages of globalization, should be willing to exercise sympathy and patience over the process. Consider the following well-known Japanese expression.

*出る釘は打たれる: The nail that sticks out gets hammered down.*

Japan is the nail; Globalization is the hammer. It is very easy for a country like the U.S., already highly globalized, to preach the innumerable benefits of globalization, but being the nail that sticks out, many of the burdens of change fall doubly on Japan.

It is Japan that must reform its education system to teach serviceable English to all Japanese. There is certainly no equal pressure on the United States to learn Nihongo. It is Japan that must reform its educational calendar and firms that must change their hiring practices to conform to the global norm, not the other way around. Workplace culture must change to be

more welcoming to immigrants, and of course why not open your doors to immigrants, the U.S. asks, just like we do (at least relatively speaking)? Here I would remind the U.S. just how easy it would be to change all of its factories and textbooks to metric rather than imperial measurements, and how popular a measure it would be.

Of course any IR realist will tell you that crying “unfair” is no policy solution. My only point in illustrating that *gaitsu* is a largely one-way pressure is in advocacy of changing the nature of the dialog on the subject to one of sympathy for Japan’s position while avoiding any confused impatience.

## **Conclusions**

As trade and military issues take on increasing importance in the Asia-Pacific with the rise of China and India as major powers, the U.S.-Japan relationship is due for an upgrade. As Japan takes on more responsibility for its own security, and with the prospect of great increases in trans-pacific trade in the coming years, it is crucial now to build the lasting bonds of cultural understanding to shepherd us through the changing U.S.-Japan dynamic with as little conflict as possible. It is sensible, I feel, that there has been renewed interest in cultural exchange as a goal of public diplomacy in recent years, from the IV framework to the PO framework, and I am cautiously optimistic about the trend.

I personally believe the greatest gains in cultural understanding can be achieved when the Democracies of Japan and the U.S. allow cultural exchange to operate as close to the IV model as possible. An overemphasis on quantifiable outcomes will only get in the way of producing many of the benefits of cultural exchange.

Public diplomacy as a policy objective should be exercised at the funding, granting, and facilitating levels. Programs can be created with specific objectives in mind, but attempting to measure the effects of cultural exchange, I believe, remains counter-productive. We do not want cultural exchange programs to “teach to the test” as it were, seeking to produce output on some narrow metric. By example, the goal of doubling U.S.-Japan student exchange by 2020, I believe, is a good one. The goal remains in the facilitation arena, with cultural exchanges left to bear fruit on their own as Americans and Japanese explore one another’s countries. The best programs ought to allow for real people to exchange their own ideas with one another, even if those ideas are not immediately palatable to the governments who sponsor them.

Cercone, for example, pursues a self-proclaimed aggressive feminism. Meanwhile in both the U.S. and Japan, the role of women in society, sexism in the workplace, and societal oppression of women in general are intensely important and passionate topics of debate. Despite Abe’s promises to support women in the workplace and in high political positions, the December 2014

elections resulted in a lower house in which only 8% of elected officials were women,<sup>37</sup> and societal restrictions on the careers of women remain deeply ingrained. In short, the Japanese government has a domestic objective, and the way they go about handling the issue is no doubt different from the way an artist from another culture, like Cercone, would approach it. The question of what combination of top-down and bottom-up approaches are best for realizing positive social change is a difficult question beyond this analysis, but nevertheless I hope the above makes clear how when governments with specific political objectives take a hands off approach to cultural exchange there still exists the possibility of tension, but that exposing these particular tensions are in some respects the very aim of cultural exchange rather than their cost.

And so, for successful cultural exchange, I believe governments should only exert minimal influence on the content of the message conveyed by cultural exchange agents. Most control should be exerted in the selection or application process of participants in the exchange, rather than after the fact. For even an agent of cultural exchange may separate the intent of their message from the outcome. As Truong says of her own work she intends to “let the readers come to their own conclusions.”

A stark example of how too much government control or influence of the message can backfire, particularly for Japan came on September 6, 2014, with the New York Times headline, “Foreign Powers Buy Influence at Think Tanks.” In the article, very strong circumstantial evidence linked the state-funded Japan External Trade Organization (JETRO) and its \$1.1 million dollars of investment in the Center for Strategic and International Studies (CSIS) to research produced by CSIS that supported the U.S. lawmaker established Friends of the Trans-Pacific Partnership. The creation of that organization was itself lobbied for by Akin Gump, which was also funded by Japan. The Times article summed it up with, “The line between scholarly research and lobbying can sometimes be hard to discern.”<sup>38</sup> Embarrassments such as these, remarks Chano, are not good for public diplomacy, and have the potential to erode public trust. For all we know, the lobbyists, politicians, and think-tankers may view this sort of behavior as par for the course. Nevertheless, the perception by the general public is negative, and therefore is a blow to trust between nations.

The last theme I will bring up, which I did not mention in the themes section, is that of people-to-people contact. What I gather from every individual and institution I spoke with, true cultural exchange only happens face-to-face. While, for example, members of the TeamUp panel discussed bringing students from other universities together via Skype or other video messaging services, the overwhelming consensus was that these purely technological options, no matter how convenient, are no substitute for a person-to-person interaction. When trying to promote

---

<sup>37</sup> Beech, Hannah. “‘You Mean Women Deserve Careers?’ Patriarchal Japan Has Breakthrough Moment.”

<sup>38</sup> Lipton, Eric et al. “Foreign Powers Buy Influence at Think Tanks.”

cultural exchange, in the IV or PO framework, a program or policy must ultimately bring people together.

And as for the long term future of U.S.-Japan relations, I would like to point out that the positive effects of cultural understanding are easy to take for granted when present, but when absent, cause bilateral relations to suffer greatly. Both cultural exchange and public diplomacy, like the effort that goes into any relationship, must be maintained over time. No matter how good U.S.-Japan relations become, there will never be a point at which we can afford to stop completely the engine of cultural exchange. In times of conflict we often speak of “winning hearts and minds.” Through cultural exchange we can win hearts and minds in order to stop a conflict before it occurs. As Cercone puts it, “as a result of being here (in Japan), the more conscious you become of your own stereotyping.” I share this view, and expand it to mean that cultural exchange is essentially an insurance policy against future propaganda and dehumanizing stereotypes, or as Chano says “management of domestic nationalism.”<sup>39</sup>

Lastly, there is one more facet of cultural exchange that has yet gone unmentioned. In people-to-people exchanges it is true that we share our own culture with others and in turn learn about theirs. But from my personal experience, and from testimony from educators and students at the TeamUp panel, I can say that one of the additional benefits of exchange is that we learn more about our *own* cultures. When a Japanese student studies in the U.S., or an artist from the U.S. works in Japan, they learn not only about their host culture, but also how it is that their home cultures are distinct and unique. If we learn what the essence of another culture is, we also highlight the essence of our own culture within us.

---

<sup>39</sup> Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015

### **Special Thanks**

Without the cooperation and willingness of the following participants in the U.S.-Japan dialog, this research would not have been possible. My sincerest thanks go out to all of the following:

Jeff Adler

Paige Cottingham-Streater

Jean Falvey

Niharika Chibber Joe

Sawako Nakayusa

Monique Truong

Katie Cercone

Sylvia Dandridge

Pamela Fields

Nami Matsui

Yukiko Shirahara

Takeshi Yoshida

Junichi Chano

Alexia D'arco

Margret Harrington

Manami Maeda

Bruce Stronach

The 2015 TeamUp Panel

## References

- Adler, Jeff. Group Interview, The American Center, Tokyo, 3/16/2015
- Harrington, Margret. Group Interview, The American Center, Tokyo, 3/16/2015
- Beech, Hannah. ““You Mean Women Deserve Careers?” Patriarchal Japan Has Breakthrough Moment.” Time, 9/30/2013. From <http://world.time.com/2013/09/30/you-mean-women-deserve-careers-patriarchal-japan-has-breakthrough-moment/>. Accessed 5/15/2015
- Cercone, Katie. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/18/2015
- Chano, Junichi. Interview, The Japan Foundation, Tokyo, 3/18/2015
- Cool Japan Fund. “What is Cool Japan Fund.” From <http://www.cjfund.co.jp/en/about/cjfund.html>. Accessed 5/15/2015
- D’Arco, Alexia. Group Interview, The Tomodachi Initiative, Tokyo, 3/16/2015
- Holden, John. “Cultural Value and the Crisis of Legitimacy: Why Cultures Need A Democratic Mandate.” Demos, 2006
- International House of Japan. “US-Japan Creative Artists Program.” From [http://www.ihouse.or.jp/eng/programs/activities/usjcap/artist\\_about/](http://www.ihouse.or.jp/eng/programs/activities/usjcap/artist_about/). Accessed 5/15/2015
- Lipton, Eric et al. “Foreign Powers Buy Influence at Think Tanks.” The New York Times, 9/6/2014. From [http://www.nytimes.com/2014/09/07/us/politics/foreign-powers-buy-influence-at-think-tanks.html?gwh=E1C58866F94AA2524639FE574F2F5865&gwt=pay&assetType=nyt\\_now](http://www.nytimes.com/2014/09/07/us/politics/foreign-powers-buy-influence-at-think-tanks.html?gwh=E1C58866F94AA2524639FE574F2F5865&gwt=pay&assetType=nyt_now). Accessed 5/15/2015
- Maeda, Manami and Nakayusa, Sawako and. Interview, International House of Japan, 3/19/2015
- Shirahara, Yukiko. Interview, The Nexu Museum, Tokyo, 3/17/2015
- Stronach, Bruce. Group Interview, Temple University, Tokyo Campus, 3/16/2015
- TeamUp Panel, coconvened by CULCON at the American Center, Tokyo, 2/20/2015

The White House, Office of the Press Secretary. “Joint Press Conference with President Obama and Prime Minister Abe of Japan.” From <https://www.whitehouse.gov/the-press-office/2014/04/24/joint-press-conference-president-obama-and-prime-minister-abe-japan>. Accessed 5/15/2015

Truong, Monique. Interview, 2015 U.S.-Japan Creative Artist Exchange Fellow Finalist, 3/19/2015

Tufts University, The Fletcher School. “Definitions of Public Diplomacy.” From <http://fletcher.tufts.edu/Murrow/Diplomacy/Definitions>. Accessed 5/15/2015

UNESCO Constitution. From [http://portal.unesco.org/en/ev.php-URL\\_ID=15244&URL\\_DO=DO\\_TOPIC&URL\\_SECTION=201.html](http://portal.unesco.org/en/ev.php-URL_ID=15244&URL_DO=DO_TOPIC&URL_SECTION=201.html)

\*Resources are also supplemented by personal experience from my combined internship with CULCON/JUSFC/USJBF, February 2015 – May 2015

## **New U.S.-Japan Partnership in Disaster Management and Japan's Role**

By Waichiro Katsuda

“When I was young in high school and listened to the radio, there was a song that flew out and shook my heart. It was a song by Carol King. *“When you're down and troubled, ...close your eyes and think of me, and I'll be there to brighten up even your darkest night.”* And that day, March 11, 2011, a big quake, a tsunami, and a nuclear accident hit the northeastern part of Japan. The darkest night fell upon Japan. But it was then we saw the U.S. armed forces rushing to Japan to the rescue at a scale never seen or heard before. Lots and lots of people from all corners of the U.S. extended the hand of assistance to the children in the disaster areas. Yes, we've got a friend in you. Together with the victims you shed tears. You gave us something, something very, very precious. That was hope, hope for the future.”

- Prime Minister Shinzo Abe, Address to a Joint Meeting of the U.S. Congress, April 29, 2015

### **Introduction**

In March 2011, Japan was hit with a national crisis set off by a massive earthquake, tsunami and nuclear plant meltdown in northern Honshu. Although Japan is probably one of the most resilient countries in the world because of its considerable experience in disaster management, the impact of a trio of such large-scale disasters was overwhelming. In response, the U.S., led by President Barack Obama's order to the U.S. forces in Japan, provided a vast amount of humanitarian assistance. The outpouring of aid and support from the U.S. not only directly helped people in the stricken area but also served to further strengthen the alliance between Japan and the United States.

This paper looks at disaster management from three perspectives. First, it examines the past experiences of Japan and the U.S. in disaster response to understand how the two countries have enhanced their disaster relief capabilities and expanded their activities domestically and internationally. Second, it analyzes joint operations following the 2011 earthquake in northern Japan, with a focus on the challenges the two countries faced, the improvements needed, and the potential ways to address them. The third part discusses the future of joint disaster management to further bolster the alliance and improve regional cooperation and security. Alliances are normally seen in military terms, providing deterrence against aggression. Overlooked has been the possibility of bilateral cooperation in disaster management, which would give the alliance an ambitious new role in the region.

## History of Disaster Response in Japan

Japan is one of the most natural disaster-prone countries in the world – earthquakes, tsunamis, typhoons, volcanos, and floods – and has accumulated vast experience in disaster management as a result. Since its establishment in 1951, the Japan Self Defense Forces (JSDF) has deployed a total of 7.3 million members in response to natural disasters, and disaster relief consequently has become one of its core activities.<sup>40</sup>

Such disaster relief activities in Japan were largely reshaped by the 1995 Hanshin-Awaji Great Earthquake that hit Hyogo and Osaka. Some governors and the then Prime Minister Tomiichi Murayama, the leader of the Japan Socialist Party, at that time still appeared to, or at least were believed to, have “allergies” to the use of the JSDF even for disaster relief.<sup>41</sup> Although Murayama repeatedly denied ideological problems with the JSDF's constitutional legality, their attitudes were severely criticized after the earthquake for allegedly causing delay in making a request of the JSDF for a disaster relief mission.<sup>42</sup> Afterward, central and local governments, supported by public opinion, reached a consensus that an immediate request to deploy the JSDF for disaster relief was vital in case a disaster hits. The 1995 earthquake also awoke popular interest in carrying out volunteer activities. The capabilities of non-governmental organizations started to be recognized as an organizer of such volunteer activities, and these efforts have gradually expanded since then.<sup>43</sup>

Based on the rich experience in disaster relief at home, the JSDF has expanded its contribution outside Japan. Its first international disaster relief mission was carried out in Honduras after a hurricane in 1998, and since then, Japan sent disaster relief missions to such countries as India, Indonesia, Iran, Pakistan and Turkey (Table 1). In particular, the mission for the 2004 Indian Ocean earthquake and tsunami was a turning point in terms of the scale and variety of the activities. The JSDF deployed more than one thousand personnel from the Ground, Maritime and Air Defense Forces and was involved in search and rescue, delivery of supplies, and medical and

---

<sup>40</sup> “Enhancing Trilateral Disaster Preparedness and Relief Cooperation between Japan, U.S. and Australia” (pp. 64-84), Asia-Pacific Center for Security Studies, July 2013

<sup>41</sup> James Hardy, “Japan’s Growing Military Confidence”, *The Diplomat*, March 20, 2012, <<http://thediplomat.com/2012/03/japans-growing-military-confidence/>>

<sup>42</sup> Session Record of the House of Representatives, The 132th Diet of Japan, Official Gazette (Kampo) (pp.3-4), January 20, 1995  
<<http://kokkai.ndl.go.jp/SENTAKU/syugin/132/0001/13201200001001.pdf>>

<sup>43</sup> Naoto Yamanaka, et al. “The Japanese Nonprofit Almanac 2010”(p.24), OSIPP Center for Nonprofit Research and Information, March 2010

hygiene assistance.<sup>44</sup> This was the first time that the JSDF's helicopters were mobilized outside Japan. For the 2013 Typhoon Haiyan, the SDF deployed largest-ever mission to the Philippines in close collaboration with U.S. Forces. In this way, Japan has expanded its domestic and international capabilities in disaster management.

Table 1: List of Major JSDF's International Emergency Assistance Activities

Date	Country	Type of Disaster	# of Personnel Deployed
November 1998	Honduras	Hurricane	185
September 1999	Turkey	Earthquake	426
February 2001	India	Earthquake	94
December 2003	Iran	Earthquake	31
December 2004	Thailand	Earthquake/Tsunami	590
January 2005	Indonesia	Earthquake/Tsunami	925
October 2005	Pakistan	Earthquake	261
June 2006	Indonesia	Earthquake	234
October 2009	Indonesia	Earthquake	33
January 2010	Haiti	Earthquake	234
August 2010	Pakistan	Flood	514
February 2011	New Zealand	Earthquake	40
November 2013	Philippines	Typhoon	1180
December 2014	Ghana	Infection	14
April 2015	Nepal	Earthquake	110

Source: The Japan Ministry of Defense<sup>45</sup>

### History of Disaster Response in the U.S.

The U.S. has a much longer history in contributing to international disaster relief activities than Japan and has proven capabilities in disaster management, backed up by its powerful economy and military. Moreover, the U.S. has a clear strategic intent to commit to humanitarian assistance and disaster relief globally, setting such humanitarian efforts as one of key priorities in its

<sup>44</sup> East Asian Strategic Review 2006 (pp. 39-40), The National Institute for Defense Studies of Japan

<sup>45</sup> Regarding natural disasters, The Japan Ministry of Defense, <[http://www.mod.go.jp/j/approach/kokusai\\_heiwa/list.html](http://www.mod.go.jp/j/approach/kokusai_heiwa/list.html)>

foreign policy.<sup>46</sup> To illustrate, the nation launched an unprecedented disaster relief operation in the aftermath of the 2004 Indian Ocean earthquake and tsunami. The U.S. Armed Forces deployed 25 Navy vessels, 45 aircrafts, 58 helicopters, and more than 15,000 personnel in the major South East Asian countries, treating over 2,000 patients and delivering 24 million pounds of supplies.<sup>47</sup> After the 2010 Haiti earthquake, the U.S. deployed 33 Navy and USCG vessels, more than 300 aircrafts, and more than 22,200 personnel at the peak of the operation and significantly contributed to relief and recovery of the disaster-affected areas.<sup>48</sup> Based on lessons learned in these assistance operations, the U.S. has expanded capacity in international disaster preparedness and response.

Despite the increased capacity in disaster relief abroad, the U.S. confronted serious challenges in the domestic disaster relief operation when Hurricane Katrina hit in August 2005, which was one of the most devastating natural disasters in the history of the U.S. It killed more than 1,400 people and caused \$81 billion in property damage.<sup>49</sup> Critical early response was delayed because the federal support system did not have authority to intervene without request for assistance from affected states that lost capacity to respond due to the overwhelming impact of the storm. Since state and local governments were supposed to play major roles in disaster relief, and the federal government was supposed to play a supplementary role traditionally in the U.S., the federal government struggled to perform unprepared responsibilities without unified management.<sup>50</sup> In addition, despite numerous assistance offers from foreign governments and international organizations, such offers were underutilized because the U.S. did not have proper capacity to accept and manage foreign assistance.<sup>51</sup> Delayed decision making and inefficient implementation of relief activities resulted in serious criticism for the federal government and the leadership of President George W. Bush.<sup>52</sup>

The lessons learned from Katrina pressed the U.S. government to develop comprehensive preparedness planning and make reforms in the framework and governance of disaster management in order to provide effective and efficient assistance activities domestically for

---

<sup>46</sup> Quadrennial Diplomacy and Development Review (pp. 90-93), U.S. Department of State, 2010

<sup>47</sup> "Wall of Water, U.S. Troops Aid Tsunami Victims", *Year in Review*, U.S. Department of Defense, 2005 <<http://www.defense.gov/home/features/2006/2005yearinreview/article2.html>>

<sup>48</sup> Gary Cecchine, et al. "The U.S. Military Response to the 2010 Haiti Earthquake" (p. 40), RAND Corporation, 2013

<sup>49</sup> Kim Ann Zimmermann, "Hurricane Katrina: Facts, Damage & Aftermath", *Livescience*, August 20, 2012 <<http://www.livescience.com/22522-hurricane-katrina-facts.html>>

<sup>50</sup> "The Federal Response to Hurricane Katrina: Lessons Learned" (pp. 51-52), The White House, February 23, 2006

<sup>51</sup> Ibid. (pp. 62-63)

<sup>52</sup> "A Failure of Initiative", Final Report of the Select Bipartisan Committee to Investigate the Preparation for and Response to Hurricane Katrina, U.S. House of Representatives, 2006

potential catastrophes. Greater emphasis has been placed to accept assistance from diverse actors including foreign governments and nongovernmental organizations under the reformed governance structure. The American public has also encouraged the federal government to streamline the bureaucratic process and has supported the government to perform a larger role in disaster relief. Such broadened understanding for disaster management, both at the grassroots and the government levels, appears to have enhanced America's active roles in disaster relief domestically and internationally.

### **Japan-U.S. Partnership for the March 2011 Earthquake in Japan**

Operation Tomodachi, the code name for U.S. military assistance activities in the aftermath of the March 2011 earthquake in Japan, has been heralded as a major success story for the U.S.-Japan alliance.<sup>53</sup> The U.S. response after the assistance request from Japan was swift and extensive. In the evening of March 11, the Japanese government made an official request for U.S. assistance via U.S. Ambassador John Roos. President Obama immediately responded to offer “whatever assistance is needed” for Japan.<sup>54</sup> The U.S. Forces in Japan deployed 24 aircraft carriers and battleships, 189 aircrafts, and about 24,500 personnel in the coastal areas of Tohoku for this operation.<sup>55</sup> Then Minister of Defense Toshimi Kitazawa stated that the operation was “a symbol of the bolstering Japan-U.S. alliance,” and the operation was generally highly evaluated by the media, think tanks, academia, and the general public. In June 2011, 82% of Japanese had favorable views of the U.S., reaching the highest level in the Japanese government's annual opinion survey of diplomacy, and the percentage has remained at the high level since then (Figure 1).<sup>56</sup>

---

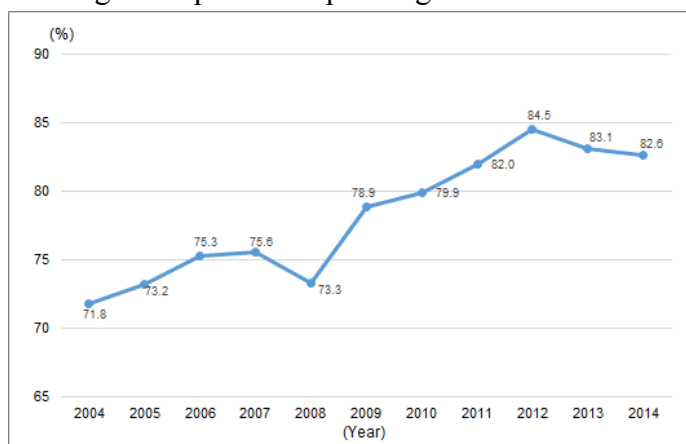
<sup>53</sup> Shuichi Wada, “Operation Tomodachi in Miyagi Prefecture: Success and Homework”, Center for Strategic and International Studies, December 23, 2011

<sup>54</sup> Stephen Kaufman, Charlene Porter, “U.S. Providing Japan with Any Assistance Needed, Obama Says”, U.S. Department of State, March 11, 2011  
<<http://iipdigital.usembassy.gov/st/english/article/2011/03/20110311151826nehpets0.2902338.html>>

<sup>55</sup> Andrew Feickert, Emma Chanlett-Avery, “Japan 2011 Earthquake: U.S. Department of Defense Response”, Congressional Research Service, June 2, 2011

<sup>56</sup> “Opinion Poll about Foreign Relations”, Public Opinion Survey Report, Cabinet Office of Japan, October 2011

Figure 1: Percentage of Japanese responding Favorable for U.S. (2004-2014)

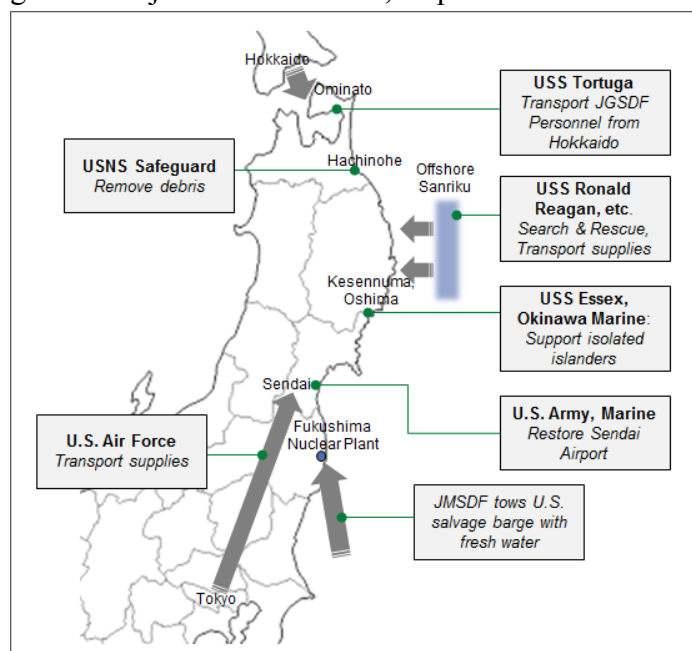


Source: Cabinet Office of Japan (October 2014)

One of the most notable operations was probably the one in Oshima Island, located off the east coast of Kesennuma City in Miyagi Prefecture (Figure 2). Oshima was completely isolated because ferries, the only mean of transportation to the main land, were broken apart or lost. On March 27, the amphibious assault ship USS Essex arrived there, and the 31st Marine Expeditionary Unit transported food, water, emergency supplies and heavy equipment for debris removal and repaired an electric power source.<sup>57</sup> During April 1 to 6, the unit underwent Operation Field Day, restored water production capabilities, helped clear a harbor, and assisted with cleaning debris from roads throughout the island. This relief operation was highly appreciated by the stranded islanders, and, when the news was broadcasted by the media, becoming an important symbol of the level of U.S. assistance. In addition to the operation in Oshima, the U.S. Forces was engaged in relief and rescue activities across the disaster affected areas in Iwate, Miyagi and Fukushima prefectures in collaboration with the JSDF, Japan Coast Guard, and the police and fire departments, delivering 280 tons of foods, 7.7 million liters of water, and 45 thousand liters of fuels.<sup>58</sup>

<sup>57</sup> Takuya Shimodaira, “Japan-U.S. Joint Operation for the Great East Japan Earthquake” (pp. 53-54), *Japan Maritime Self-Defense Force Command and Staff College Review*, December 2011

<sup>58</sup> “Assistance from the U.S. Forces regarding the Great East Japan Earthquake”, Japan Ministry of Foreign Affairs, August 29, 2011  
<[http://www.mofa.go.jp/mofaj/saigai/pdfs/operation\\_tomodachi.pdf](http://www.mofa.go.jp/mofaj/saigai/pdfs/operation_tomodachi.pdf)>

Figure 2: Major U.S. Activities, “Operation Tomodachi”<sup>59</sup>

Source: Kyodo News

The restoration operation of the Sendai Airport was also a landmark case as it was the major successful civil-military cooperation, involving both the JSDF and the U.S. Forces in Japan. The U.S. Air Force landed the MC-130P Combat Shadow special mission aircraft in the airport and offloaded a forklift and initial relief supplies. In order to restore the airport, the U.S. military, the JSDF, government authorities, and local construction companies shared their capabilities and jointly conducted recovery works. Because of these civil-military collaborative efforts, Sendai Airport resumed its operations only five days after it was damaged by the tsunami.<sup>60</sup>

The U.S. civil sector assistance was also remarkable. In response to the disaster, more than 330 U.S. nonprofit organizations raised donations and transferred funds to Japanese organizations involved in disaster relief, and the total amount of donations has reached \$730 million.<sup>61</sup> This is the largest ever amount for a disaster in a developed nation from the U.S., and the third largest for any foreign disaster in American history. Moreover, dozens of American nonprofit organizations such as Mercy Corps and World Vision were directly engaged in disaster relief and recovery activities. Based on such widespread American assistance for the disaster in Japan, the Tomodachi Initiative was founded to enhance educational and cultural exchanges between Japan and the U.S. with support from the governments and the private sector of both nations.

<sup>59</sup> Kyodo News, March 29, 2011 <<http://www.47news.jp/photo/167110.php>>

<sup>60</sup> Martin Fackler, “U.S. Airmen Quietly Reopen Wrecked Airport in Japan”, *New York Times*, April 13, 2011 <<http://www.nytimes.com/2011/04/14/world/asia/14sendai.html>>

<sup>61</sup> “US Giving for Japan Disaster Reaches \$730 Million”, *Civil Society Monitor*, Japan Center of International Exchange, March 2014 <<http://www.jcie.org/311recovery/usgiving4.html>>

## Japan's Internal Issues in Disaster Management

Although American assistance was successful overall and contributed to further bolstering the alliance, several areas were also revealed as needing to be addressed in the future joint operation. The first and perhaps the toughest challenge was a lack of sufficient information sharing and communication between the two countries. The causes of this information sharing and communication problems stemmed from internal and structural issues. Most of the internal issues involved the government of Japan, whereas structural issues stemmed from the disaster management framework shared by Japan and the U.S.

A magnitude 9.0 earthquake followed by a powerful tsunami and nuclear accident posed unprecedented challenges to Japan. Immediately after the earthquake, Prime Minister Naoto Kan set up a headquarters for emergency disaster control and ordered the JSDF to be deployed. At peak, approximately 100,000 JSDF personnel were involved.<sup>62</sup> Despite these prompt actions, the crisis exposed the weaknesses of Japan's crisis management capabilities, as well. In particular, communication of information even within the top levels of government regarding the Fukushima nuclear power plant situation was inadequate. The problem extended to the general public, which felt great anxiety over the lack of information, and to the U.S. government, which reportedly was frustrated by Tokyo's poor information sharing about the growing nuclear crisis.<sup>63</sup> Reportedly, Japan initially refused specialists from the U.S. Nuclear Regulatory Commission to stay at the Prime Minister's office to collect emergency information about the nuclear accident. It took about ten days to establish a smooth communication line between Japan and the U.S.

In March 16, Gregory Jaczko, chairman of the NRC, warned Americans to stay at least 50 miles away from the plants, which was more than four times the distance recommended in the Japanese government's evacuation plan.<sup>64</sup> This discrepancy between Japan and the U.S. reflected different standards but also apparently reflected the lack of proper information sharing and communication between Japan and the U.S. During this nuclear crisis, the Japanese government and Tokyo Electric Power Company (TEPCO) were criticized widely in the international media for an alleged lack of leadership and transparency in response to the crisis.

---

<sup>62</sup> April 14, 2011, Nikkei Shimbun

<sup>63</sup> *Kyodo News*, February 22, 2012

<sup>64</sup> Earl Lane, "Gregory Jaczko: "No Immediate Safety Concerns" for U.S. Nuclear Power, But Reviews Underway After Japan Accident", The American Association for the Advancement of Science, May 13, 2011 <<http://www.aaas.org/news/gregory-jaczko-no-immediate-safety-concerns-us-nuclear-power-reviews-underway-after-japan>>

The counter-argument is that even the top levels of the government at that time had accurate information about the seriousness of the accident, and it does not seem plausible that the Japanese government tried to intentionally mislead the public. It was simply that neither the government nor TEPCO was able to provide precise information about what was happening at the plant.<sup>65</sup>

Regarding emergency responses, the Fukushima Nuclear Accident Independent Investigation Commission concluded that “the situation continued to deteriorate and the damage could not be minimized because the crisis management system including the Prime Minister’s Office (Kantei) and the regulatory authorities did not function, and also because the boundaries defining the responsibilities of the nuclear operator and the government were ambiguous through the course of emergency responses.”<sup>66</sup> The committee also criticized political leaders at that time for a startling lack of awareness of crisis management and for not understanding what their role in the crisis should be. Moreover, the panel critically evaluated Kantei for becoming directly involved instead of knowing when to step back. Prime Minister Kan’s sudden visit to the Fukushima nuclear plant, coupled with other impromptu actions, further confused the situation, disrupted communication lines and the chain of command from top leadership to TEPCO. The leaders of major organizations responsible for crisis management were woefully inadequate, with neither a contingency plan nor training in crisis management and decision making.

Kiyoshi Kurokawa, the Chairman of the Fukushima Nuclear Accident Independent Investigation Commission, pointed out the Japanese organizational culture as one of the root causes of the mismanaged crisis response. “Its fundamental causes are to be found in the ingrained conventions of Japanese culture: our reflexive obedience; our reluctance to question authority; our devotion to ‘sticking with the program’; our groupism; and our insularity.” He further asserted, “This conceit was reinforced by the collective mindset of Japanese bureaucracy, by which the first duty of any individual bureaucrat is to defend the interests of his organization. Carried to an extreme, this led bureaucrats to put organizational interests ahead of their paramount duty to protect public safety.”

The conventional wisdom about the Japanese management system is that it is consensus based and that decisions require a long time to be made, as a result. The notion of a top-down decision

---

<sup>65</sup> David S. Abraham, “How Bad Communication is Undermining Japan’s Crisis Response”, *New York Times*, March 16, 2011

<sup>66</sup> The Official Report of the Fukushima Nuclear Accident Independent Investigation Commission, National Diet of Japan, 2012  
<http://warp.da.ndl.go.jp/info:ndljp/pid/3856371/naiic.go.jp/en/report/>

making process is often rejected.<sup>67</sup> Such traits are perhaps applicable to the government and traditional corporations in particular, and this style is not a problem when there is no crisis. However, this system may not be able to respond well when an unanticipated event like the Fukushima crisis happens. Sharing information among bureaucratic organizations, including the related ministries and TEPCO, is often difficult even in good times, thus, it would become much more problematic in an emergency.

Another typical governmental attribute is to strive for flawlessness, but this approach, too, is problematic in an emergency. The government endeavors to collect complete information before communicating with outside parties or, to avoid failure, making a final decision. The investigative committee pointed out, “At the initial stage of the accident, even when it was impossible to adequately confirm the certainty of information, the government maintained its response posture. There was also a communication breakdown regarding methods for publicizing information among the politicians on the fifth floor of the Kantei, related ministries and agencies, and TEPCO.” Such an organizational culture appeared to have prevented the government from providing timely information to the Japanese public and even the U.S. authorities, and aroused a sense of distrust among them. Kurokawa critically concludes: “Undeniably, this accident was a “manmade disaster” that stemmed from the lack of a sense of responsibility in protecting the lives of the people and the society by present and past government administrations, regulators and TEPCO.”

### **Japan-US Structural Issues in Disaster Management**

Aside from these internal issues, there also seems to be structural issues in information sharing and communication between Japan and the U.S. In order to complement Japan’s capabilities, the U.S. Fifth Air Force headquartered at Yokota Air Base near Tokyo supported the JSDF by utilizing its intelligence, surveillance and reconnaissance capabilities. The U.S. Forces also provided the crucial information that Japan lacked by deploying the RQ-4 Global Hawk unmanned surveillance aircraft and the U-2 reconnaissance aircrafts to collect information about the disaster-hit areas, the Fukushima nuclear plants in particular.<sup>68</sup>

Some obstacles were observed in the decision-making process and communication lines between the Japan and the U.S., despite joint efforts to collect the necessary information to determine appropriate responses. Immediately following the disaster, a joint operational plan was developed largely based on the coordination mechanism defined in the Japan-U.S. defense

---

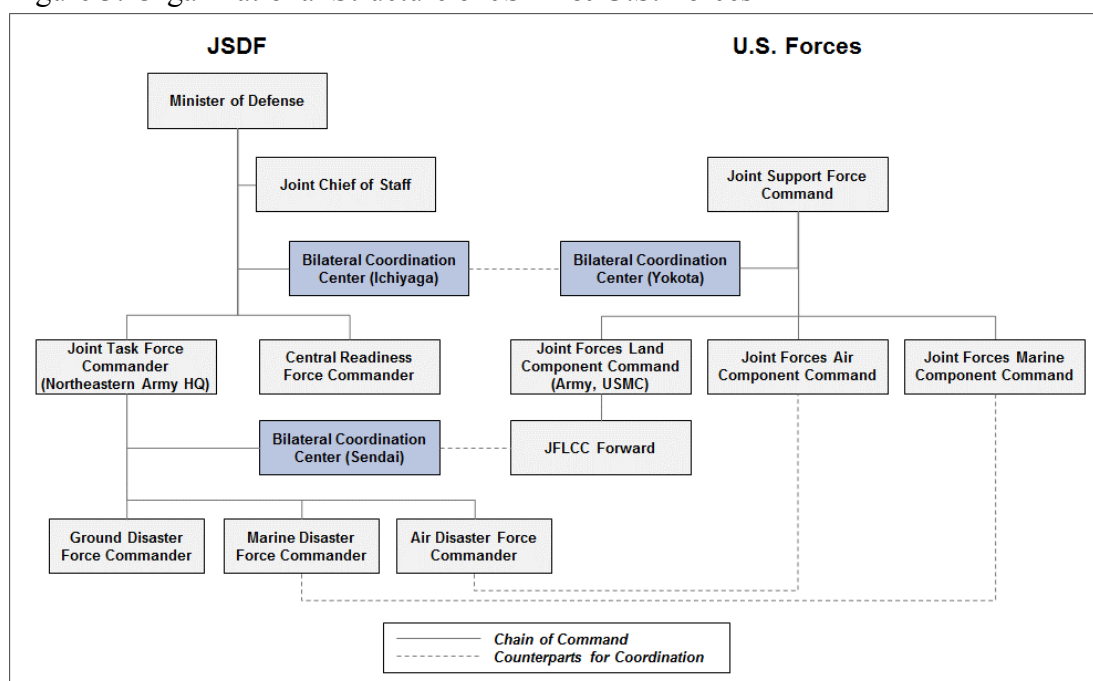
<sup>67</sup> Seiji Takeshita, “What Japanese leaders can learn from the Fukushima nuclear crisis”, *CNN*, July 6, 2012 <<http://www.cnn.com/2012/07/06/opinion/takeshita-fukushima-management/index.html>>

<sup>68</sup> “Enhancing Trilateral Disaster Preparedness and Relief Cooperation between Japan, U.S. and Australia” (pp. 87-103), Asia-Pacific Center for Security Studies, July 2013

cooperation guidelines. But these guidelines were created in order for Japan and the U.S. to jointly respond to armed attacks against Japan and never took account of a response to large-scale natural disasters. Such a lack of pre-coordination for a large-scale disaster between Japan and the U.S. blocked efficient sharing of information and slowed down communication.<sup>69</sup>

To illustrate, three Bilateral Coordination Centers were jointly established based on the Japan-U.S. coordination mechanism in the Japan's Ministry of Defense (Ichigaya), the U.S. Forces Japan Command (Yokota), and the Joint Task Force (Sendai) shortly after the disaster hit Japan. But roles and responsibilities of the BCCs for disaster response were not defined properly in advance (Figure 3).<sup>70</sup> There was no single center to collect and consolidate information, or submit requests for information and issue commands. As a consequence, it became increasingly challenging to identify needs in the disaster-affected areas and arrange operations accordingly. Since Japan and the U.S. did not have a streamlined organizational structure with clear roles and responsibilities and decision making process, there was a delay in coordinating the joint operations.

Figure 3: Organizational Structure of JSDF & U.S. Forces



Source: *Liaison Magazine*, Vol. V 2012 (p. 23), CDHAM, Japan Ministry of Defense<sup>71</sup>

<sup>69</sup> "Strategic Assistance: Disaster Relief and Asia-Pacific Stability", The National Bureau of Asian Research, 2014

<sup>70</sup> Nozomu Yoshitomi, et al. "Military-public-private Cooperation in Disaster Relief" (pp. 22-26), *Liaison Magazine*, Vol. V 2012, Center for Excellence in Disaster Management and Humanitarian Assistance

<sup>71</sup> Japan Ministry of Defense White Paper Special Feature, Response to the Great East Japan Earthquake,

This delay also caused inefficiency in the operations. Japan and the U.S. coordinated the collection and distribution of supplies to the disaster-affected areas. The JSDF and the U.S. Forces jointly collected supplies in bases and airports in the Tohoku region, and the JSDF was responsible for delivering the supplies to the affected areas. In this process, because the JSDF and the U.S. Forces did not share any official procedures to request assistance and make operational decisions, each branch of the U.S. armed forces responded respectively to the assistance needs it recognized. These individual operations caused overlapped assistance to certain areas, while there were some areas that did not receive any assistance.<sup>72</sup> Although the JSDF and the U.S. Forces repeatedly conducted joint exercises and both believed to have a profound mutual understanding, the JSDF did not fully understand the U.S. capabilities in disaster relief, and the U.S. Forces did not precisely understand Japan's overall concept of disaster relief operations.<sup>73</sup>

Language was another grave issue in information sharing and communication between the two countries. Although there were few problems among senior military officers of both countries as they had trained interpreters, Japanese and Americans at the field level confronted communication challenges. Since not many people speak their partner's languages, a small number of Americans who speak Japanese and Japanese who spoke English needed to shoulder a heavy burden during the operation.<sup>74</sup>

### **Improved Japan-U.S. Cooperation after 3/11**

Following the joint operation in the aftermath of the 2011 earthquakes and tsunami, Japan and the U.S. have improved the cooperation mechanism in disaster management. Most notably, cooperation in response to a large-scale disaster in Japan is now clearly written in the recently revised Guidelines for Japan-U.S. Defense Cooperation.<sup>75</sup> It mentions in section IV. E. that "... the United States, in accordance with its own criteria, will provide appropriate support for Japan's activities (regarding disaster response)," and "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.

---

[http://www.mod.go.jp/e/publ/w\\_paper/pdf/2011/04SpecialFeature.pdf](http://www.mod.go.jp/e/publ/w_paper/pdf/2011/04SpecialFeature.pdf)

<sup>72</sup> Ibid.

<sup>73</sup> Robert D. Eldridge, "Operation Tomodachi and Afterwards: A U.S. Marine Corps Perspective", National Resilience Workshop (presentation material), Cabinet Office of Japan, July 7, 2014

<sup>74</sup> "Enhancing Trilateral Disaster Preparedness and Relief Cooperation between Japan, U.S. and Australia" (pp. 120), Asia-Pacific Center for Security Studies, July 2013

<sup>75</sup> The Guideline for Japan-U.S. Defense Cooperation, Japan Ministry of Defense, April 27, 2015  
<[http://www.mod.go.jp/e/d\\_act/anpo/index.html](http://www.mod.go.jp/e/d_act/anpo/index.html)>

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.”

As these newly added statements eloquently describe, Japan and the U.S. will jointly develop a contingency plan and put an adequate organizational structure in place. The Japanese and the U.S. governments reportedly consider that the U.S. senior military officials are permanently stationed at the Central Command Post of the Japan Ministry of Defense in Ichigaya, Tokyo.<sup>76</sup> In addition, a liaison officer from the JGSDF has been stationed on the U.S. side at the U.S. Marine Corps Forces Pacific Command in Hawaii since 2013. The JSDF and the U.S. Forces will also establish a permanent bilateral coordination center to strengthen information sharing and communication structure, because inefficient communication and decision making structure at the BCCs, which were temporarily established after the earthquake, was a critical issue in the joint relief operations after the 2011 earthquake. Furthermore, in order to enhance the JSDF’s emergency response capabilities, the JSDF will launch the Ground Central Command that uniformly coordinates and manages emergency response operations under the Minister of Defense and the Head of the Joint Staff by 2016.<sup>77</sup>

In addition to these structural changes, the JSDF and the U.S. Forces participated in emergency drills more actively across Japan. The U.S. Forces participated in a disaster drill in Japan for the first time when Shintaro Ishihara, the then Governor of Tokyo, requested the U.S. Forces to join an emergency drill in Tokyo in 2006.<sup>78</sup> Tokyo was the only local government that underwent an emergency drill jointly with the JSDF and the U.S. at that time, but the increasing number of local governments in Japan began to have emergency drills in collaboration with them. For instance, the U.S. Marine Corps has started to participate in an emergency drill in Shizuoka Prefecture since 2011.<sup>79</sup> In Hyogo Prefecture, the JSDF and the U.S. Forces got involved in a disaster drill for the first time in 2014 with eighty other local organizations such as police and fire departments.<sup>80</sup> The U.S. Forces did such exercises as distribution of emergency supplies and transportation of the injured in collaboration with the JSDF. The U.S. Forces also joined emergency drills in Wakayama, Kochi, and Okinawa prefectures recently. Moreover, the Australian Defense Force participated in an emergency drill in Japan for the first time in a joint emergency drill in Tohoku in 2014 along with the JSDF and the U.S. Forces.<sup>81</sup> This was a watershed in enhancing triangular cooperation among the three countries.

---

<sup>76</sup> *Jiji News*, April 15, 2015

<sup>77</sup> *Asahi Simbun*, March 5, 2015

<sup>78</sup> Comprehensive disaster-preparedness drill in Tokyo, September 1, 2006  
<[http://www.toshiseibi.metro.tokyo.jp/base\\_measures/kunren/kunren2006.htm](http://www.toshiseibi.metro.tokyo.jp/base_measures/kunren/kunren2006.htm)>

<sup>79</sup> “U.S. Marine joined a disaster drill in Shizuoka”, III Marine Expeditionary Force, September 16, 2014 <<http://www.kanji.okinawa.usmc.mil/news/140916-shizuoka.html>>

<sup>80</sup> *Sankei Shimbun*, September 1, 2014

<sup>81</sup> Michinoku Alert 2014, North Eastern Army, The Japan Ground Self Defense Force, November 9, 2014, <<http://www.mod.go.jp/gsdf/neae/neahq/alert/2014/>>

### **Additional Areas to Improve**

Although these improvements suggest that the challenges that Japan and the U.S. had in disaster management have been gradually resolved at least at the military level, enhancing civil-military cooperation is also required in order to carry out effective disaster relief activities. In general, it is intrinsically difficult for civil and military actors to foster mutual understanding, because their organizational objectives and structures are distinct. Local governments were also inexperienced in accepting and coordinating relief offers from a variety of organizations. Notwithstanding that the civil and military actors could complement capabilities one another, there was neither pre-agreement nor cooperation mechanism between civil and military actors to fully utilize each other's capabilities, let alone training between them.

In order to raise the level of mutual understanding, civil actors including private companies and nongovernmental organizations, should participate more actively in emergency drills often held by local governments. In the aftermath of the March 2011 earthquake, the JSDF actively cooperated with transportation companies such as Sagawa Express or Yamato Transport to deliver emergency supplies and with telecommunications companies to help restore communication networks. But actors from the public, military and private sectors can further develop mutual understanding and share ideas to improve effectiveness of emergency response activities by leveraging such occasions.

In addition, establishing the disaster cooperation mechanism involving all the actors should be considered. The U.S. Center of Excellence in Disaster Management & Humanitarian Assistance located in Hawaii is a good example of such a mechanism.<sup>82</sup> In addition to regular Japan-U.S. joint trainings in disaster relief, the civil and military actors need to deepen mutual understanding by creating a joint disaster response plan and holding regular workshops and conferences, utilizing this mechanism.

Lastly, and perhaps most importantly, the leadership in Japan must improve crisis management and decision making skills. Following the 1995 Hanshin Awaji Earthquake, Japan diligently prepared for future earthquakes, conducting regular disaster drills and tightening architectural regulations. However, Japan only prepared for an earthquake and did not prepare for an unprecedented crisis like the one in Fukushima. In retrospect, the nuclear meltdown might have been predictable and preventable.<sup>83</sup> Japan should continue to prepare for the types of crises that

---

<sup>82</sup> Proposed by JGSDF Colonel Yoshitomi in "Enhancing Trilateral Disaster Preparedness and Relief Cooperation between Japan, U.S. and Australia" (pp. 98-99), Asia-Pacific Center for Security Studies, July 2013

<sup>83</sup> Nobumasa Akiyama, et al. "The Fukushima Nuclear Accident and Crisis Management", The Sasakawa Peace Foundation, September 2012

had happened before, but it also should prepare for an unprecedented catastrophe, using a worst case scenario. In a country so prone to earthquakes and other natural disasters, such planning is necessary.

In addition, government leaders should develop crisis management skills so that they operate effectively in such a catastrophe and not get in the way. One might probably say that it was unfortunate for the key leadership of Democratic Party of Japan because only one and a half years had passed since DPJ became the ruling party when the earthquake occurred in March 11, 2011. Still, the leaders of the country and local governments must always be prepared for the worst possible scenario and make prompt and proper decisions under enormous pressure, maintaining credibility. The government may have to prepare a crisis-management training course for the cabinet and other top officials.

### **Future Perspectives of Japan-U.S. Disaster Management Partnership**

The revised Defense Cooperation Guidelines (issued in late April 2015) will bolster the partnership of the two countries and enable further integrated operations in disaster management. But the guidelines only define disaster-relief activities in Japan. In the Security Treaty, the U.S. is asymmetrically responsible for the defense of Japan, while Japan is not assigned a responsibility to defend the U.S.<sup>84</sup> The reinterpretation of Article 9 of the Japanese Constitution and the revised security guideline under the second Abe Administration have partially alleviated this asymmetric nature of the alliance, but the U.S. still shoulders asymmetric responsibilities even in disaster management.

Although the U.S. may not need foreign assistance in disaster relief as it has the strongest capabilities in that area in the world, Japan's expertise and experience in disaster management could be applicable in case of a catastrophe in the U.S., as well. For example, in 2005, the U.S. accepted emergency assistance from Canadian and Mexican troops in the wake of Hurricane Katrina. In the review of the response to Katrina, Canadian authorities noted: "The Canadian response to Katrina took place shortly after Canada declined to join the US attack on Iraq. Canada's quick response after 9/11 had faded from memory, but the integrated response with American forces after Katrina warmed relationships that had cooled somewhat."<sup>85</sup> Like the Canadian response, the impartial responsibilities at least for the non-traditional security threats such as natural disasters will foster reciprocity and make the U.S.-Japan alliance more solid and sustainable. Japan has a tight constitutional limitation in its activities, yet it appears to be easier

---

<sup>84</sup> Akihiko Tanaka, "Japan's Diplomatic Strategy and Japan-U.S. Alliance", *International Affairs*, No. 594, The Japan Institute of International Affairs, September 2010

<sup>85</sup> Joseph Scanion, et al. "By Air, Land, and Sea: Canada Responds to Hurricane Katrina", *Canadian Military Journal*, Vol. 12, No. 3, Summer 2012

to gain public support in such activities, as 87.4% of Japanese citizens have a favorable view about the JSDF's international peace cooperation activities including disaster relief.<sup>86</sup>

The Japan-U.S. partnership can also be effective outside the two countries, particularly in Asia and the Pacific, which is the most disaster-prone region in the world. Approximately 73,000 people were killed annually because of natural disasters in the past decade in the region, and 90% of world's disaster-affected people live there.<sup>87</sup> A U.S.-Japan partnership in disaster management can play a larger role in the region by fully utilizing their enormous capabilities. The revised Defense Cooperation Guidelines, in section V. A. 2, states:

“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 coordination, planning, and execution.”

The relief operations of Japan and the U.S. for the 2013 Typhoon Haiyan in the Philippines seem to be an appropriate precedent for the growing roles of the two countries in disaster relief in the region. In response to Haiyan, Japan deployed 3 vessels, 16 aircrafts, and 1,180 personnel to the disaster-affected areas in the Philippines in cooperation with the US Forces.<sup>88</sup> The U.S. deployed 66 naval vessels, 66 aircrafts, and 13,400 personnel at peak.<sup>89</sup> Japan and the U.S. were the two largest countries in terms of the scale of relief operations in the world in response to Haiyan and maintained close coordination. During the relief operations, U.S. Marine Lieutenant General Robling allowed the JGSDF's liaison officer to enter the U.S. Marine operations room.<sup>90</sup> Because of this arrangement, JSDF obtained timely and detailed information about the U.S. assistance operation and maintained coordinated actions with the U.S. Forces. In addition, the

---

<sup>86</sup> Public Opinion Poll regarding the JSDF and Defense Issues, the Cabinet Office of Japan, January 2012

<sup>87</sup> “Statistical Yearbook for Asia and the Pacific 2014”, United Nations Economic and Social Commission for Asia and the Pacific, December 2014

<sup>88</sup> Deployment of the International Emergency Rescue Team to the Philippines, Japan Ministry of Defense, November 15, 2013 <<http://www.mod.go.jp/j/press/news/2013/11/15d.html>>

<sup>89</sup> Operation Damayan, U.S. Department of Defense, <[http://www.defense.gov/home/features/2013/1113\\_haiyan/](http://www.defense.gov/home/features/2013/1113_haiyan/)>

<sup>90</sup> Eisuke Mori, “Interview with JGSDF Colonel Makoto Kasamatsu”, *Nikkei Business Online*, March 10, 2015 <<http://business.nikkeibp.co.jp/article/interview/20150306/278346/>>

JSDF provided supplies and services to the U.S. Forces under the revised Acquisition and Cross-Servicing Agreement for the first time in international relief operations.<sup>91</sup>

Given the mounting number of natural disasters in Asia and the Pacific, disaster management can be one of possible areas that all the countries in the region share the common interests. To illustrate, in response to the 2008 Sichuan earthquake in China, Japan deployed its international emergency support team to the affected area. Chinese President Hu Jintao publicly expressed his appreciation for the team during the Hokkaido Toyako Summit in July 2008, stating: “Disaster prevention is a universal challenge for all mankind. China-Japan cooperation in this area is an exact example of mutually beneficial relationship based on common strategic interests, and I hope to continue it. Both Chinese Government and Chinese people will never forget your cooperation and efforts.”<sup>92</sup> In addition, despite tensions between China and the U.S. allies in Asia, the U.S. Forces and Chinese People’s Liberation Army hold disaster management exchange annually to mutually share insights regarding humanitarian assistance and disaster management.<sup>93</sup>

In 2014, the JGSDF conducted the Multinational Cooperation program in the Asia Pacific in order to collaboratively address common issues particularly regarding disaster management. A total of 26 countries, including Australia, China, India, South Korea, Russia, and the U.S., participated in the program in Tokyo.<sup>94</sup> In the same year, ASEAN countries, Australia, China, India, Japan, South Korea, New Zealand, Russia, and the U.S. participated in the humanitarian assistance and disaster response Expert Working Group under the ASEAN Defense Ministers Meeting-Plus to discuss closer coordination for disasters among countries.<sup>95</sup> Countries in Asia and the Pacific share divergent types of political regimes and have conflicting interests on several issues; however, disaster management can be a tool to enhance regional cooperation and security.

---

<sup>91</sup> ACSA was revised in 2012 in order for the JSDF to provide goods and services to the U.S. Forces <[http://www.clearing.mod.go.jp/hakusho\\_data/2013/2013/html/n2316000.html](http://www.clearing.mod.go.jp/hakusho_data/2013/2013/html/n2316000.html)>

<sup>92</sup> Meeting between President Hu Jintao and the International Emergency Rescue Team, Japan Ministry of Foreign Affairs, July 8, 2008 (translated into English by author) <[http://www.mofa.go.jp/mofaj/area/china/visit/0807\\_k.html](http://www.mofa.go.jp/mofaj/area/china/visit/0807_k.html)>

<sup>93</sup> Angela E. Kershner, “Disaster Management Exchange 2015 concludes in China”, The U.S. Army, January 26, 2015 <[http://www.army.mil/article/141698/Disaster\\_Management\\_Exchange\\_2015\\_concludes\\_in\\_China/](http://www.army.mil/article/141698/Disaster_Management_Exchange_2015_concludes_in_China/)>

<sup>94</sup> Multinational Cooperation program in the Asia Pacific 2014, JGSDF <<http://www.mod.go.jp/gsdf/news/press/2014/pdf/20141023.pdf>>

<sup>95</sup> 4th Annual HA/DR Expert Working Group, Japan Ministry of Defense, July 1, 2014 <<http://www.mod.go.jp/j/press/news/2014/07/01d.html>>

## Conclusion

Japan and the U.S. supposedly have the strongest capabilities for disaster management in the world, because the two countries have a wealth of experience in dealing with a variety of disasters, including earthquakes, tsunamis, storms, and nuclear power accidents, both at home and abroad. Moreover, the two nations have improved cooperation in order to effectively tackle domestic and international disasters. Although the joint operation in the aftermath of the March 2011 earthquake in Japan revealed critical internal and structural issues, serious improvements have been made to address them. Japan and the U.S. further strengthened their disaster-management capabilities by properly enhancing collaboration with multiple actors from the public, military, private and civil society sectors. In addition, the Japan-U.S. alliance can be more solid and reciprocal if Japan increases its contribution for the U.S. in humanitarian assistance and disaster relief.

In Asia-Pacific, disaster management is one of a few common transnational interests, the region being the most disaster-prone area in the world. Since Japan and the U.S. have played a substantial role in disaster relief in the region already, they should maintain and even increase their roles. Countries in the region have already started to exchange ideas and deepen collaboration in that area. These activities will not only directly help disaster-stricken populations but also improve regional cooperation and security.

## **India and the U.S.-Japan Alliance**

By Evan Sankey

The U.S.-Japan Alliance has been the central pillar of Japan's national security policy and the U.S.-led security architecture in the Asia-Pacific region since the 1960s. Although this alliance remains the deepest and most important of America's bilateral security arrangements in the region, the regional order of peace and stability it has supported has been coming under increasing strain due to the rise of China as a maritime power, spreading nationalism in Asian countries, and territorial disputes in the East and South China seas. Such alarming trends have exposed vulnerabilities in both the American and Japanese approaches to regional security – especially regarding freedom of navigation and other maritime issues – and, oddly, rekindled old Japanese fears of abandonment by its ally, and fears of entrapment by America in a military conflict between Japan and China over the disputed Senkaku Islands. In that security context, the U.S. and Japan have each been pursuing closer ties with India, the world's most populous democracy, to balance China's regional influence, access growing commercial opportunities there, and reinforce the open Asian economic and political order that helps to secure their national interests.

India has been receptive to American and Japanese overtures. It participates in formal bilateral meetings with each country, as well as an annual trilateral summit. These have led to both bilateral and trilateral military exercises, as well as visits by heads of state. India has also negotiated arms purchases from America's and, most recently, Japan's more advanced defense industries. India also views closer security ties with the U.S. and Japan in their alliance context could serve in part as a balancing move vis-à-vis China, a regional rival. That being said, India's domestic priorities and a long-standing independent strategic culture serves as a break on its willingness to bandwagon overtly with any move by the U.S. and Japan as allies to balance China that India sees as aggressive.

Despite its growing economy, India remains a poor, underdeveloped country and its government sees enduring solutions to its security problems by focusing on sustaining that economic growth and development. America and Japan can play a role here, but so too does China, India's largest trading partner. India will not be disposed to any political strategy which hampers its opportunities for economic growth. Finally, India's diplomacy has long been distinguished by resistance to foreign entanglements and the pursuit of strategic autonomy. Building beneficial ties with India will require America to jettison its Cold War era concept of "with us or against us" alliances and Japan to exercise greater diplomatic finesse in dealing with China. India will be a "strategic partner," but only on its own terms.

What follows is an examination of the state of India's cooperation with America and Japan in bilateral settings, as well as the status and potential of a trilateral arrangement, linked to the U.S.-Japan Alliance. This paper will describe the history of the relationships, examine how national interests play a role, assess the current play among the three countries, and look ahead regarding the potential of a trilateral strategic relationship. Although the emphasis will be on security and geopolitical factors, economic ties, too, must receive special consideration insofar as India's development issues have security implications. This report draws heavily on a series of interviews conducted in Tokyo in March 2015 with relevant foreign affairs experts.

### **Still Uneasy: India and America**

India and America are respectively the world's most populous and most powerful democracies. Both gained independence from British imperialism and as a result each has English as their language of business. The large – and growing – Indian American population serves to cement people-to-people contacts. Yet there remains a distrust and reticence in America-India relations that is a legacy of the Cold War and the Global War on Terror. This history continues to cast a shadow on modern ties and will serve as a break on Indian willingness to be seen as strategically close to America.

During the Cold War, India became the standard bearer of the Non-Aligned Movement, a grouping of developing countries in the global south which claimed to oppose western colonialism and formal identification with either of the two superpower blocs. In practice, however, India's Cold War foreign policy was driven by a tense security competition with U.S.-aligned Pakistan. In balancing Pakistan, India developed a nuclear deterrent and sought political and military support from the Soviet Union. US-India ties were at their worst in the 1971 Indo-Pakistani War when the Nixon administration sent a carrier strike group to the Bay of Bengal to prevent a total defeat of Pakistan by India. India perceived this as American intimidation and responded by moving closer to the Soviet Union after the war.<sup>96</sup> U.S.-India ties gradually recovered through the 1980s and early 1990s as Soviet and then Russian financial support ceased and Indian economic reforms gathered pace. The late 1990s saw a deterioration as America imposed sanctions in retaliation for India's nuclear testing. These were cancelled two years later in time for President Clinton's visit to New Delhi, where he proclaimed India a "natural ally."

The 9/11 terrorist attacks on U.S. nerve centers and the Global War on Terror made it necessary for America to cooperate closely with Pakistan in order to achieve stability in occupied Afghanistan. India, which continued to view Pakistan as its primary conventional security threat and a breeding ground for religious extremism, was skeptical about Pakistan's reinvigorated relationship with America. Despite occasional friction ties have continued to deepen. A "strategic partnership" was inked in 2004. This was followed in 2010 by the start of an annual

---

<sup>96</sup> "U.S.-India Security Relations" – CRS 1

“strategic dialogue” which enables senior officials from both sides to discuss economic, political and security concerns. In 2008 the U.S. Congress signed off on what has since become the centerpiece of the relationship – the Civil Nuclear Agreement. Although it has yet to be fully implemented, it implicitly recognizes India as a nuclear weapons state outside the bounds of the Nuclear Non-Proliferation Treaty (NPT) and paves the way for the Indian nuclear industry to gain access to foreign nuclear technology and supplies of fissile material.

### **Emerging Partnership: India and Japan**

Whereas Japan’s ties with many Asian countries are to some extent plagued by historical resentment and nationalist posturing, ties with India carry no such baggage. In fact, history is a positive factor for Japanese activities on the subcontinent. For India, Japan has long been a source of inspiration as the first Asian nation to reach economic, technological and political parity with the West. Before World War II, many young Indians traveled to Japan to study in Japanese universities and returned with notions of Japanese Pan-Asianism. During the war, the Japanese Imperial Army helped Indian nationalists fight the British in South East Asia. When India became independent in 1947, this memory induced India’s first Prime Minister, Jawaharlal Nehru to waive Indian claims to Japanese war reparations. Unfortunately, this initial burst of goodwill did not survive the emerging bipolar logic of the Cold War. The U.S.-Japan Security Alliance bound Japan to the western bloc at the same time when India was forging an independent strategic identity.

Cold War-era political ties languished. In one case there was a 23-year gap between Japanese Prime Ministerial visits to India. At first, the relationship was largely based on Japanese Official Development Assistance (ODA) and private sector investments by Japanese corporations. Japanese concessional yen loans to India began in 1958. By 2003, Japan was India’s largest source of ODA. ODA has been mainly in the form of loans and has mainly gone to infrastructure projects like ports, roads and urban rapid transit networks. India’s 1998 nuclear tests caused Japan to suspend the granting of new loans to India, but did not affect aid already disbursed. Nuclear-sensitive Japan also invited Pakistan to join the ASEAN Regional Forum in an effort to forestall the possibility of further nuclear testing. Sanctions were not fully lifted until 2001. As Raja Mohan notes, “Japan was...virtually the last major power to reconcile itself to India’s emergence as a declared nuclear weapons power.”<sup>97</sup>

Partly in response to Japan’s growing economic interests in India and following the lead of President Clinton’s visit five months earlier, Prime Minister Yoshiro Mori visited India in August 2000 to inaugurate a “Global Partnership” which laid the foundations for the modern political relationship. One Japanese expert on India explained that Japanese politicians and bureaucrats followed Japanese business and commercial interests into India. The economic

---

<sup>97</sup> Rubicon 214

relationship spawned the political one. The emergence of institutionalized political and security arrangements began in 2004, when Prime Minister Junichiro Koizumi visited New Delhi. Since 2005 there have been visits by heads of state each year, as well as annual “2+2” meetings between vice ministers from each country’s respective defense and foreign ministries. A civil nuclear agreement similar to that signed between America and India remains under negotiation subject to Japan’s unique nuclear sensitivities.

### **Economic Ambitions**

The Indian government is acutely aware of its post-Cold War economic underperformance and views economic growth and development as the most important prerequisite for achieving the security and global stature it desires. Despite the reforms of the 1990s, India’s GDP growth has consistently lagged behind China’s. In 1990, the Indian economy was 80% the size of China’s. Today it is only 20%. The political, military and economic influence that growth has earned China has focused the minds of Indian policymakers on how they can unlock their country’s full potential. For India, this is not only a bread and butter question. They see economic growth as generating resources that will strengthen their hand in tackling a range of national security problems, from Pakistan and extremism to maritime security and Chinese encroachment in the Indian Ocean Region.

Japan and the United States see in India a vast, untapped, youthful and increasingly dynamic market that will need their high technology products and knowledge in order to reach developed country levels of wealth. America is India’s largest export destination and fifth largest source of imports. It is the only big country with which India has a trade surplus. Although Japan and India signed a bilateral free trade agreement in 2010, their economic relationship remains somewhat underwhelming. It is India’s ninth-largest export destination and 15<sup>th</sup> largest source of imports. However, both Japan and America figure highly as sources of foreign direct investment. Trade with these developed, but slow growing economies seems like a natural choice for India. Each has developed expertise in two of India’s biggest economic challenges: energy and infrastructure.

One of the clearest obstacles to the economy is an underperforming energy sector which is overly dependent on fossil fuels, prone to blackouts and fails to deliver electricity to nearly 300 million Indians.<sup>98</sup> Like China today and Japan in the 1950s, domestically sourced coal is the workhorse. In 2012 it generated 44% of India’s energy. Oil and natural gas have supplied another 30% the same year. The trouble is that all three of these sources are in short domestic supply to varying degrees. According to McKinsey, imports of these fossil fuels generated 30% of total national energy consumption in 2010.<sup>99</sup> That makes India increasingly reliant on Persian

---

<sup>98</sup> EIA-India

<sup>99</sup> “India: Towards Energy Independence 2030” – McKinsey, 8

Gulf states for oil and natural gas and Indonesia for coal. It can also strain the current account deficit. India's economic policymakers remember how oil market volatility sparked by the First Gulf War contributed to the 1991 balance of payments crisis.<sup>100</sup>

In the context of government plans to reduce India's reliance on imports and promote consumption of cleaner energy sources, nuclear power must certainly play a bigger role.<sup>101</sup> Nuclear power currently generates 3% of India's electricity. The government wants to raise that to 25% by 2050. Even though India is a nuclear weapons state, the development of its nuclear power industry has long been hampered by international sanctions associated with its nuclear weapons program and its refusal to sign the NPT and the Comprehensive Test Ban Treaty. Its absence from the Nuclear Suppliers Group, a club of NPT signatory countries which ensures that civilian nuclear technology is not used to produce weapons, has locked it out of the market for advanced reactor designs. The United States successfully lobbied for the group to grant India a waiver from the NPT as part of the 2008 U.S.-India Civil Nuclear Agreement, but they have yet to admit India as a full member.

Implementation of the Civil Nuclear Agreement has been slow. Legal questions surrounding the extent to which American nuclear companies operating in India will be exposed to liabilities in the event of a nuclear accident have held up the actual entry of American companies into the Indian market.<sup>102</sup> A separate problem is that America's flagship nuclear firms, GE and Westinghouse, are in joint ventures with the Japanese companies Hitachi and Toshiba, respectively. Japan is negotiating but has not yet signed its own civil nuclear agreement with India. In the absence of such an agreement the legal scope for Indian cooperation with American or Japanese suppliers will likely be severely constrained. Memories of India's 1998 atomic tests still linger in the nuclear-sensitive consciousness of the Japanese Ministry of Foreign Affairs (MOFA). Japanese negotiators seem to be taking a hard line with regard to safeguards, reporting standards and weapons testing that the Indians are unlikely to accept.<sup>103</sup> In the meantime, India has been looking elsewhere to jumpstart its nuclear sector. There was speculation of a civil nuclear deal with China ahead of Prime Minister Modi's 2015 state visit.<sup>104</sup>

Improving civil infrastructure is also a key economic concern of the Indian government. In 2014 China invested 17% of GDP in infrastructure while India invested 5%.<sup>105</sup> It shows. The state of India's roads, railways and ports falls far short of rich country standards. This prevents the full

---

<sup>100</sup> "Back to the Future" – *Financial Times*

<sup>101</sup> "Narendra Modi's Plan for Making India Energy Sufficient" *Economic Times*

<sup>102</sup> "American firms' fear cast doubt on value of US-India nuclear agreement" *The Washington Post*

<sup>103</sup> "The U.S.-India Nuclear breakthrough that wasn't" *The Japan Times*

<sup>104</sup> "Modi in China: The Nuclear Dimension" *The Indian Express*

<sup>105</sup> "A \$750 Billion Dollar Gap in India's Push for Top Infrastructure" *Bloomberg*

integration of India's internal market and hurts their growth potential. It is also intimately connected to national security concerns. China has been rapidly improving the quantity and quality of its infrastructure along the border with India. Indian strategists fear that this could enable the Chinese military to bring up reinforcements much more rapidly in the event of a conflict over one of the disputed border areas. The underdeveloped northeast states of Arunachal Pradesh and Assam are seen as especially vulnerable as they are joined to the rest of India only via a narrow land bridge between Nepal, Bhutan and Bangladesh. Northeastern development is also a vital component of India's "Look East Policy," launched in 1994 in order to improve overland trading opportunities with the dynamic economies of Asian countries in general and Southeast Asian countries in particular.<sup>106</sup>

Japan is perfectly placed to help enhance what Indians call "connectivity." Infrastructure in Japan, it hardly bears mentioning, is the best in the world. The Japanese have accumulated knowledge from their own development experience that is invaluable to Indian planners. Additionally, in the context of a slow-growing mature domestic economy, Japanese engineering and construction companies need to find growth markets. Japanese financing and technical expertise are engaged in range of infrastructure and clean energy projects in India under Japan's ODA program – India being its largest recipient – as well as through the Asia Development Bank. Planning and construction of two massive industrial corridors – Delhi to Mumbai and Chennai to Bangalore – is underway with Japanese assistance. These promise to link Indian cities together with roads and railways in the seamless manner that Japanese cities enjoy. Japanese ODA is also financing an expansion of the Delhi subway system, and the Japan International Cooperation Agency (JICA) is conducting feasibility studies on infrastructure projects in the northeast.<sup>107</sup> There are also Japanese hopes of selling bullet-train technology to India. America has also initiated programs to help finance Indian infrastructure projects, but so far their scope appears limited.<sup>108</sup> It should be noted that India is never exclusivist in its approach to international financing. It is a founding member of China's nascent Asia Infrastructure Investment Bank (AIIB).

### **Strategic Convergence?**

Such post-Cold War developments as the changing balance of power in Asia, the growing issue of maritime security in international waters, the rise of international and domestic terrorism, and the threat of nuclear proliferation have created major areas of strategic convergence linking India, Japan and the United States. Areas of overlap have served as the foundation for security cooperation in bilateral and trilateral contexts.

---

<sup>106</sup> Rubicon 213

<sup>107</sup> Factsheet: India and Japan – Partners for Common Development

<sup>108</sup> U.S.-India Joint Statement – January 2015

U.S. policymakers used to see Indian security issues as synonymous with the India-Pakistan dispute. Today India and Pakistan have been “de-hyphenated” in America’s strategic consciousness, and India is recognized to have wider potential for American policy in Asia and the world. Closer ties are seen as desirable not only because India is a large, dynamic democracy, but also due to its location. Its unique Indian Ocean geography gives it easy access to some of the most vital sea lanes and maritime chokepoints in the world. In this context, strengthened ties with India largely through the prism of its “rebalance” to Asia. When the rebalance policy was announced in 2011, then Secretary of State Hillary Clinton wrote that “the United States is making a strategic bet on India’s future.”<sup>109</sup>

The core of that bet is that India will cooperate with America on upholding and strengthening the rules based Asian security architecture. The rebalance is seen as dovetailing with India’s reinvigorated Look East policy of engagement with East and South East Asia.<sup>110</sup> China necessarily looms large in this calculation. As its economic strength and military might grow and China becomes the largest trading partner of every country in the region, its behavior towards small neighboring states has turned aggressive in the South China Sea. It increasingly resorts to intimidation in territorial disputes with those countries and shows little regard for customary maritime law. Its standoff with Japan in the East China Sea over the disputed Senkakus has threatened at times to erupt into open conflict, particularly if an unplanned incident should occur. In a grand strategic sense American policymakers also view India as a long term hedge against Chinese aspirations to regional hegemony in Asia. Most of America’s allies are developed economies with long term demographic problems. It is reasonable to expect that their capacity (to say nothing of their willingness) to contribute to the open international system that America champions will tend to decline over time. If India could be wedded to that system and convinced to share the burdens of protecting it, the relative decline of America’s allies could be offset to some extent.

Japanese policymakers view security ties with India in similar terms. Along with Australia, it has become a key piece of the MOFA’s new “panoramic” and “values based diplomacy”.<sup>111</sup> In 2013 Japan’s first ever National Security Strategy identified India as “geopolitically important for Japan, as it is positioned in the center of sea lanes of communication.”<sup>112</sup> Japan is particularly dependent on the sea lanes in question. Nearly 90% of its oil imports are shipped through the Strait of Hormuz and cross the Indian Ocean. The Abe administration is so concerned about a possible blockade of that Strait that it is preparing security legislation that would allow it to support a reopening by sending mine-sweepers.

---

<sup>109</sup> “America’s Pacific Century” *Foreign Policy*

<sup>110</sup> “2015 US National Security Strategy” 25

<sup>111</sup> “2014 Diplomatic Bluebook” MOFA Chapter 1

<sup>112</sup> “Japanese National Security Strategy” 24

While the Maritime Self Defense Force (MSDF) is still largely confined to operations near Japan, the Indian Navy not only enjoys easy access to the Indian Ocean sea lanes, but also has security ties with Oman, near the Persian Gulf. Additionally Japan and India are members with Brazil and Germany of the G4 group of nations lobbying for permanent membership on the United Nations Security Council. Their reform efforts have not been successful due to opposition by the permanent members – including the United States. Though India and Japan remain officially committed to the G4 framework, private sector observers in Japan see it as a dead end. The U.S. has long ago rejected the concept.

China looms even larger in Japan's security calculations than America's. As Japan-China bilateral relations have deteriorated since 2012, Japanese Coast Guard and MSDF vessels in the East China Sea have experienced repeated harassment by Chinese vessels, especially in the vicinity of the disputed Senkaku Islands. The Air Self Defense Force (ASDF) has responded to a massive uptick in violations of Japanese airspace by Chinese aircraft, especially following China's November 2014 declaration of an Air Defense Identification Zone (ADIZ) over the East China Sea that overlaps with a similar Japanese zone. Concerns over freedom of navigation in the South China Sea are also palpable. Japan has transferred patrol vessels to Vietnam and the Philippines to help those countries protect their waters from Chinese encroachments.

Prime Minister Shinzo Abe and his National Security Advisor, Shotaro Yachi, have been particularly vocal about Chinese attempts to “unilaterally change the status quo” and concerned by the rapid buildup of Chinese military capabilities. In a 2007 speech before the Indian Parliament Abe, during his first time as prime minister, spoke of “a confluence of the two seas of the Indian and Pacific Oceans” where democratic nations will deepen cooperation in pursuit of regional freedom and prosperity.<sup>113</sup> Tapping Yachi's model, Abe has also included India in his concept of a “security diamond” with Japan, Australia and the United States that would “safeguard the maritime commons stretching from the Indian Ocean Region to the Western Pacific” and in which he has committed “to invest, to the greatest possible extent, Japan's capabilities.”<sup>114</sup> Abe's ambitions are apparently sky high. In his 2006 book “Towards a Beautiful Nation” he even wrote that India could someday supplant America as Japan's most important ally.<sup>115</sup> It is doubtful that he feels the same way today, however. Asked about India-Japan ties, a senior official in the ruling Liberal Democratic Party offered a blunt explanation, observing that “the enemy of my enemy is my friend.”

India has also experienced increased Chinese activity on its periphery. It has observed strengthened Chinese ties with Nepal and Bhutan, small states India has traditionally considered in its sphere of influence. A normally quiescent territorial dispute with China over its northern

---

<sup>113</sup> “Confluence of the Two Seas”

<sup>114</sup> “Asia's Democratic Security Diamond” *Project Syndicate*

<sup>115</sup> “Why Japan is Cozying up to India” *Time*

Ladakh region flared in 2014 as Chinese troops ventured into India's side of the so-called Line of Actual Control. China's close economic and defense relationship with Pakistan, India's regional rival, continues to be a source of concern. It has also witnessed increased Chinese naval activity in the Indian Ocean Region, a strategic space it increasingly views as a core national security interest.<sup>116</sup> Chinese port construction in Bangladesh, Pakistan and Sri Lanka have fueled Indian concerns that China is constructing a so-called "string of pearls" – a network of ports and military installations along the Indian Ocean periphery that would allow it to project maritime power into India's neighborhood.

India has also taken an interest in Chinese actions in the South China Sea, through which 55% of its trade passes. Like Japan it has taken to supplying Vietnam with patrol ships to help it police its waters.<sup>117</sup> India sees the South China Sea as a buffer. An unofficial 2012 planning document authored by security experts close to the government noted that increased American, Japanese and Southeast Asian naval activity in the East and South China Seas will "help delay, if not deter, the projection of Chinese naval power in the Indian Ocean."<sup>118</sup> The multiplicity of maritime issues India faces has spurred a shift away from the army – traditionally the recipient of most Indian defense spending – toward the navy.<sup>119</sup> Although it has been shy about explicitly citing China as a motivation for policy decisions, the Indian government is conscious of how the gap between itself and China has widened. Prime Minister Modi has spoken in general terms about the "18<sup>th</sup> century mindset" geared toward "invading other countries and capturing territory."<sup>120</sup> Ties with America and Japan as well as many other Asian countries are seen as a way to mitigate the possible adverse effects of the yawning gap with China while India strengthens its own capabilities.

### **Security Cooperation**

Convergences in security policy have driven the development of institutional structures to facilitate deepened cooperation and communication in both bilateral and trilateral settings. The U.S.-India "strategic and global partnership" has spawned a variety of initiatives. There are now annual minister level "2+2" meetings between each country's defense and foreign affairs officials as well as defense cooperation and technology transfer agreements.<sup>121</sup> Since 2007, a joint commitment to maritime cooperation has found expression in the annual Malabar Exercises, in which the US and Indian navies conduct joint operations across a range of maritime activity, from search and rescue exercises to surface warfare. At India's invitation, the Japanese

---

<sup>116</sup> "Non-Alignment 2.0" 41

<sup>117</sup> "India to Supply Vietnam with naval vessels amid China Disputes" *Reuters*

<sup>118</sup> "Non-Alignment 2.0" 13

<sup>119</sup> "U.S.-India Security Relations" – CRS 12

<sup>120</sup> "India and Japan Pursue Closer Ties to Counter China" *The Wall Street Journal*

<sup>121</sup> U.S.-India Joint Statement – January 2015

MSDF has participated in 2007, 2009 and 2014. Soldier-to-soldier contacts, like exercises and personnel exchanges between Indian and the United States, have proceeded at such a pace that the Indian military now has more joint operational experience with the US military than it has with the military of any other country.

Defense sales are especially ripe for expansion. India's underdeveloped industrial base has long made it one of the world's largest arms importers and it has traditionally kept Russia as its biggest supplier. Greater American willingness to share its advanced technologies and an Indian drive to diversify its imports is changing the equation. Counting by dollar value, 2014 saw America overtake Russia as India's largest arms supplier.<sup>122</sup> Since 2007 India has purchased P-8 Poseidon submarine hunting patrol planes and C-17 Globemaster cargo planes. There are reports that America is considering the transfer of its brand new electromagnetic aircraft carrier catapult technology to the Indian program to build an indigenous carrier. American catapults would enable future Indian carriers to deploy more heavily armed aircraft at greater ranges. That the transfer of such a sensitive technology is even being considered underlines America's commitment to India's military development.<sup>123</sup>

Japan-India cooperation in the context of their "special strategic and global partnership" is more limited than India's ties with the US. Annual "2+2" meetings between defense and foreign ministry officials are at the vice minister level. They are supplemented by less frequent meetings of the countries' respective national security advisors and cabinet level officials.<sup>124</sup> More high level depth comes from Prime Minister Abe's reported close relationship with Prime Minister Modi, which began during Modi's time as governor of Gujarat State. Bilateral security cooperation has been institutionalized in the form of port visits, personnel exchanges and exercises. Japan-India Naval Exercises (JIMEX) have been held twice since 2012, alternating between operations in Indian and Japanese waters. There have also been 13 rounds of exercises by their national coast guards since 1999.

Arms sales are also an area for cooperation. Contract negotiations for India to purchase 15 US-2 amphibious patrol aircraft from ShinMaywa, a Hyogo Prefecture based company, may produce Japan's first arms deal with a country other than the United States in the postwar period. Negotiations have been held up by Indian requirements that the bulk of the order be manufactured in India, so that it contributes to the development of the Indian defense industry.<sup>125</sup> Recent reforms to Japan's exports control laws expand the scope for sales of other systems. India has also expressed interest in Mitsubishi Heavy Industries' advanced Soryu Class diesel electric

---

<sup>122</sup> "U.S. pips Russia as top arms supplier to India" *The Times of India*

<sup>123</sup> "U.S. and India to Cooperate on Aircraft Carrier Technology" *USNI News*

<sup>124</sup> "Tokyo Declaration for Japan-India Special Strategic and Global Partnership" 2

<sup>125</sup> "India close to buying Japan-made military aircraft" *Reuters*

submarines.<sup>126</sup> Given India's recent focus on improving its maritime capabilities, other Japanese maritime systems may soon be on the table.

American and Japanese bilateral ties with India have led to the emergence of a trilateral forum for discussing the same issues that occupy bilateral channels. The forum grew out of a track-II initiative sponsored by the Center for Strategic and International Studies (CSIS) and has met at the vice minister level six times since 2011. Japan and the United States have pushed for the meetings to be elevated to the cabinet level, but this has yet to happen. The forum is largely a talk shop, with periodic Japanese participation in the Malabar Exercises the only substantive operational trilateral cooperation yet to emerge. Enthusiasm over the meetings has seemed to run ahead of actual content. One Japanese expert on India explained that the trilateral is a "natural" next step for Japan. India does not seem so sure.

### Obstacles

Closer security cooperation between the parties faces severe obstacles. One of the most obvious problems is that India has formal security treaties with neither Japan nor America. Takaaki Asano of The Tokyo Foundation explained that unlike Australia – with which Japan and the U.S. are cultivating a separate trilateral forum – India does not have acquisition and cross-servicing agreements with either party. Asano reckons that these limits on what degree of cooperation is legally possible with India means that it ranks second in priority to Australia in the Prime Minister's Office's (Kantei's) cultivation of ties with countries other than the United States. Unless India enters into formal alliance arrangements with Japan or the United States, trilateral cooperation is likely to be top heavy and decentralized, with the highly integrated US-Japan Security Alliance operating separately from bilateral contacts linking India and the others parties.

India's unique colonial history and strategic heritage make it highly unlikely to enter into formal treaty alliances. Jawaharlal Nehru, the father of the Indian independence movement and India's first prime minister, was famously opposed to foreign entanglements and made India a leader in the Non-Aligned Movement in protest of the Cold War era power blocs.<sup>127</sup> Although the movement itself has passed from importance, the principal of strategic autonomy at the core of non-alignment remains at the core of Indian diplomatic and strategic thought. Strategic autonomy is seen as the foreign policy posture best suited to protecting India's core interests so as to make the international environment as accommodating as possible for India's economic development – the paramount goal of every prime minister since independence. Formal alliances – especially with great powers – are seen as necessarily impinging on strategic autonomy and therefore as potential threats to Indian economic development.

---

<sup>126</sup> "India interested in buying Japan's Soryu-class submarines" *The Japan Times*

<sup>127</sup> Rubicon 48

The U.S.-Japan Alliance is a case in point. Indian strategists have no doubt noticed that postwar Japan has incurred costs associated with its close ties with America. Economic costs, in particular, have occasionally been substantial as exemplified by Japan's experience in the 1973 Arab oil embargo. Similarly, India fears that overly cozy ties with the alliance partners may bind it to a China-balancing coalition that is inconsistent with its interests.<sup>128</sup> China is a security problem for India, but it is also a vital economic partner. One Japanese expert on India explained that India wants to be a superpower and that it is willing to cooperate with any country it feels it needs to achieve that status. India is willing to respond to increasing Chinese encroachment on its core interests – in the Indian Ocean Region and Pakistan, for example. The limited degree of security cooperation which it has so far allowed to develop with Japan and America should be seen in this context. On the other hand, China is seen as having the capacity – through its ties with Pakistan, its disputed border territories, its operations in the Indian Ocean and its sheer economic weight – to substantially worsen India's security environment and imperil its economic development. India will respond to Chinese moves, but will not provoke it.

These considerations serve as a brake on Indian willingness to get closer to the US-Japan Alliance. They have already had policy implications. A 2007 Quadrilateral Security Dialogue between Japan, India, Australia and the United States was nipped in the bud by Australia and India after China issued formal demarches to the members.<sup>129</sup> Indian reluctance, despite its formal statements of support, to upgrade its both its bilateral 2+2 framework with Japan and the trilateral forum to cabinet-level fora is similarly a sign of its reluctance to be seen as excessively close to the American alliance system. This resistance was put into especially sharp relief just before Prime Minister Modi's May 2015 state visit to China when Indian press reports suggested that Japan has been excluded from early planning for the 2015 Malabar Exercises.<sup>130</sup> This comes despite language in the joint statement from Modi's September 2014 visit to Tokyo "attach[ing] importance...to Japan's continued participation in the India-US Malabar series of exercises."<sup>131</sup>

The future of Indian cooperation with the U.S.-Japan Alliance is largely in China's hands. India will consent to deepened cooperation – especially in bilateral settings – in direct response to Chinese pressure on its interests, but it will not compromise its relatively stable relationship with China through excessive or overt alignment with initiatives that take on the appearance of anti-China coalitions. Concerns that an encircled China will lash out at Indian national security interests are paramount. The danger is that Japan and the United States may unwittingly implicate India in a policy framework it considers antithetical to its interests. Further development of security ties with India will require America and Japan to present a vision of the Asia Pacific security order that includes rather than excludes China. The increasingly

---

<sup>128</sup> "Non-Alignment 2.0" 32

<sup>129</sup> "Modi and Obama, Hugging for India's Security" *The New York Times*

<sup>130</sup> "To Avoid Provoking China, India Leaves Japan out of Drill with US" *The Times of India*

<sup>131</sup> "Tokyo Declaration for Japan-India Special Strategic and Global Partnership" 2

confrontational rebalance strategy will by its very nature run up against hard limits on Indian willingness to cooperate.

## **Conclusion**

Convergent interests between India and the U.S.-Japan alliance in the Asia Pacific have generated opportunities for cooperation in reinforcing the peaceful security order that has underwritten Asia's astonishing growth story. Although long frustrated by Cold War politics and nuclear proliferation concerns, India is developing its bilateral ties with Japan and the United States on the basis of compatible economic interests and overlapping security goals. Economic engagement – though halting – is helping India address two of its most pressing internal problems: infrastructure development and energy diversification. An Asian security environment unsettled by the rise of China has produced a remarkable expansion in bilateral security cooperation with India and a modest degree of cooperation in trilateral settings, but it has also laid bare a fundamental inconsistency in the approaches towards China of India, on one hand, and the US-Japan Alliance on the other. Further deepening ties with India will require Japan and the United States to carefully avoid adopting a confrontational security posture toward China.

## Bibliography

“Diplomatic Bluebook 2014.” The Ministry of Foreign Affairs of Japan. Released 15 October 2014. Accessed at [mofa.go.jp](http://mofa.go.jp)

“Factsheet: India and Japan – Partners for Common Development.” India-Japan joint government statement released 3 September 2014. Accessed at Indian Press Information Bureau Website.

“India – Analysis.” US Energy Information Administration. EIA website, 6/26/14.

“India interested in buying Japan’s Soryu-class submarines.” *The Japan Times* via Jiji Press. 29 March 2015. Web.

“India: Towards Energy Independence 2030.” McKinsey. January 2014. Accessed at [mckinsey.com](http://mckinsey.com)

“Narendra Modi’s plan for making India energy sufficient” *The Economic Times*. 2 March 2014. Web.

“National Security Strategy – Provisional Translation.” The Government of Japan. Released 17 December 2013. Accessed at [kantei.go.jp](http://kantei.go.jp)

“National Security Strategy.” The White House. Released February 2015. Accessed at [whitehouse.gov](http://whitehouse.gov)

“Tokyo Declaration for Japan-India Special Strategic and Global Partnership.” India-Japan joint government statement released 1 September 2014. Accessed at [mofa.go.jp](http://mofa.go.jp)

“U.S.-India Joint Statement – ‘Shared Effort; Progress for All.’” India-US joint government statement released 25 January 2015. Accessed at [whitehouse.gov](http://whitehouse.gov)

Abe, Shinzo. “Asia’s Democratic Security Diamond.” *Project Syndicate*. 27 December 2012. Web.

Abe, Shinzo. “Confluence of the Two Seas.” Speech at the Parliament of the Republic of India. New Delhi, India. 22 August 2007.

Allen, Kate. “Back to the future: Is India heading towards another balance of payments crisis?” *Financial Times*. 19 August 2013: FT website.

Asano, Takaaki. "Japan-India Relations: Toward a Special Strategic Partnership." *Japan's Global Diplomacy*. Ed. Yuki Tatsumi. Washington, DC: The Stimson Center, 2015. 33-41. Print.

Barry, Ellen. "Modi and Obama, Hugging for India's Security." *The New York Times*. 27 January 2015. Web.

Beniwal, Vrishti. "A \$750 Billion Gap in India's Push for Top Infrastructure." *Bloomberg Business*. 13 May 2015. Web.

Chellaney, Brahma. "The U.S.-India nuclear breakthrough that wasn't." *The Japan Times*. 11 February 2015. Web.

Clinton, Hillary R. "America's Pacific Century." *Foreign Policy*. 11 October 2011. Web.

Dabhade, Manish. "India and East Asia: A Region 'Rediscovered.'" *Indian Foreign Policy in a Unipolar World*. Ed. Srinath Raghavan. London: Routledge, 2009. 305-322. Print.

Gowen, Annie and Steven Mufson. "American firms' fears cast doubt on value of U.S.-India nuclear agreement." *The Washington Post*. 6 February 2015. Web.

Khilnani, Sunil et al. "Nonalignment 2.0: A Foreign and Strategic Policy for India in the Twenty First Century." National Defence College of India and the Centre for Policy Research, New Delhi. 2012. Accessed at [cprindia.org](http://cprindia.org)

Kronstadt, K. Alan. "U.S.-India Security Relations: Strategic Issues." 24 January 2013. Congressional Research Service report R42948. Accessed at Federation of American Scientists website.

LaGrone, Sam. "U.S. and India Cooperate on Aircraft Carrier Technology." *USNI News*. 27 January 2015. Web.

Limaye, Satu. "Japan and India after the Cold War." *Japan in a Dynamic Asia*. Eds. Yoichiro Sato and Satu Limaye. New York: Lexington Books, 2006. 225-247. Print.

Miglani, Sanjeev. "India close to buying Japan-made military aircraft." *Reuters*. 28 January 2014.

Miglani, Sanjeev. "India to supply Vietnam with naval vessels amid China disputes." *Reuters*. 28 October 2014. Web.

Mohan, C. Raja. "Modi in China: The Nuclear Dimension." *The Indian Express*. 14 May 2015. Web.

Mohan, C. Raja. *Crossing the Rubicon: The Shaping of India's New Foreign Policy*. New York: Palgrave Macmillan, 2003. Print.

Nagao, Satoru. "Japan, the United States and India as Key Balancers in Asia." The Center for Strategic and International Studies. 2015. Accessed at csis.org

Obe, Mitsuru and Niharika Mandhana. "India and Japan Pursue Closer Ties to Counter China." *The Wall Street Journal*. 1 September 2014. Web.

Pandit, Rajat. "To avoid provoking China, India leaves Japan out of drill with US." *The Times of India*. 13 May 2015. Web.

Pandit, Rajat. "US pips Russia as top arms supplier to India." *The Times of India*. 13 August 2014. Web.

Walsh, Bryan. "Why Japan Is Cozying Up to India." *Time*. 13 December 2006. Web.

## **Prime Minister Shinzo Abe's Central Asia Strategy: Is it Effective?**

By Ian Hamilton

The general feeling in East Asia is that Japanese Prime Minister Shinzo Abe intends to shake-up the region. He is determined to make Japan a more “normal” state with stronger military and economic capacities. Abe emphasized the importance of the Japanese-American Alliance for the region's security (Anonymous, 2015). His Abenomics plan, along with his Trans-Pacific Partnership (TPP) push, is aimed to resuscitate a relatively stagnant Japanese economy. As it appears, Abe is determined to make Japan not only a regional player, but also a global power once again.

As expected, this has not been well received by Japan's neighbors, notably South Korea and China. Many countries in the region still remember Japan's brutal colonization of Asia, and view Abe as being less than sincere in acknowledging, much less apologizing, for those atrocities. The push for stronger military capabilities and reinforcing the Alliance is seen by both regional allies and rivals as escalatory. Even the TPP is viewed by some in Japan as geostrategic containment of China (Smith, 2015). Compounded with disputes over territorial claims and strong reactions to Abe's December 2013 visit to the Yasukuni war-shrine, South Korean and Chinese relations with Japan have deteriorated drastically since the Prime Minister came into office.

While East Asian politics no doubt directly affect Japan, Eurasian geopolitical movements must not be discounted. Central Asia, located in the heart of the Eurasian landmass, is becoming more relevant to East Asian foreign policy. China, Russia, the United States, and even South Korea have vested interests in Central Asia. One could argue there is a movement looking inward, towards Eurasian integration and continentalism. Japanese integration into Eurasia will depend on Central Asian geopolitics – and Japan's relations with her Northeast Asian neighbors.

Whether Prime Minister Abe's goal is to reassert Japan's role in Asia, or to simply balance against growing threats from regional rivals, Central Asia offers strategic, economic, and cooperative opportunities for Tokyo. In essence, better Central Asian engagement will be necessary for Japan's integration into a more globalized and connected Eurasian landmass – and this must be a priority for Prime Minister Abe's administration within this new Great Game.

Through this paper, I will elaborate on Central Asia's importance to Japan and Eurasia. I will include a historical context of Japanese engagement in the region as well as current developments from Prime Minister Abe's administration. Lastly, I will provide policy recommendations for better Central Asian engagement.

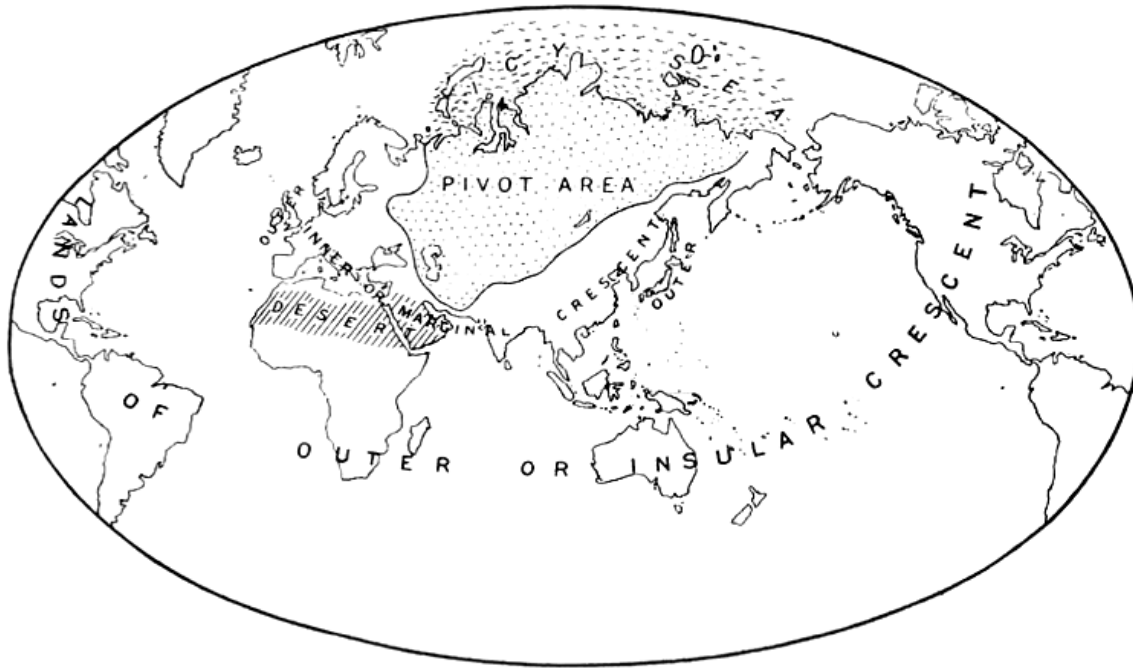
## Why Central Asia?

Figure 1: Central Asia



Colloquially known as the ‘stans’, Central Asia consists of Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan. Afghanistan and the Xinjiang Uyghur Autonomous Region (sometimes referred to as East Turkestan) in China are commonly considered a part of Central Asia due to historic, cultural, and linguistic similarities. Russia, China, and Afghanistan border the five republics with Azerbaijan sharing a Caspian Sea water border. If Afghanistan and Xinjiang are included in the definition, then Pakistan and Mongolia are bordering the region. Perhaps best associated with the Silk Road, the region’s strategic positioning was vital for trade between Eastern and Western civilizations. As a result, Central Asia has been instrumental in the economic and cultural development of Eurasia.

Central Asia’s strategic positioning played an important role in the ‘Great Game’ between the British and Russian Empires during the 19<sup>th</sup> and early 20<sup>th</sup> century. Best described in Halford Mackinder’s ‘Heartland’ theory, whoever controls the pivot area, controls the Eurasian landmass and thus, the world’s resources (Mackinder, 1904). Accordingly, Mackindrian geopolitics was incorporated as the foreign policy objectives of many western states, including the United States (Harper, 2011). After World War II, the Soviet Union formerly annexed the five Central Asian states and the People’s Republic of China acquired Xinjiang and Tibet.

**Figure 2: Mackinder's Heartland Theory Map**

Source: (Mackinder, 1904)

Mackindrian geopolitics is still very active on the Eurasian landmass. With the fall of the Soviet Union in the early 1990's and subsequent independence of the Central Asian republics, a number of regional and global players have been actively engaged the region. Central Asia's location in the pivot area makes it a valuable piece for any power. China is already in control of Xinjiang; the USA is in Afghanistan; and Russia borders the region with arguably the most dominant ties to Central Asian states. Iran, along with India and Pakistan, are nearby nuclear states. Given the region's Islamic traditions and common Turkic languages, the Middle East and Turkey are potential influences as well. Europe, which anchors the western end of the landmass, no doubt has interest. Japan's location, in some ways, is a blessing. Being Mackindrian offshore islands, Japan enjoyed its geostrategic position by remaining outside of continental disputes. Much like Great Britain, control of the oceans dictated Japanese geopolitical security. Nevertheless, Japan and Great Britain both rely on the landmass for resources. Thus, Japan is a Mackinderian player securing the eastern edge of the Eurasian landmass.

Along those lines, Central Asia holds extensive natural resources, especially hydrocarbons. This is the utmost importance for Tokyo given Japan's energy insecurity. With the Middle East becoming more volatile and terrorist attacks against Japanese nationals (The Associated Press, 2015), policymakers will likely look to other regions for energy sources. Central Asia's relative stability and proximity to Japan makes the region an ideal alternative.

Balance of power dynamics on the landmass have real security implications for Japan. Central Asia, being a pivot area, can swing the balance of power in favor of historical allies (the United States or EU), or rivals (China or Russia). While Japan is removed from direct Eurasian confrontation on the landmass, a shift in power in the pivot area risks escalating tensions on the periphery. Specifically, U.S. neo-containment strategies against perceived Chinese or Russian aggression may introduce a security dilemma in Northeast Asia. The risk of an arms race in the region opens the possibility for miscalculations, especially with a rogue North Korea.

From a strategic standpoint, better engagement in Central Asia will apply pressure to regional rivals. Kazakhstan, Kyrgyzstan, Tajikistan, and Afghanistan border China. Additionally, Kazakhstan shares a long border with Russia. Influence in the region encourages the balance of power in Japan's favor. If Tokyo had a firm footing in Central Asia, it would become a good diplomatic asset for Japan (Kawato, 2008). Additionally, the threat of violent extremism in the region requires closer strategic examination, both for Japan and its allies.

Central Asia is crucial to connecting the Eurasian landmass. According to the IMF, the European Union, China, and Japan account for three out of the top five largest economies. Factoring in Russia and South Korea, implementing overland trade routes on Eurasia is economically lucrative. Pipelines through Central Asia are the first connections between the East and the West. Modern infrastructure projects, such as the Asian Development Bank's (ADB) Central Asia Regional Economic Cooperation (CAREC) project, are aimed to follow suite. Since Japanese firms have technical expertise and comparative advantages in transportation and infrastructure, Eurasian infrastructure projects will only help Japan's private sector. Additionally, opening overland trade routes through Central Asia allows commerce to avoid maritime chokepoints, such as the Horn of Africa and the Straits of Hormuz and Malacca. Despite being offshore, enhanced commerce between the large continental economies will benefit Japan as well. The Japanese economy will grow with a more vibrant and integrated Northeast Asian economy. Therefore, Eurasian integration is essential for Japanese economic vitality.

### **Neoliberalism and Multilateralism as a Strategy**

Japan's foreign policy strategy is decidedly neoliberal and largely relies on multilateralism. Neoliberalism, perhaps best associated with Robert Keohane and Joseph Nye, introduces "a set of networks, norms and institutions, once established, will be difficult either to eradicate or drastically rearrange" (Keohane R. O., 2012). This complex interdependency often takes the form of trade relations, international organizations, or military alliances. Multilateralism, also defined by Keohane, is "the practice of coordinating national policies in groups of three or more states" (Keohane R. O., 1990).

In Japan's case, military restraints limited to self-defense require Tokyo to exert power and influence outside of coercion. Economic development, regional engagement, and international organizations are the typical avenues for Japanese influence abroad. Through these channels, Tokyo developed complex interdependencies with a number of nations that are costly to break. This allows Japan to exert power and influence without using realist capabilities. Regional unification further enhances such interdependencies by allowing weaker countries to exert more power on the global stage, often through economic regimes, geostrategy, and/or international organization representation. Through multilateralism, Japan has been able to integrate itself and influence different regions despite geographic and military disparity. Therefore, neoliberal multilateralism and regional integration are priorities for Japanese foreign policy. This style of soft power is largely accomplished through Official Developmental Assistance (ODA).

Established in the 1950's, the original intent of ODA was to provide reparations to Asian countries that were the victims of Japan's wartime aggression, as well as to create the conditions for developing friendly relations with them. From the 1960's onward, ODA became decidedly more global, but still retained its Asian flavor (Sunami, 2015). Normally, the Japanese International Cooperation Agency (JICA) implements ODA. This style of neo-liberalism worked well for Japan in the past. The success of the Association of Southeast Asian Nations (ASEAN), for example, was largely attributed to JICA and ODA. Because of Tokyo's role in its development, Japan is a persuasive nation towards ASEAN. Given the growing importance of Central Asia to both Japan and Eurasia, Tokyo should hope to replicate ASEAN-style success in its Central Asian strategy. Therefore, regional integration must be prioritized.

The region also presents unique opportunities for Japanese diplomacy. Central Asia is far enough from Japan that policymakers could engage (or disengage) without direct security consequences, yet close enough to reap the geopolitical benefits. Central Asia does not harbor historical resentment against Japan, or other similar cultural baggage, that hampers relations, as in the case with many East and Southeast Asian nations. In effect, Central Asia allows Tokyo to apply more idealistic rather than purely pragmatic approaches to development (Shimizu, 2015).

### **Japanese Engagement in Central Asia**

Central Asia as a unified region is a valuable Mackinderian player. However compared to East and Southeast Asia, the geostrategic and economic opportunities have not substantially attracted Japanese policymakers' attention. Understandably due to the region's location, Central Asia is viewed as simply "beyond China and therefore not immediately relevant to Japanese policymakers" (Shimizu, 2015). Accordingly, there has not been a particularly strong policy for the region in the past, nor is there a strong strategy under Abe (Shimizu, 2015). Japan's engagement in Central Asia is largely limited to developmental aid in the form of ODA through the Ministry of Foreign Affairs (MOFA) and JICA (Yamada, 2015).

There have been flashes of a specified Central Asian policy. Initially after independence, there was excitement among the Japanese academic community for an open Central Asia, but Japanese policymakers were reticent to engage because of perceived Russian instability (Murashkin, 2015). Nevertheless, Japanese functionaries viewed the collapse of the Soviet Union as a Central Asian Meiji Restoration, particularly at the cultural-psychosocial level (Shimizu, 2015). The isolated and closed nature of Central Asia during communism, along with seemingly Asian foundations, introduced a special bond to the Japanese power-holders who toured the republics shortly after independence. Despite this bond, former Japanese Ambassador to Uzbekistan stated, “Japan was slow to open up embassies in the region” (Kawato, 2008).

In 1997, Prime Minister Ryutaro Hashimoto implemented the “Eurasian” or “Silk Road Diplomacy” strategy aimed to better engage the Central Asian republics as a region. The Hashimoto Doctrine included three provisions: increase political dialogue that contributes to the deepening of trust and mutual understanding; economic cooperation, including the development of natural resources; and achieving peace in the region through non-proliferation of nuclear weapons, democratization, and stabilization (Sadykova, 2013).

The policy eventually evolved into the Central Asia + Japan (CA+J) dialogue, which was established in 2004. Instituted under the Junichiro Koizumi administration, CA+J further encouraged regional integration by enhancing the countries’ capacity to solve regional problems using regional means (Dadabaev, 2013). CA+J culminated with Koizumi visiting Kazakhstan and Uzbekistan in 2006 - a first for a Japanese Prime Minister. However, some have argued that CA+J was in response to China’s Shanghai Cooperation Organization (SCO) (Nurgaliyev, 2008).

Koizumi’s Foreign Minister, Mr. Aso Taro, implemented “The Arc of Freedom and Prosperity (AFP)” in Autumn 2006 under Prime Minister Shinzo Abe’s first term. This initiative was intended to contrast what President George W. Bush dubbed as “The Arc of Instability” – regions extending from the Baltic States, the Balkans, the Caucasus, the Middle East, and Central Asia (Kawato, 2008). This policy incorporated a number of Japanese regional initiatives, including CA+J, into a broader Eurasian context. According to the 2007 Diplomatic Bluebook, the Arc of Prosperity aims to:

“Add another pillar of Japanese Diplomacy to the existing pillars of reinforcement of the Japan-US alliance, international cooperation, most notably under the auspices of the United Nations, and enhancing relationships with neighboring countries such as China, the Republic of Korea (ROK), and Russia. This new pillar of Japanese diplomacy involves placing emphasis on universal values such as freedom, democracy, fundamental human rights, the rule of law, and the market economy and creating an Arc of Freedom and Prosperity (Ministry of Foreign Affairs, 2007).

This was not a specific Central Asian policy *per se*, but rather an overarching doctrine aimed to guide CA+J. As a result, AFP took a decidedly more geopolitical and strategic stance, but still maintained Japan's neoliberal and multilateral foreign policy engagement. Nevertheless, the guiding principles are still rooted in western values. Despite the policy turn towards AFP, CA+J is still the governing policy for Japanese interests in Central Asia.

Japan's engagement is based on economic development towards a market economy, institutional building, human resource development, and infrastructure investment to connect the region with the rest of the world (JICA, 2015). The nature of Tokyo's engagement in Central Asia revolves around gradualism, the idea of slowly integrating the countries into the global system (Murashkin, 2015). Japan's historical experience with rapid modernization and globalization during the Meiji Restoration likely encouraged Tokyo to take a more restrained stance towards Central Asian liberalization. This gradualism policy manifested in slow reforms, both economically and politically, for each of the Central Asian states. The same argument can be made with Central Asian regional integration.

### CA+J and Japanese ODA

CA+J still falls in line with Japanese neoliberal multilateralism. There are five CA+J objectives:

- 1.) strengthening of peace, stability, and democracy of the Central Asian region;
- 2.) strengthening the region's economic foundations, the promotion of reform and the social development of the region, including the correction of intraregional disparities;
- 3.) strengthening of intraregional cooperation by the Central Asian countries;
- 4.) maintenance and development of good relations between Central Asia and neighboring regions

as well as with the international community and finally; 5.) cooperation between Japan and Central Asia with respect to both regional issues and issues having international dimensions (Joint Statement, 2004). There is a strong regional integration component along with soft power dynamics. Like previous regional initiatives, Tokyo aims to achieve many of these objectives through ODA and other multilateral channels.

**Figure 3: Central Asia + Japan Foreign Ministers**



Source: (Ministry of Foreign Affairs, 2015)

JICA has been very active in implementing Japanese ODA in the Central Asia. JICA implements ODA in three different ways. The first are loans. These loans are given a very competitive interest rate and are commonly refinanced either through JICA or MOFA to avoid default (Sunami, 2015). The second method ODA is employed is through grants. This is usually reserved for the poorest countries and resembles typical Western aid packages. The final implementing agent is technical assistance. This comes in the form of technical advisors to the host country, or training nationals either domestically or in Japan (Sunami, 2015). As a country becomes wealthier, they typically graduate from Japanese ODA and ideally receive Japanese Foreign Direct Investment (FDI). ODA, especially for infrastructure development, is fundamental for future Japanese FDI.

Therefore, ODA should be viewed more as an investment rather than charity as commonly seen with Western agencies. Capital projects, especially infrastructure, are aimed to not only benefit the host nation, but also Japan (Sunami, 2015). Part of JICA's overall assistance strategy in Central Asia is to not only renovate obsolete infrastructure, but also restructuring of infrastructure systems. The network infrastructure is of high priority in almost all countries in the region (Yamada, 2015). Special attention is also being paid to the regional integrity, specifically co-working with various regional initiatives, such as CAREC (Yamada, 2015). Better transport infrastructure will aid Central Asian commerce as well as Japanese FDI.

Transportation sector development has been active. JICA currently completed eight transportation projects with four in progress. Three completed loan-based projects were in Kazakhstan and included railway transport development, bridge construction, and road network rehabilitation. Through a combination of loan and grant aid, Kyrgyzstan rehabilitated roads and constructed bridges. Uzbekistan used JICA loans to improve existing and build new railways. Turkmenistan used loans to modernize its railway project. The current projects are loans to Kazakhstan and Uzbekistan for CAREC Transport Corridor improvement and railway electrification, respectively. Tajikistan received grants for two current road-building projects.

There is also a social services component directed to improve income generation in rural areas and general human resources. There are three "Japan Centers for Human Development" (also known as "the Japan Center") located in Bishkek, Kyrgyzstan; Tashkent, Uzbekistan; and Almaty, Kazakhstan (Yamada, 2015). The objectives of the Japan Center are "human resources development for private sector businesspersons towards market economy, and mutual understanding between the people of both Central Asia and Japan" (Yamada, 2015). The results are summarized in figure 2.

**Figure 2: Japan Center for Human Development Cumulative Participants (as 30 June 2011)**

	Business Courses	Japanese Language Courses	Mutual Understanding	Total
Uzbekistan	4,563	5,334	81,339	91,236
Kazakhstan	6,957	4,891	33,487	45,335
Kyrgyzstan	11,475	1,471	29,553	42,499
Total	22,995	11,696	144,379	179,070

Source: (Yamada, 2015)

There are roughly 180,000 Central Asians with Japanese-relevant human resource capacity, with Uzbekistan indubitably having the greatest share. Tajikistan likely could not host a Japan Center because of the civil war. Turkmenistan is a notoriously closed regime; hence no Japan Center.

FDI has already found its way into Central Asia through ODA. Principally, MUJI has partnered with JICA to develop the “One Village One Product” project in Kyrgyzstan. The partnership entails product development and technical training for rural villagers in the Issyk-Kul region to make felt handicrafts to be sold as Christmas gifts at MUJI shops and website around the world (Japan Official Development Assistance, 2013).

No doubt one of most significant interests in Central Asia is energy. This has attracted the bulk of Japanese FDI. Within the CA+J dialogue there are a number of provisions alluding to energy sector development and exploitation. In accordance with this framework, natural resource exploitation is well underway in many Central Asian republics. Itochu and Inpex Corporation are now present in Kazakhstan’s Kashgan oil fields in the Caspian Sea. The uranium industry, also in Kazakhstan, is profitable for Japan. As the world’s largest producer of uranium, Kazakhstan voluntarily disarmed their nuclear program shortly after independence, making them a natural choice for Japan’s supplier. Sumitomo Corporation was principally responsible for extraction, but since the 3/11 disaster, uranium demand in Japan has decreased significantly. There are talks with Toshiba, however, to develop Kazakhstan’s first nuclear power plant (Yamada, 2015). Thanks to ODA and implementing organs like JICA, the Japanese-Kazakh economic partnership is blossoming. Nevertheless, infrastructure ODA still remains the main agenda for all Central Asian countries.

Generally, the CA+J, JICA, and ODA strategies are fine. Their objectives fit into Japan’s neoliberal multilateralism strategy well. As MOFA representative Akihiko Sunami stated, “Japanese ODA is an effective foreign policy tool for a stable and secure region” (Sunami, 2015). Using ODA to build infrastructure to enhance commercial and economic activity between Central Asian states and Japanese FDI builds interdependency. Oil and gas exploitation ties in Japanese interests to the region as well, so the relationship is reasonably equivalent. The question

still remains whether these initiatives have been helpful in developing a cohesive Central Asian region.

### **Challenges to Regionalization**

It is true that ASEAN-style integration in Central Asia is incredibly difficult to obtain. The infrastructure issues are significant. The mountainous terrain in some states along with the absence of seaports inhibits infrastructure development. Communications and other technical infrastructure is lacking in much of Central Asia. The sheer size and location of the region further discourages integration. The population density in Central Asia is fairly low, which can diminish the value-added effects of ODA. Additionally, trade and transportation across borders is extremely time consuming and bureaucratic.

Perhaps the biggest barriers toward regional integration are the Central Asian regimes themselves. Other than perhaps Kyrgyzstan, democracy is a myth in Central Asia. Kazakh President Nursultan Nazarbayev and Uzbek President Islam Karimov have been in power since independence, and have no plans in relinquishing it in the near future. Turkmenistan's cult-of-personality leader Saparmurat Niyzov instituted a strict closed-door policy until his death in 2006. His successor, Gurbanguly Berdimuhamedow, is much more engaging by comparison, but still keeps Turkmenistan relatively closed. Even under CA+J, Turkmenistan is an observer. Tajik President Emomali Rahmon has been power since 1994, while Kyrgyzstan's Almazbek Atambayev is the country's third president, coming into power after the previous two authoritarian presidencies ended in coups d'état's.

With the possible exception of Atambayev, none of these leaders have embraced transparent democracy, or even power sharing, in their own countries. Multi-lateral initiatives such as the Aral Sea Basin policy are wrought with politics and self-interest. JICA and MOFA have tried for years to engage Central Asian leadership for more sustainable water usage and irrigation reform for Aral Sea rehabilitation, with no luck (Yamada, 2015). There is little evidence that the leadership will concede power in any sort of regional format. The odds are slim that CA+J, or even AFP, will unify the region given the current leadership. Japanese policymakers were aware of the difficulty in influencing regional cooperation. Ambassador Kawato perhaps said it best with regards to AFP and CA+J:

“First, although Japan has neither the intention nor the capacity to impose hasty reforms on Central Asian countries, it wants to have its final goal – realization of democracy and freedom in the region – understood by them. Second, Japan wants to render service to its ally, the United States, by transforming “the Arc of Instability” into an “Arc of Freedom and Prosperity.” Third Japan will be able to look nice in comparison with China, which is widely believed to be lacking in freedom and democratic values” (Kawato, 2008).

Despite these challenges, Japan has had some success. First of all, not many countries can gather the Central Asian nations in a CA+J dialogue. This coordination in itself should be seen as a success. Secondly, the Japanese are highly regarded in Central Asia. Central Asia expert S. Fredrick Starr stated that Japan is viewed very positively by all Central Asian states – especially for humanitarian and developmental assistance (Starr, 2015). And as former Ambassador Kawato alluded, Japan will be able to look nice in comparison (Kawato, 2008). Japan's relationship with Central Asia is best visualized in the CA+J advertisement in figure 3. Japan wants to be seen as helping, rather than leading, Central Asian integration. The Kyrgyz and Tajik girls in this image are located in the center of the group, signifying the poorest Central Asian states. Kazakhstan and Turkmenistan are flanked to the right and left, while Japan and Uzbekistan are on the ends. According to Dr. Manabu Shimizu, each figure is the same size, indicating equality; and each figure is looking inwards, indicating internal cooperation. Kyrgyzstan and Tajikistan, being the poorest countries, require the most focus from this partnership; hence their central position (Shimizu, 2015). Japan's position on the end signifies assistance, rather than leadership. This coincides with Japan's gradualism tactic. Additionally, each figure is clothed in their traditional costumes, conveying a preservation of tradition and culture. Also interesting to note, despite being among the most diverse regions on the planet (Kazakhstan for example has 125 different ethnicities), each Central Asian figure represents the dominant ethnic group in each country. This must appeal to the leadership's inclinations, as there have been nationalism movements in many of the republics since independence.

**Figure 3: Central Asia + Japan Advertisement**

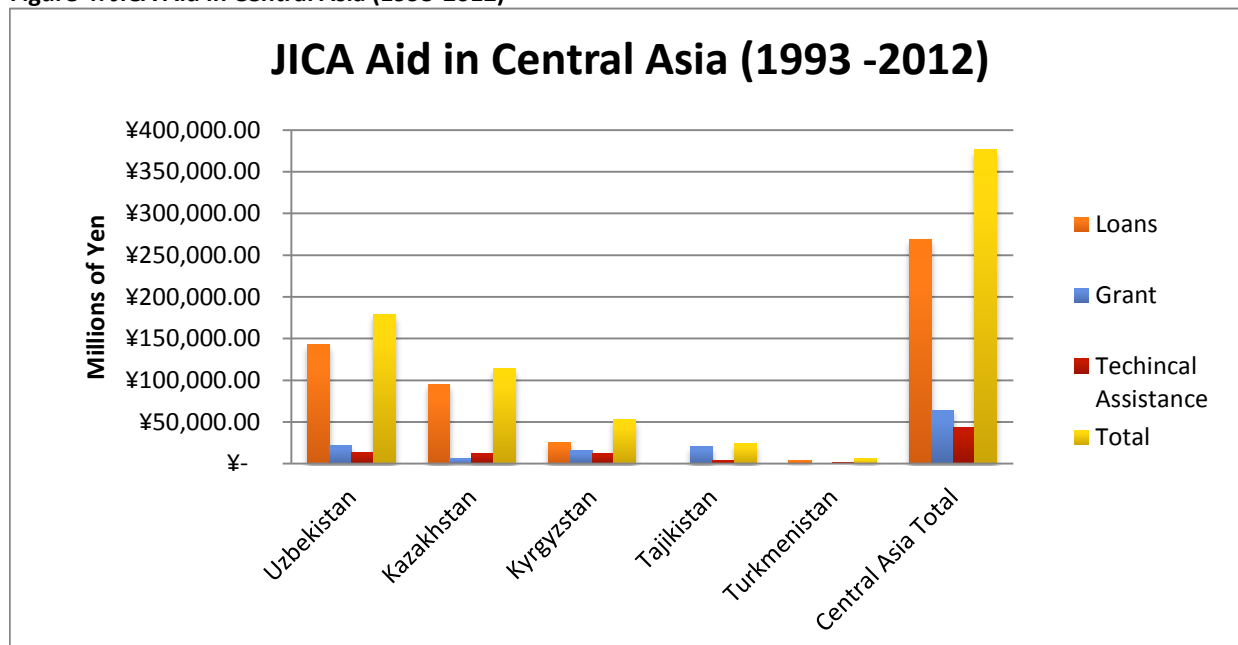


Source: (Shimizu, 2015)

Lastly, Uzbekistan occupies an interesting position. While this image may be a matter of alphabetized coincidence, the Uzbek girl standing at the end occupies the same position as Japan in the Central Asian regionalism spectrum. This is significant in that Japan views Uzbekistan as a

relatively equal complement to CA+J. Tokyo always had a predilection towards Uzbekistan. Many policymakers saw Uzbekistan as the geopolitical and cultural linchpin of Central Asia. This earned stronger diplomatic ties that culminated in President Karimov's first, of multiple state visits, in 1994. Additionally, Uzbekistan was also the highest recipient of Japanese ODA (Yamada, 2015). Figure 4 shows JICA aid in Central Asia since 1993, showing Uzbekistan receiving the highest total amount.

**Figure 4: JICA Aid in Central Asia (1993-2012)**



Source: JICA East and Central Asia and the Caucasus Department (Yamada, 2015)

Japan no doubt occupies a special role among Central Asians, and their current neoliberal multilateralism strategy is sound. If regional cooperation towards an ASEAN-esque integration model is the end goal, then perhaps Uzbekistan is not the most viable choice to build the policy around. Despite being the historic and cultural center of Central Asia, the Karimov regime has become increasingly calcified and authoritarian. After independence, the country only took partial market reforms and still remains an observer in the WTO. Freedom of speech and human rights in Uzbekistan are lacking, even by Central Asian terms. The return on investment of Japanese ODA in Uzbekistan is relatively low. On the other hand, Kazakhstan, the next highest recipient of ODA, has been meeting project goals (The Ministry of Foreign Affairs of Japan, 2004). This is even more evident with the amount of Japanese FDI in Kazakhstan compared with Uzbekistan. After speaking with Japanese policymakers, the general impression of Uzbekistan is that it is progressing much slower than other Central Asian states (Yamada, 2015). While Uzbekistan clearly needs Japanese assistance, perhaps centering the CA+J, or any regional integration platform on Uzbekistan is not optimal.

Kazakhstan has shown much more progress in terms of economic reforms and ODA performance. Kazakhstan has graduated from ODA and is currently enjoying Japanese FDI. While democracy is still a long way away, economic vitality and other increases in the standard of living should at least secure peace and stability in the near future. Additionally, Kazakhstan is aggressively developing its infrastructure and human capital. President Nazarbayev has ambitions to make Kazakhstan the “Singapore of the Steppes” and thus set lofty development goals and agendas. The wealth of natural resources also makes Kazakhstan an attractive partner in the region. As mentioned earlier, Kazakhstan also voluntarily de-nuclearized its weapons program. Lastly, Kazakh geopolitical situation makes it an attractive choice for stronger engagement in Central Asian regionalism. The country is by far the largest Central Asian state and borders both Russia and China. Implanting infrastructure projects from the Kazakh nodes will cover a lot of territory, further enhancing integration. Given Nazarbayev’s ambitions, Kazakhstan is a natural fit for CA+J policy to build around. Kazakhstan must replace Uzbekistan as the CA+J liaison.

CA+J and JICA have the right formula for Japan’s neoliberal multilateralism strategy, but neither have had much regional integration success. The barriers are no doubt challenging, but the strategy needs to be refinement. If ASEAN-style regional cooperation is in order, then Kazakhstan should be the point of engagement. Even though CA+J can be interpreted as a failed policy, as a point of reference, ASEAN took nearly 40 years to develop into the partnership it is today (Ministry of Foreign Affairs, 2014). Granted ASEAN has more direct geopolitical and security implications for Japan, the neoliberal multilateral formula that CA+J is built upon works. CA+J’s success lies in Japan’s absolute gains in power and position among Central Asian nations. This is a valuable foundation to build upon.

### **Japan’s Role in Central Asia**

I argue that Japan occupies a very unique niche in Central Asian relations. While Tokyo may not have the financial, technical, and diplomatic ability to sway Central Asian leadership into regional integration, they do have the capacity to influence individual regimes. Furthermore, Japan’s role as a middle power is generally well received by nations outside of East and Southeast Asia, where historical grievances are constraining. Additionally, Japan, as a high-income Asian nation, holds a certain prestige among developing Asian countries that Western nations cannot duplicate. It probably does not hurt that Japanese and Central Asians share Asiatic physical features, making diplomacy much more relatable. Along those same lines, any pan-Asian integration will likely have more precedence if an Asian nation initiates it. Lastly, Japan’s role as middle-power gives Tokyo special access. Any projects or aid from Japan is not seen with the geopolitical strings that plague Russian, Chinese, or even American investment.

It is true that Central Asian leaders do not have the realist incentives to acquiesce to Japanese interests. However, increasing interdependencies, especially economic, are influential nonetheless. Many of these leaders are dependent on natural resource exports for their regime's preservation. As a result, business and economic incentives are a large part of Central Asian foreign policy goals. Simply, Central Asian leaders seek regime preservation and economic vitality. Turkmenistan, for example, is among the most closed countries in the world, often abstaining from international, regional, and political alliances. Yet, natural gas and other energy deals have yielded cooperation. Japan's favorable standing among Central Asian leaders, especially through CA+J dialogues, allows Tokyo considerable access to develop these influential economic interdependencies.

If Tokyo engages these regimes simply for energy or business deals, Japan not only risks betraying its sustainable international development ideals, but also its favorable position as a generous and transparent outsider middle-power. The amount of intervention and engagement is also difficult for Tokyo to gage. Central Asian countries score highly on many corruption indices, hindering Japanese development and FDI goals. JICA and MOFA continue to struggle with corruption in the region (Yamada, 2015). Additionally, the Central Asian regimes are remarkably authoritarian and many are regular human rights abusers. Deeper association with Central Asian leadership not only presents a moral dilemma for Tokyo, but reputational risks as well. This can have serious security implications for Japanese nationals, especially from non-state actors.

The recent events with ISIS demonstrate the danger to Japanese citizens. Some violent extremists groups were established in response to the authoritarian dictatorships in Central Asia. In fact IMU, whose objective is to overthrow Uzbek President Karimov and establish an Islamic Caliphate in the Fergana Valley, kidnapped four JICA mining technicians in Kyrgyzstan in 1999 in Japan's only other radical Islamist interaction (The Associated Press, 2015).

It is a difficult balance to achieve. There are security and reputational risks at stake for Tokyo if there is more engagement, especially with Central Asian leadership. Nevertheless, I am convinced that Central Asian leadership views Japan as sincere, generous, and most importantly, non-threatening. This is potentially a very influential position, should Abe choose to engage the region deeper. Christopher Len argues "Japan's benign attitude towards the region as well as its generous financial commitment to the region means that it is not a *player* in the "new Great Game" in Central Asia. Instead, Japan which recognizes the importance of external engagement for Central Asia should be recognized as a *partner* of the Central Asian states" (Len, 2008). The partnership is no doubt established in Japan's position in CA+J dialogues, FDI, and even diplomatic engagements, but I argue that Japan is a player. Japan's relative position among the great powers along with its absolute position among Central Asian states puts Tokyo in a unique position to enhance regional and Eurasian integration for both Japan and Central Asian states; or

contain, divide, or even withdraw from Eurasian geopolitics. It depends entirely on what Abe wants for Central Asia *and* for Japan.

### **Prime Minister Abe and Central Asia**

The 1997 Hashimoto doctrine was monumental in promoting Japanese interests in the region. Arguably, this was strategic as much as it was philanthropic. Energy prospects for Japan in the midst of the Lost Decade were alluring. At the same time, potential rogue post-Soviet nuclear weapons must have been equally troubling. Silk Road Diplomacy attempted to relay Japanese pacifism with economic interests to Central Asia. This no doubt laid the foundation for strong regional integration. However, this protocol laid largely unnoticed until CA+J was established in what many argue was a response to China's SCO developments. Then in Abe's first term, AFP dictated the direction of CA+J, again under external movements – namely from the United States. It is apparent that Japan's Central Asian engagement is reactive on Mackindrian forces. If this is the case, then Japanese-fostered Central Asian integration is at the mercy of Mackindrian geopolitics – especially under Abe.

Abe's current foreign policy objective proposes to be more proactive in pursuing Japanese national interests than up to date with the "Proactive Contributor to Peace (PCP)" policy (Ministry of Foreign Affairs, 2014). Under Abe, Japan's first National Security Strategy (NSS) was adopted. This doctrine, along with PCP, states, "Japan will both protect its national interests and conduct proactive and effective diplomacy that fulfills the country's responsibilities commensurate with its position in the international community (Ministry of Foreign Affairs, 2014). More specifically, PCP diplomacy entails among others: 1.) strengthening the Japan-U.S. Alliance; 2.) deepening cooperative relations with neighboring countries; 3.) strengthening economic diplomacy as a means to promoting revitalization of the Japanese economy; 4.) further contribution toward international peace cooperation; 5.) achieving the goal of a world free of nuclear weapons and; 5.) strategic utilization of ODA (Ministry of Foreign Affairs, 2014).

Given these premises, Central Asia is magnificently important. First of all, Afghanistan, if not considered part of Central Asia, is no doubt inextricably connected with the region. American forces are expected to withdraw from the theater in 2016, leaving a massive power vacuum in Afghanistan. As part of strengthening the Alliance, burden sharing, or even contributing towards international peace cooperation, Central Asia will play an integral role for Japan to accomplish these goals with respect to Afghanistan.

Japan intends to deepen cooperative relations with neighboring countries, notably China, Russia, and South Korea. These three nations are incredibly active in Central Asia. Moscow, being the former Soviet administrator, already established the Eurasian Economic Union (EEU) with Kazakhstan. Kyrgyzstan is likely to join in the near future. Additionally, developments in

Ukraine have made Central Asia “suddenly” more relevant again. Considering large Russian minority populations live in Central Asia, Putin will no doubt exert his influence in the region.

China has also aggressively engaged Central Asia. Chinese infrastructure projects are on the rise with \$16.3 billion already invested in multiple projects across the region (Diana Gapak, 2015). The recent Asia Infrastructure Investment Bank (AIIB) will certainly counter the heavily Japanese-influenced ADB. Even the SCO, which has been derided for its lack of capacity, could see some increased activity.

Arguably, South Korea is more assertive than Japan in engaging Central Asia. Largely as a preventative measure to counter North Korean influence in newly independent communist states (Hwang, 2012), South Korea is hedging very well in Central Asia. Contrasting with the Japanese who have used ODA as the engagement driver, South Koreans have utilized FDI to establish similar inroads. Shortly after Uzbekistan’s independence in 1992, for example, South Korea immediately invested over a billion dollars in assets becoming the lead FDI contributor (Hwang, 2012). Recently, South Korea established the “New Asia Initiative (NAI)” with former President Lee Myung Bak touring the five republics in 2011 (Hwang, 2012). Lastly, South Korean-Central Asian people-to-people relations are strengthened through Korea’s *Hallyu* pop phenomena as well as remittances and education programs for Central Asia’s sizeable Korean diaspora minority (Hwang, 2012). The diplomatic ties were recently reinforced when current South Korean President Park Geun Hye made state visits to the Central Asian republics in July 2014 to push her “Eurasia Initiative” (Weitz, 2014). Central Asia has clearly been on the agenda of Japan’s neighbors.

Under PCP, Central Asia is also important for denuclearization and security. Despite being legally bound to a Nuclear Weapon Free Zone agreement, the region could conceivably develop weapons relatively easily. Kazakhstan was formerly a nuclear state that voluntarily disarmed. The technology, at the very least, must still be there. Since Central Asia was part of a nuclear Soviet Union, there are scientists and technicians throughout the post-Soviet states that could access nuclear archival and academic material written in Russian. Being surrounded by nuclear states, including India, Pakistan, and Iran in the south, certainly does not encourage denuclearization. Additionally, Kazakhstan is home to Russia’s spaceport, the Baikonur cosmodrome. Even though the denuclearization agreement is effective, Central Asia still hosts technology that could be used to develop ICBM delivery systems.

It is clear the Central Asia merits further engagement under Abe’s PCP doctrine. However, since Abe came to power in 2012, there has not been much priority placed on the region. According to the 2013 Diplomatic Bluebook, “Year 2012 marked the 20<sup>th</sup> anniversary of diplomatic relations between [Central Asia] and Japan, Japan advanced initiatives to further strengthen the relationship with those countries through frequent visits of key officials and foreign ministers’

meetings within the framework of the “Central Asia + Japan” (Ministry of Foreign Affairs, 2012). The most recent Bluebook echoed similar sentiments, however there is increased dialogue to promote regional cooperation (Ministry of Foreign Affairs, 2014).

Bilaterally, Abe has not been particularly active in the region. Figure 5 summarizes the diplomatic engagements since Abe took power in 2013.

**Figure 5: Diplomatic Activity in Central Asia region since 2013**

	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan	Turkmenistan
2014	Oct 16 -Prime Minister Abe Held Informal Talks with the President of the Republic of Kazakhstan Nazarbayev  July 17 - Visit by Minister for Foreign Affairs Fumio Kishida to the Kyrgyz Republic (also included Kazakhstan)	July 17 - Visit by Minister for Foreign Affairs Fumio Kishida to the Kyrgyz Republic (also included Uzbekistan)	July 17 - Visit by Minister for Foreign Affairs Fumio Kishida to the Kyrgyz Republic	June 26 - Japan-Tajikistan Foreign Minister’s Meeting	July 17- Visit by Minister for Foreign Affairs Fumio Kishida to the Kyrgyz Republic (also included Turkmenistan)
2013			Feb 21 - Visit to Japan of His Excellency Mr. Almazbek Atambaev, President of the Kyrgyz Republic	June 24 - Assistance by the United Nations Trust Fund for Human Security to the Project in Tajikistan	Sept 11-13 - Visit to Japan of His Excellency Mr. Gurbanguly Berdimuhamedov, President of Turkmenistan

Source: Ministry of Foreign Affairs website (Ministry of Foreign Affairs, 2015)

While there were state visits from the Kyrgyz and Turkmen president, the most significant “bilateral” event was the 10<sup>th</sup> anniversary CA+J foreign ministers meeting in Bishkek, where

Secretary Kishida spoke with each of the Central Asian Ministers. Even this event was not particularly transformative. The typical development and economic discourse was on the agenda. The conference covered agricultural issues, sustainable development, and anti-drug and border management cooperation with Afghanistan in more detail (Ministry of Foreign Affairs, 2015). There has not been much dialogue on political events that could disrupt Central Asian regional integration. The Eurasian Economic Union, for example, came into effect in May 2014. It is surprising this was not on the agenda in the CA+J meetings in July 2014.

Granted it is still early in Abe's administration, Central Asia still has not received much attention. Of the regional players, China understandably garnered the most diplomatic attention with 24 separate engagements. Russia and Afghanistan received 13 and 12 engagements respectively (Ministry of Foreign Affairs, 2015). Seeing that CA+J is the governing policy, Abe's engagement with Central Asia is not remarkably different than his predecessors. As it stands, there is a virtual hole of Japanese diplomacy at Central Asia in the Eurasian landmass.

Perhaps this may play into Japan's gradualism policy for the region, but the lack of activity is nonetheless troubling. As I have argued before, Japan's neoliberal multilateralism is sound. The ODA is reasonably effective. The problem lies with priority. Since Central Asia is past China, it is therefore unimportant in the eyes of Japanese policymakers. Abe has established his overall policy goals, but has not specified a unique Central Asian agenda. Central Asia is too important to neglect in this current geopolitical junction. Not engaging Central Asia innovatively and effectively will greatly inhibit Abe's PCP goals.

### **Policy Recommendations**

There is no doubt that Mackindian power dynamics are in effect. Abe clearly wants Japan to play a more active role both in regional and global affairs under PCP. Thus, Abe must recognize balance of power dynamics in Eurasianism. Whether Abe is interested in obtaining absolute or relative gains, Central Asia will be important nonetheless. Japan occupies a very interesting niche in Eurasia. In East Asia and perhaps Southeast Asia, Japan is arguably a high power. On the rest of the landmass however, Japan is a middle power player. Just as Tokyo integrated itself into ASEAN and obtained significant neoliberal power, Japan can potentially do the same in Central Asia. By integrating Central Asia into Eurasia, Abe can effectively integrate Japan into the pivot area.

#### *Prioritize Central Asia*

From energy, to geopolitics, to denuclearization, Central Asia is an integral part of Eurasia. Central Asia hosts many of the concerns as well as the desires of Abe's foreign policy goals. So far, Abe has lost ground to regional neighbors in Central Asia. Understandably, China and

Russia have more incentive to engage the region, but fellow middle power South Korea has been far more aggressive. This was simply a matter of priority for Korean foreign policy. Despite being surrounded by water on three sides and the world's most fortified border, making the North an effective no-fly zone, South Korea has used its pseudo-island constraints as motivation to integrate into the Eurasian landmass. Abe has very little excuse considering Japan's diplomatic, economic, and cultural capital.

It is true that Abe is planning to visit Kazakhstan and the four other Central Asian countries in late August 2015. However, the intent seems to engage Russia rather than Central Asia. Specifically, "Abe is also looking in the possibility of holding talks with Russian President Vladimir Putin during the tour... Putin is reportedly considering a visit to Kazakhstan's capital of Astana from Aug. 24 to 30 to attend the World Judo Championships" (Yomiuri Shimbun Staff, 2015). While Abe will be the first Japanese Prime Minister to visit Central Asia since Junichiro Koizumi visited in 2006, Central Asia should not be seen as a contagious part of Russia, or as a bridge to meet Putin, but rather as a set of nations that merit its own diplomatic engagement. Granted Abe is in a tough situation because directly reaching out to Putin would not only irritate Washington and Brussels, but also Beijing. This may be Abe's best opportunity. Nevertheless, Central Asia warrants higher priority that should not be seen through the lens of the surrounding global powers.

### *Reform and expand CA+J*

While the CA+J dialogue has been useful, it requires reformation. As mentioned earlier, Kazakhstan, rather than Uzbekistan, should be the Central Asian liaison. Japan should also push Turkmenistan to become a full-fledged member. While it is easier said than done, economic and financial incentives may provide the required impetus. CA+J should also encourage JICA representation in the dialogues. Since JICA is the primary implementing agent of Japanese ODA, they will have valuable input into the needs and goals of the region.

Additionally, there should be an even stronger emphasis on regional cooperation. Japan must continue its gradualism policy and promises for sustainable development, but also remain pragmatic. This may already be in progress. After speaking with a number of Japanese officials, the focus in Central Asia is on peace and prosperity rather than freedom and prosperity (Yamada, 2015) (Sunami, 2015). Perhaps encouraging a limited FTA between CA and Japan through CA+J will encourage intraregional cooperation.

Encouraging people-to-people interaction (PTPI) needs to be a priority. Many Japanese are unaware of Central Asia and its potential, and likewise many Central Asians lack the opportunity to engage with everyday Japanese citizens. Unlike South Korea, Japan lacks a strong diaspora in the region that allows (PTPI). Expanding the number of Japan Centers to all Central Asian

capitals and major cities will be a good first step. MOFA or JICA could promote Japanese pop culture and fashion in Central Asia. Putting JICA volunteers in the region may also be favorable. Arranging and promoting Japanese tourism to Central Asia will certainly help. Central Asia – especially the poorer countries of Tajikistan and Kyrgyzstan – hosts spectacular mountain ranges. CA+J could facilitate visa regimes for Japanese tourists on hiking and trekking trips. Even increasing direct flights from Japan to Central Asia can boost tourism. Domestically, Japan can promote Turkic, or even Russian, language programs in schools and universities.

Additionally, Tokyo could provide promising Central Asians scholarships to study in Japanese universities or at Japanese language schools. Lastly, promoting Central Asian culture, perhaps in the form of museum exhibits, sporting events, and/or musical performances, can enhance PTPI. This needs to be a stronger focus.

Finally, CA+J dialogues need to address better financing. Of the JICA Asia budget, Central Asia and the Caucasus region only account for 2% of the spending (Sunami, 2015). If ODA is intended to pave the way for Japanese FDI, then developmental aid and JICA budgeting should increase. Alternatively, Abe could promote Japan's private sector to invest in Central Asia. The FDI could be used to better develop the region's infrastructure inline with Eurasian integration. Public-private partnerships and cooperation with international organizations can ensure accountability and sustainable development. He does have plans to “communicate Japan's stance of aiding development in the countries by boosting private-sector investment and trade in natural resources” (Yomiuri Shimbun Staff, 2015) in his upcoming Central Asia tour. However, more focus should be on industry creation rather than resource extraction. Given the amount of resources, labor, and impending Eurasian overland trading route integration in Central Asia, Tokyo should consider investing in textiles, automotive, or electronic production facilities. South Korea and China seem to be employing this method quite well. Having a stronger economic policy for Central will increase much needed interdependencies.

### *Cooperate with Regional Neighbors in Central Asia*

Abe's administration has not been particularly well received in Northeast Asia. While his doctrine is to deepen cooperative ties with neighboring countries, his NSS and PCP strategy are markedly more escalatory. His actions also do not express a sense of cooperation. For example, he has arguably missed opportunities to mend fences with South Korea and China during the 70<sup>th</sup> anniversary of the end of World War II. Be that as it may, Central Asia presents a new opportunity to cooperate with the regional neighbors outside of the East Asian theater.

Speaking with a number of officials in Tokyo, there is not much cooperation in Central Asia, especially regarding development (Yamada, 2015) (Sunami, 2015). Granted each player has a different set of interests in Central Asia. Moscow, for example, views Central Asia as an

area of its legal and traditional interests (Nurgaliyev, 2008). Therefore, Central Asia takes a more geopolitical approach to the Russians, acting as a buffer zone from the Chinese and the Americans in Afghanistan. Beijing also sees Central Asia geopolitically, but their primary impetus is energy and economics. Outside of hydrocarbons, Central Asia is also a potential overland transit area for Chinese goods. It is in Beijing's interest to keep Central Asia stable and friendly. The United States interest is predominantly security. Afghanistan is the obvious concern, but Central Asian Islamic extremism no doubt keeps Washington in the picture. American energy companies are also present in Central Asia, and geopolitical pressure against Russia, China, Iran, and Pakistan is good reason to stay involved. Like Japan, South Korea is chiefly interested in energy. However, there are geopolitical and cultural components as well. For Seoul, Central Asia presented an easier opportunity for South Korea to engage their version of neoliberal multilateralism. Neither China nor Russia saw the South Korean middle power as a threat (Hwang, 2012). It seems that Seoul is taking the chance on Central Asia whereas Tokyo took the Southeast Asia opportunity.

Despite having different interests, Japan's position allows Tokyo to pursue cooperative opportunities. Regarding Japan's general objective, Len states that "there may be an element of strategic disparity, but Japan's strategy in itself is not meant to wreck Russia and China's engagement with the region" (Len, 2008). For example, Abe could propose a new cooperative Central Asian initiative that focuses on sustainable regional integration for Central Asia. Items like green energy, infrastructure, and human security could be potential points for cooperation. Considering Japan's influence in International Organizations, Abe could incorporate these institutions to convey impartiality.

In theory however, Abe could choose whom to cooperate with in developing this proposed initiative. If that is the case, Abe needs to be mindful of the potential repercussions of those actions in Northeast Asia. It is little secret that China concerns policymakers in Tokyo. As one senior LDP member stated regarding cooperation: "An enemy of my enemy is my friend" (Interview, March 2015). The Kremlin understands this as well. According to Andrew Kuchins of CSIS, "One of the biggest prizes for Putin would be détente with Japan to help as a hedge against China. Japan, a US ally that also imposed sanctions on Moscow, is embroiled in territorial disputes with China, and would welcome better relations with Russia for the same reason" (Bloomberg Staff, 2015). Should Japan choose to cooperate exclusively with Russia in Central Asia for example, this could have severe repercussions on China-Japan relations. Alternatively, if Abe chooses to work exclusively with the Chinese or Americans, this could shut Japan out of Central Asia and further stall relations with Russia.

Cooperative opportunities no doubt exist in Central Asia, but seemingly zero-sum Northeast Asian politics carry-over. Depending on domestic attitudes, this dynamic can play out in Central

Asia as well. Given Japan's current standing among Central Asians and the importance the region has for Tokyo, I suggest seeking cooperation with the Koreans.

South Korea and Japan have nearly identical objectives for Central Asia. Both seek to incorporate themselves in an energy-rich region through neoliberal multilateralism. Additionally, both hope in the long run to see a more open and integrated Central Asian region in the Eurasian landmass. Seoul, however, has been more proactive recently, and thus made further progress in Central Asia. Using Japan's previous experience and capacity, along with South Korea's deeper inroads could make a strong cooperative organization for Central Asia.

It is also little secret that South Korean-Japanese relations have deteriorated since Abe came into office. Within Northeast Asia, Seoul and Beijing are beginning to see eye-to-eye on a number of issues, particularly with Japanese territorial disputes. Moreover, stronger economic ties between South Korea and China are becoming more influential. Some would argue that the Chinese-South Korean relations are the closest they have ever been. Beijing is no doubt capitalizing on the widening gap between Seoul and Tokyo. Since South Korea and Japan are big players in East Asia, shifts by Seoul or Tokyo could ripple through the U.S., China, Russia, or even worse, North Korea. Given the tensions in Northeast Asia, these shifts could possibly upset the balance of power. While it is a worst-case scenario, there are markedly more political and strategic costs for all players involved in Northeast Asia.

On the other hand, since South Korea and Japan are considered middle powers in Central Asia, any movement or cooperation by Seoul or Tokyo will likely not upset the balance of power in the region. As it's trending, Chinese and South Korean relations are burgeoning (Tiezzi, 2015) as well as Russian and Japanese relations (Ministry of Foreign Affairs, 2014). A scenario where both Seoul and Tokyo work collectively to better Central Asia, something along the lines of a Central Asia + Northeast Asia (CANA) dialogue, would certainly ease tensions. This could start at the foreign minister level and quickly evolve to include the heads of states. Ideally, this cooperation would spill over into East Asia, and promote more constructive dialogue, as well.

CANA could provide a platform that could be extended to both Russia and China. Respectively, each view Japan and South Korea quite favorably, which could be used to build upon. Eventually, CANA could focus on infrastructure development and trade through Russia and China to connect Central Asia to Northeast Asian warm water ports. If Russia and China cooperate, this could introduce influential interdependencies. Additionally, having both China and Russia involved could provide checks on power. Should a geopolitical contingency arise, trade and commerce could be concentrated through China terminating at Tianjin, or concentrated through Mongolia and Russia, ending at Vladivostok. Having South Korea and Japan intimately involved can give the US a solid voice should CANA ever materialize. Like with many other multinational regional organizations, Washington could take an influential supportive role.

Lastly, a more unified Central Asian region via Japanese and Korean cooperation can also be used to balance against Chinese and Russian self-interest. While this initiative echoes some aspects of CAREC, perhaps focusing on an outside-to-in development agenda rather than vice-versa could be more successful.

Clearly, this is an idealistic scenario. There are no doubt other barriers that would impede CANA. Nevertheless, increased cooperation between South Korea and Japan in Central Asia is an opportunity that Abe should consider. Many policymakers in Japan expressed the lack of coordination with other donors and actors in the region – especially with regards to development (Yamada, 2015) (Sunami, 2015). Moreover, these policymakers recognized the opportunities for engagement and were open for cooperation “so long that peace and stability for the region is the priority” (Yamada, 2015). Therefore, engagement with Central Asia should not be seen as a zero-sum game with China or other powers, but rather as an opportunity to build solidarity for the Eurasian landmass.

*Any future Central Asia policy needs to incorporate Afghanistan*

While not politically considered part of Central Asia, Afghanistan needs to be incorporated into Tokyo’s Central Asian strategy. Even as it stands, JICA considers Central Asia and the Caucasus as a separate region while MOFA lumps it with Europe. There needs to be a uniform policy that not only designates Central Asia as a separate region, but also includes Afghanistan. The historical, linguistic, cultural, and geographic ties make Afghanistan more a part of Central Asian than South Asia.

Additionally, Afghanistan is a paramount concern not only for Central Asia, but also for the Eurasian landmass. The impending American withdrawal in 2016 undoubtedly increases the risk for more drug and arms trafficking, violent extremism, state collapse, and conflict. Afghanistan can greatly disturb the balance of power, perhaps jeopardizing the entire Eurasian integration movement. While the forecasts are certainly dire, there is an opportunity for both Abe to assert his PCP initiative, while also navigating within balance of power politics. Additionally, there is an opportunity for better Central Asian regional integration in response to the American withdrawal.

Abe intends to be a “Proactive Contributor to Peace”, where one of the provisions is to protect national security in the form of combating international terrorism as well as performing peacekeeping operations (Ministry of Foreign Affairs, 2015). Considering the recent events with ISIS, but more importantly the 1999 IMU kidnapping in Kyrgyzstan, Abe could justify a threat to national security in Central Asia and Afghanistan. Under the PCP and NSS doctrine, this could involve the Japanese Self-Defense Force being deployed in a lethal capacity in Afghanistan, or as border enforcement in Central Asia. Politically, I imagine this will be very

difficult to implement, but the opportunity – and in theory the legal capacity – is there. The Americans would likely welcome Japanese peacekeeping or military stabilization forces in Afghanistan to help with burden sharing. Moscow may grumble about having a close American ally conceivably performing military operations so close to Central Asia and the pivot area; However, Russia benefits from a stable Afghanistan. Japan, being a non-NATO member, might be welcomed in some circles in Russia. China would clearly object, but Beijing would need a stable Afghanistan and Central Asia. Seoul would not welcome a more militarized Japan, but faces little risk or threat if JSDF is deployed in Afghanistan/Central Asia.

Under PCP and NSS, Abe can make an argument that JSDF, for the sake of national security, be deployed for peacekeeping or counterinsurgency in Afghanistan. If that is the case, better coordination and engagement with Central Asian nations will be imperative. However, this will stray from Japan's neoliberal multilateralism approach – particularly if Abe acts unilaterally. Introducing realist elements is dangerous – especially in a sensitive balance of power situation like Central Asia and Afghanistan. Abe may gamble away Japan's reputation as a benign middle-power and risks a baptism of fire into the Eurasian global powers club.

While the opportunity and the precedence is there in Central Asia/Afghanistan, Tokyo's strengths still lie in its neoliberal multilateralism strategy. Given the concerns for Russia, China, the US, and the individual Central Asian states, issues involving Afghanistan will no doubt warrant attention. I argue that including Afghanistan in Japan's Central Asian regional integration strategy will merit better cooperation not only from the individual Central Asian states, but also from the big Eurasian powers. Presenting Afghan issues and challenges is common ground that can bring Central Asian leaders together. A stable and secure Afghanistan is in everybody's self-interest.

Again, I am convinced that Japan can introduce better regional cooperation if Afghanistan is included to Tokyo's Central Asian paradigm. A Japanese initiative, perhaps organizing stronger border management capacity, peacekeeping operations, or even counterinsurgency support, could satisfy Abe's PCP engagement while encouraging regional cooperation. Even international development and infrastructure projects should include Afghanistan. Better yet, Abe could include Afghanistan in his CANA partnership with South Korea. Including a strategic defense component to CANA's regional integration strategy may warrant better cooperation. Nevertheless, Abe must incorporate Afghanistan to Japan's Central Asia narrative.

#### Conclusion

It is clear that Abe has the opportunity to integrate Japan into Eurasia through Central Asian regionalization. However, his strategies and priorities engaging the region have been inadequate thus far. The current framework in place, Central Asia + Japan, is successful in its own right. CA+J established Japanese interests in the region. Along with ODA and JICA, CA+J has given

Japan favorable positioning and unique access among the Central Asian states. This is fundamental for potential regional integration. But as it stands, CA+J is not producing substantive regional integration.

Tokyo's success internationally has been its neoliberal multilateralism. The current CA+J framework has the correct formula in place; however Tokyo has relegated Central Asia to diplomatic backwaters. Considering Mackindrian geopolitics, Central Asia is in a pivotal area. If Abe's goals are to become a bigger regional and global player, than deeper engagement with Central Asia is in order.

Central Asia also possesses energy and natural resources for Japanese consumption. Additionally, Eurasian overland trading routes are beginning to develop. Abe must use the opportunity in Central Asia to convey Japanese interests in Eurasian economic integration. There are security and geopolitical factors in Central Asia that warrant more Japanese consideration.

While Abe introduced potentially revolutionary new foreign policy objectives, namely the "Proactive Contributor to Peace" doctrine, Tokyo should continue its neoliberal multilateralism agenda in Central Asia. There is justification in Central Asia for Abe to introduce realist elements that will not immediately jeopardize Japan's security; however Central Asia should be viewed as a collaborative opportunity rather than a decisive one. Additionally, Northeast Asian neighbors are big players in Central Asia. Abe should use this region as an opportunity to work collectively, and to hopefully ease tensions in Northeast Asia.

In order to accomplish this, Abe must first prioritize Central Asia as a vital independent region. Secondly, Abe must reform, expand, or otherwise transform the current CA+J framework. Keeping with Japanese neoliberal multilateralism, Tokyo must engage with regional neighbors to not only navigate the balance of power politics, but also to coordinate with Central Asian leadership. Finally, any new Central Asian initiatives must include Afghanistan. This is a common cause that all involved parties can cooperate upon.

Abe has a unique opportunity in Central Asia to achieve his foreign policy goals. There are choices in the region that could ultimately change the balance of power in Eurasia. It is easy to outline the different scenarios for Japanese intervention in Central Asia. More difficult to determine, however, is what path Prime Shinzo Abe will take.

### Bibliography

- Anonymous. (2015, March 18). Liberal Democratic Party Member Interview. (R. I. Hamilton, Interviewer, & W. L. Brooks, Translator) Tokyo, Japan.
- Azer News. (2015, Jan 30). *Uzbekistan draws Japanese Investment*. Retrieved from Azer News: [www.azernews.az/region/76875](http://www.azernews.az/region/76875)
- Bloomberg Staff. (2015, Feb 16). Putin Looks to Make Friends Across Asia. *Bloomberg*.
- Dadabaev, T. (2008). Models Of Cooperation in Central Asia and Japan's Central Asian Engagements: Factors, Detrminants and Trends. In U. T. Christopher Len, *Japan's Silk Road Diplomacy: Paving the Road Ahead* (pp. 121-141). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies Program.
- Dadabaev, T. (2013, May/June). Japan's Search for Its Central Asian Policy Between Idealism and Pragmatism. *Asian Survey*, 53(3), 506-532.
- Diana Gapak, D. K. (2015, March 11). China and Russia - Allies not frenemies in Central Asia. *Financial Times Blog*.
- Fumagalli, M. (2012, Winter). South Korea's Engagement in Central Asia from the End of the Cold War to the "New Asia Initiative". *The Journal of Northeast Asian History*, 9(2), 69-97.
- Harper, J. L. (2011). *The Cold War*. Oxford, United Kingdom: Oxford University Press.
- Hwang, B. (2012, December). A New Horizon in South Korea-Central Asia Relations: The ROK joins the "Great Game". *Korea Compass*.
- INGEROSEC Corporation. (2011). *Evaluation of Assistance for the Transition to a Market-Oriented Economy in Three Central Asian Countries (Republic of Kazakhstan, Kyrgyz Republic, Republic of Uzbekistan)*. Ministry of Foreign Affairs, Japan's Official Development Assistance. Tokyo: Ministry of Foreign Affairs of Japan.
- Japan Official Development Assistance. (2013). *Promoting Growth among Craftspeople through Japanese Corporate Quality Standards*. White Paper, Japan Official Development Assistance, Bishkek.
- JICA. (2015). *Central Asian Strategy*. Retrieved May 14, 2015, from Japan International Cooperation Agency (JICA): [www.jica.go.jp/english](http://www.jica.go.jp/english)
- Joint Statement . (2004). *Central Asia + Japan Dialogue/Foreign Ministers' Meeting -Relations between Japan and Central Asia as They Enter A New Era*. Foreign Ministers of CA+J. Astana: Ministry of Foreign Affairs of Japan.
- Kawato, A. (2008). What is Japan up to in Central Asia. In U. T. Christopher Len, *Japan's Silk Road Diplomacy: Paving the Road Ahead* (pp. 15-30). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies Program.
- Keohane, R. O. (1990, Autumn). Multilateralism: An Agendea for Research. *International Journal*, 45(4), 731-764.
- Keohane, R. O. (2012). Twenty Years of Institutional Liberalism. *International Relations*, 26(2), 125-138.

- Khoshimov, V. N. (2008). Foreign Policy of Japan and Central Asia. *Japan Institute of International Affairs*.
- Len, C. (2008). Understanding Japan's Central Asian Engagement. In U. T. Christopher Len, *Japan's Silk Road Diplomacy: Paving the Road Ahead* (pp. 31-47). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies.
- Mackinder, H. J. (1904, April). The Geographical Pivot of History. *The Geographical Journal*, 23(4), 421-437.
- Mangi, L. (2011). The Political and Economic Strategy of Japan towards Central Asia. *Social Research Center*.
- Ministry of Foreign Affairs. (2007). *Diplomatic Bluebook 2007 Summary*. Ministry of Foreign Affairs of Japan. Tokyo: Government of Japan.
- Ministry of Foreign Affairs. (2012). *Diplomatic Bluebook 2013 Summary*. Ministry of Foreign Affairs . Tokyo: Government of Japan.
- Ministry of Foreign Affairs. (2014). *Diplomatic Bluebook 2014 Summary*. Ministry of Foreign Affairs of Japan. Tokyo: Government of Japan.
- Ministry of Foreign Affairs. (2015). *Ministry of Foreign Affairs of Japan*. Retrieved May 10, 2015, from [www.mofa.go.jp](http://www.mofa.go.jp)
- Murashkin, N. (2015). Japanese Involvement in Central Asia. *Asian Journal of Social Science*, 43, 50-79.
- Nurgaliyev, M. (2008). Development of the Shanghai Cooperation Organization and Diplomacy of Japan Towards Central Asia. *The Japan Institute of International Affairs*.
- Rakhimov, M. (2014, September 2013). Central Asia and Japan: Bilateral and Multilateral Relations. *Journal of Eurasian Studies*, 5, 77-87.
- Rowley, A. (2015, March 17). China-led Asia investment bank gains traction with more support. *The Business Times*.
- Sadykova, R. (2013). Japan's Policy towards the Countries of Central Asia. *International Journal of Social, Education, Economics and Managment Engineering*, 7(8).
- Shimizu, M. (2015, March 17). Japan Institute of International Affairs Central Asia Interview. (R. I. Hamilton, Interviewer) Tokyo, Japan.
- Smith, P. L. (2015, April 30). The real story behind Shino Abe's visit: China, TPP and what the media won't tell you about this state visit. *Salon*.
- Starr, S. F. (2015, February 18). Inquiry on Japan in Central Asia. (R. I. Hamilton, Interviewer)
- Sunami, A. (2015, March 17). Ministry of Foreign Affairs Presentation. (R. I. Hamilton, Interviewer)
- Swanstrom, N. (2008). Economic Cooperation and Conflict Managment in Central Asia: What Role for Northeast Asian Actors? In U. T. Christopher Len, *Japan's Silk Road Diplomacy: Paving the Road Ahead* (pp. 143 -157). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies Program.
- Takeshi, Y. (2008). Consolidating "Value-Oriented Diplomacy" towards Eurasia? The "Arc of Freedom and Prosperity" and Beyond. In U. T. Christopher Len, *Japan's Silk Road Diplomacy:*

*Paving the Road Ahead* (pp. 47-67). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies.

Takeshi, Y. (2010). Central Asia in the Context of Japanese-Russian Relations. *China and Eurasia Forum Quarterly*, 8(2), 119-135.

The Associated Press. (2015, Jan 21). Japan doing all it can to save ISIS hostages, Shinzo Abe says. *The Associated Press*.

The Ministry of Foreign Affairs of Japan. (2004). *Country Assistance Evaluation of Uzbekistan and Kazakhstan Summary*. The Ministry of Foreign Affairs, Third Party Evaluation. Tokyo: The Ministry of Foreign Affairs .

The Ministry of Foreign Affairs of Japan. (2009). *Evaluation on Multilateral ODA: The United Nations Trust Fund for Human Security*. Third Party Evaluation, The Ministry of Foreign Affairs of Japan, Tokyo.

Tiezzi, S. (2015, May 13). China and South Korea's Lagging Military Ties. *The Diplomat*.

Tomohiko, U. (2008). Japan's Diplomacy towards Central Asia in the Context of Japan's Asian Diplomacy and Japan-U.S. Relations. In U. T. Christopher Len, *Japan's Silk Road Diplomacy: Paving the Road Ahead* (pp. 101-121). Washington, D.C., USA: Central Asia-Caucasus Institute & Silk Road Studies Program.

Weitz, R. (2014, July 1). Park's Central Asia Tour Reaffirms South Korea's Eurasian Vision. *World Politics Review*.

Yamada, T. (2015, March 19). Japan International Cooperation Agency . (R. I. Hamilton, Interviewer) Tokyo, Japan.

Yomiuri Shimbun Staff. (2015, April 13). Abe plans Central Asia tour, possible Putin. *Yomiuri Shimbun* .

## **Trilateral security cooperation in Northeast Asia**

### **Are the United States, Japan, and South Korea heading towards security convergence?**

By Ju Hyung Kim

#### **Introduction**

The two bilateral alliances that America maintains in tandem in Northeast Asia – namely, the Mutual Defense Treaty between the United States and the Republic of Korea (October 1, 1953) and the Treaty of Mutual Cooperation and Security between the United States and Japan (January 19, 1960), functioned during the Cold War as a bulkhead for fending off the threat of communism spreading across Asia. Regardless of the missing treaty link between Korea and Japan that would have made a triangular security arrangement for the U.S., the dual alliance structure played and continues to play a key role in maintaining peace and stability in the region. After the dissolution of the Soviet Union in 1991 and the collapse of the Cold-War structure, however, the major impetus to move toward a formal U.S.-Japan-ROK security relationship was removed, triggering a restructuring of the de facto triangular system that had evolved over the decades.

More than twenty years have passed since the end of the Cold War, during which the political dynamics and security environment of East Asia have changed dramatically, punctuated by a number of critical events and worrisome developments. The transition has challenged the very basis of the alliance system that the U.S. has maintained in the region, let alone the potential for a full-fledged triangular security relationship among the U.S. Japan and South Korea. The rise of China as a political, military and economic behemoth, moving its blue-water navy into the East and South China seas, the threatening posture of North Korea with its growing nuclear weapons and missile arsenals, the instability of the regime in Pyongyang as it veered from one dictator to another -- with the latest, Kim Jong-un, seemingly the most unstable and unsettling of the Kim family line -- are all potential destabilizing factors in the region that challenge the efficacy of the dual alliances to maintain peace and stability. Moreover, the threats from asymmetrical forces after the terrorist attacks on the United States in 2001 and other non-state actors such as pirates and smugglers pose both a regional and global challenge to the systems of alliances and arrangements set up in the postwar world. Additionally, two global-scale economic crises that have had a devastating impact on regional financial institutions, and unprecedented natural disasters in the region from mega-storms, earthquakes, tsunamis, volcanoes and even, in the case of Japan, nuclear meltdown of a power plant have hit the Asia-Pacific region with both horrendous physical and psychological force. The region is seeking to recover, and even to arrange new trade regimes, such as the Trans-Pacific Partnership, and the U.S.'s significant

policy rebalancing toward Asia, but serious tensions and sources of instability remain in the region.

Needless to say, the cumulative impact of such crises, not to mention the extraordinary developments in the region following the Cold War, put pressure on the U.S., Japan and the ROK to think seriously about a triangular security arrangement. But at this point in time, the concept remains a concept, and a trilateral pact of some sort continues to be a work in progress. Complicating the picture in recent years has been a deterioration of bilateral ties between Japan and South Korea over a long-standing territorial dispute and still festering historical issues from the colonial period. At this writing, the tangled political web of distrust and accusations continue to block significant movement on the security side, though there are small signs of a synergy beginning to develop, such as intelligence sharing.

While the security relationship among the three countries has experienced a gradual departure from the former Cold-War structure, it is unclear where the triangular cooperative relationship is going and whether current signs of change will lead to significant steps. The relationship continues to be clouded seriously by the ongoing political mudslinging between Japan and South Korea, and the apparent personal enmity between Prime Minister Shinzo Abe and President Park Geun Hye. Even if reports of smooth military to military relations are accurate, the testiness between the two countries at the political and increasingly, the media levels, seem to be growing and not diminishing. The situation seems to call for a little adult supervision, specifically a bilateral summit between Abe and Park that would start mending ties.

Devoid of any adult guidance, if you will, the three countries seem to be currently pursuing their own national interests and not focusing on the building blocks for trilateral cooperation. The U.S. expects more burden-sharing from the two allies in bilateral context as part of its rebalancing to Asia. Japan under Prime Minister Abe, eager to strengthen ties with the U.S. in order to keep China and North Korea at bay, aspires to remove legal and non-legal restraints from its armed forces serving overseas, while South Korea is struggling to maintain a viable alliance framework by asking more autonomy from the United States. But what do such trends mean for the future of trilateral security cooperation? Does the de facto triangular system still exist but in a different manner, and if so, where is the relationship ultimately heading?

To answer that question, this paper will focus on recent security developments affecting all three countries, and seek plausible explanations for the following questions: What structural changes are now occurring? And what specific measures are taken to bridge the gap or to alleviate the growing friction? Is the overall picture positive or negative? Since the topic itself is broad in its range, the focus of this paper will be narrowed down to the current two or three year period, and will cover the policies forged and implemented by President Park Geun-Hye, President Obama, and Prime Minister Abe. Moreover, although this paper will highlight mostly the security aspect,

pertinent issues in other areas such as economic and cultural affairs that affect the security area will also be covered.

### **U.S.-Japan alliance – finding a new equilibrium**

For the past two decades or so, the United States and Japan as allies have ceaselessly pursued the issue of what the appropriate level of burden sharing should be. Under Prime Minister Abe, however, the recent uptick in Japan's share is noticeable, as seen in the new bilateral defense cooperation guidelines issued this spring. For the first time, for example, Japan will be able to come to the aid of its ally America should U.S. military forces be attacked in a situation involving Japan's national security.

To be fair, such expansion was only made possible due to the groundwork that was laid over the past two decades of the post-Cold War period. Japan's power projection has been capped until recently by a strict interpretation of the war-renouncing Article 9 of the Constitution and other self-imposed legal barriers, such as a ban on the use of the right of collective self-defense (now allowed under a recent reinterpretation of the Constitution). However, as U.S.' strategic interests shifted and the necessity for a greater role and burden sharing mounted, the Self Defense Forces' (SDF) mission as well as its level of involvement has been ratcheted up. The case of its dispatching minesweepers to the Persian Gulf in 1991, though only after the war had ended, is a notable example of the baby steps taken over the years. Still, the first Gulf War for Japan was a bitter experience, for it only managed to provide a financial contribution – albeit a significant \$13 billion -- to underwrite much of the fighting by the multi-national force against Iraq. But in the end, Kuwait, the beneficiary of much of the assistance, never publicly acknowledged Japan's "checkbook diplomacy" contribution, much to Tokyo's chagrin.

Japan in short was hamstrung by constitutional constraints after the Cold War and unable to contribute to the Gulf War until it was over (by minesweeping and even later, PKO operations). It had to resort for many years to a pattern of "leapfrogging constraint" by finding ways to get around Article 9, such as by providing logistical support to the U.S. or U.S.-led multinational force or supporting recovery and reconstruction efforts of countries like Iraq and Afghanistan, while taking care to stay out of harm's way.

Meanwhile, the global war on terror in the aftermath of 9/11 radically changed the U.S.' strategic approach, but in doing so, it opened Japan's security options as well. The U.S. policy shift created in effect a hospitable environment for the SDF to increase its capabilities and extend its missions in the alliance context. Spearheaded by then Secretary of Defense Donald Rumsfeld, the strategic realignment of U.S. military forces has emphasized air and naval forces over the army. The realignment enhanced the overall flexibility and mobility of the U.S. forces.

Due to the SDF's force structure of being heavily depended upon air and naval power, the Ground SDF has had to change from its traditional reliance on tanks and mortar shells. It is now developing a marine-like amphibious launching capability, a trend that has increased Japan's strategic importance vis-à-vis other U.S. alliances. Economically and militarily burdened by the two wars in Iraq and Afghanistan, U.S. has provided more room for ally Japan to maneuver.

Facing the rapidly changing global agenda and anti-terror strategic shift after 9/11, Prime Minister Koizumi was quick to fully capture the implications and responded in kind. Without being prodded, he fulfilled U.S. expectations for greater burden sharing by sending refueling supply ships to the Indian Ocean, dispatching the Air SDF to Kuwait, and deploying a GSDF engineering unit to Southern Iraq. At the same time, he mitigated the growing argument coming from conservatives that Japan should perform as a "normal country" in security terms. The recent defense cooperation guidelines revision is also an example of a bold security move that serves US and Japan's national interest. By expanding the SDF's operation range and depth in contingency situation, the U.S. can reallocate its force structure in order to meet its new strategic concept of rebalancing to Asia, and simultaneously help increase Japan's clout in the region. Under such interpretation of a win-win situation, Prime Minister Abe pushed guidelines revision and the implementing security legislation in a vigorous manner.

To be sure, the guidelines issue is not a novel subject; there were major revisions in 1978 (targeting the Soviet Union) and 1997 (targeting North Korea). Yet there is one notable feature of the current attempt that differs from the past. The past two revisions were triggered by the threat of specific countries; but the current set does not target any one adversary – the Pentagon insists that China is not the target of the new guidelines. Of course, one of the critical objectives of the current revision is to be able to respond to any possible threat in the region. But the more important aspect of the new guidelines is its implication that burden sharing in the post 9/11 era must now expand to a global scale.

This has a crucial implication for Japan's alliance with the U.S. Even though the security treaty's stipulated articles remain unchanged, the reinterpretation of roles and missions will ultimately dictate different responsibilities to the two signatories. Such reinterpretation of the security treaty is in line with Japan's earlier domestic legislation enabling the SDF's participation in unconventional areas, most notably United Nations peacekeeping (PKO) function. Rather than being the traditional way of supplementing the treaty without revising it, Prime Minister Abe's guidelines revision implies a fundamental shift to a much more proactive role in the alliance. If his predecessors focused more on upgrading the SDF's capabilities and hardware, Prime Minister Abe is finding multiple ways to blur the restriction that constraint the SDF's power projection capability.

Figure 1

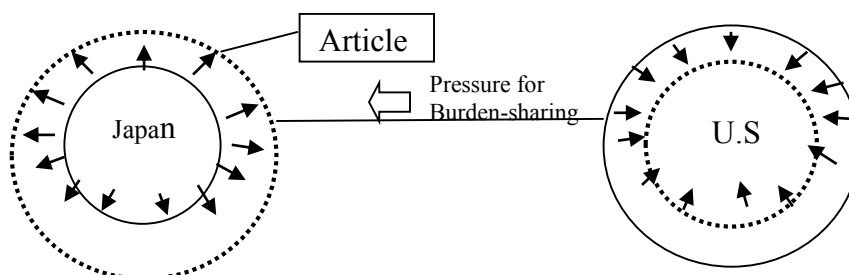


Figure 1 summarizes the abovementioned changes. Faced with the global economic meltdown and the ongoing wars in Iraq and Afghanistan, President Obama in 2009 began to urge Japan for more burden-sharing in the East Asia region. This request not only included budget allocation, but the enlargement of the SDF's operations. This gave momentum for a reinterpretation of the U.S.-Japan alliance to expand the range of responsibility and the level of cooperation from the Japanese side. Apart from the traditional objective of fending off possible threats in the region, newly added missions expand the alliance into a global security partnership.

However, there exists an obvious limitation to Abe's approach. Article 9 explicitly draws a line that constrains the SDF's reach. Prime Minister Abe is trying to maximize the SDF's area of operation through Article 9 reinterpretation to allow the use of the right of collective self-defense and extending the SDF's support role for the U.S. forces beyond the region and into the global security arena.

Although the revision of Article 9 is somewhat remote at this moment, considering the required quorum<sup>132</sup>, two factors may create a favorable ground for such: a request for even greater amount of burden-sharing from the U.S. and possible contingencies in the region. At present, however, the U.S. is not pushing Japan to revise Article 9, and the current set of defense cooperation guidelines that allow Japan to play a more equal role in the alliance will likely satisfy U.S. expectations for a long time to come. Perceiving Japan as a pivotal partner, rather than a mere client of the security treaty, the U.S. is prepared to delegate greater responsibility to the SDF in the role of defending the homeland. But in the regional and global aspects of the alliance, Japan will have a subsidiary role as logistical backup.

It is conceivable that eventually, once the SDF's extended roles and missions reached the limit that the reinterpretation of Article 9 allows, domestic political pressure for constitutional revision

<sup>132</sup> A constitutional amendment would require a two-thirds majority and pass referendum to effect it.

will again mount. But in the meantime, whether it is a Korean Peninsula contingency involving North Korean missile launches, or Indian Ocean piracy preying upon petroleum tankers, which Japan is already dealing with, Article 9 is not a problem. If Japan were to patrol against skirmishes in the South China Sea, however, Article 9 would likely be perceived as a stumbling block. Such issues are currently being debated in Japan's Diet as part of the process of approving a set of security bills that would extend the SDF's reach far beyond the sole defense of Japan restriction until now. If the legislation passes – a coalition of opposition parties are fiercely trying to block the bills – the U.S.-Japan alliance will then head toward a new equilibrium, reflecting both changing strategic interests of both countries, and the growing aspiration of domestic conservative forces to make Japan into a “normal country” able to fight side-by-side with its ally America in contingencies that seriously threaten Japan's vital national interests

### **U.S.-Republic of Korea alliance - ongoing fence mending**

A product of the Korean War, the U.S.-ROK security treaty has successfully deterred another North Korean invasion for more than sixty years. Unlike the U.S.-Japan alliance, the fall of the communist bloc has not fundamentally altered the aim as well as the implication of the U.S.-ROK alliance. Due to the existential threat of North Korea, forces structure of the U.S. forces in Korea has maintained a combination of heavy-armored platform and infantry troops that functioned as trip-wires. Thus, the global war on terror and the Pentagon's realignment policy has had a relatively mild impact on the U.S. forces in Korea, compared to those in Japan. Although the argument for more burden-sharing has existed throughout the years, it was mostly focused on South Korea's share of host-nation support funds.

In contrast to Japan's case, South Korea's main goal in the new millennium was not necessarily the expansion of the capabilities or the operational aim of the Korean forces but retrieving nominal authority from the U.S. In the post-Cold War era, Korea troops functioned as an effective factor in overseas peace-keeping operations, starting from the 1990s, and the government dispatched troops to Iraq in 2003 at the U.S.' request. Yet, Korea's primary focus remains the peace and security of the Korean Peninsula.

When the progressive Kim Dae-Jung was inaugurated president, the mood between South Korea and the U.S. began to shift as President Kim began to make overtures toward North Korea. Elevating South-North reconciliation as a primary goal, President Kim launched his “Sunshine Policy,” which included massive economic support and the easing of sanctions and other policy measures toward the DPRK. Once the rapprochement initiative gained momentum, starting in 2000, the South Korean public began to put pressure on the government for greater autonomy of the ROK within the alliance. Calls mounted for wartime operational control to be transferred to South Korea.

For the duration of two liberal administrations -- Presidents Kim Dae-Jung and Roh Moo-Hyun – the growing anti-alliance mood in the country became a source of friction with the U.S. In that context, the two countries went through a painstaking negotiation to revise the Status of Forces Agreement (SOFA) to remove perceived inequities.

With the return of conservative governments to the ROK, efforts were made to repair frayed relations with the U.S. President Lee Myong-Bak extended the terminal date of the OPCON transfer of command to 2015. President Park Geun-Hye, inaugurated in 2013, continued the fence mending and applied several measures to rebuild traditional close alliance relations. As a result, wartime operational control transfer has been indefinitely deferred<sup>133</sup>. Yet the damage to the relationship has yet to be totally repaired.

Figure 2

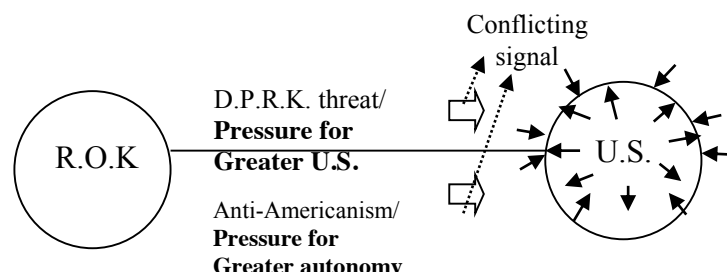


Figure 2 indicates the structural layout between the two countries. Coupled with the economic sluggishness of the U.S. and the anti-Americanism that was engendered by the two Koreas' attempts at reconciliation in the early 2000s provided the momentum for greater burden-sharing and the incentive to "back off" from the region. America's shift in strategic concept toward favoring naval, air force and light-armored infantry over a heavily armored army also matched the mood in Seoul for more autonomy from the U.S.

It took North Korea to change the tide's direction. The DPRK's numerous provocations, its nuclear testing, threats to use those weapons, and the ICBM missile launches aimed at the U.S. soured inter-Korean relations and gave incentive to the ROK to reverse course with the North and return to the traditional deterrence pattern. The efforts of President Park currently can be explained as an attempt to reverse past policies that sought greater autonomy from the U.S. Indeed, the North's further provocations in recent years have helped keep the U.S. deeply engaged in the region.

<sup>133</sup> The transfer was originally planned for 2007 but was pushed to 2012. It was then pushed to 2015. During

the Park Geun-Hye administration, the U.S. and South Korea agreed in 2014 to again delay the handover of

wartime operational control to Seoul, citing the threat posed by D.P.R.K.'s growing nuclear capabilities.

Yet the task of maintaining the alliance has become fairly complex. Apart from the pejorative notion to the South of a “trip-wire”, the U.S.’ shifting strategic view lessened, if not nullified, the necessity of stationing a large number of ground troops in the ROK. Moreover, the constant clamor for more autonomy – as well as the lingering mood of anti-Americanism among South Koreans, have made the U.S. more reluctant to stick to the Cold War alliance structure. But with North Korea becoming an even more enigmatical threat following the succession to Kim Jong-un as leader, the need for the U.S.’ strong commitment to keeping its strong presence in the region became more obvious. Sandwiched by the two conflicting pressures, one can argue that the U.S. is experiencing “alliance fatigue”. President Park in that context will likely continue her fence-mending efforts during her visit to Washington later in 2015.

### **The weakest link – South Korea and Japan**

Two bilateral security treaties and America’s steadfast engagement in the region have allowed the U.S. to maintain a trilateral connection with Japan and South Korea. Since the normalization of relations in 1965, South Korea and Japan have reluctantly engaged with one another on the security front in order to strengthen the weakest link of the de facto triangular system. Due to Japan’s negative historical baggage, bilateral relations in general have been rocky, rendering cooperation in the security area as trivial at best. Although there were some traces of coordination – such as the joint naval exercise between the ROK navy, the maritime SDF and the U.S. navy in 2012 – past attempts for closer cooperation have always faced fierce political headwinds. A recent example was the political pressure in 2012 that prevented a negotiated General Security of Military Information Agreement (GSOMIA) from being signed at the last moment.

Irrespective of a growing awareness for a more practical approach<sup>134</sup>, word of any proactive pursuing of security cooperation between the two countries generally roils up the public, with the media chiming in. Cooperation with Japan is seen as un-patriotic conduct. Not surprisingly, the trilateral information sharing arrangement signed in late 2014 was underscored as an extended by-product of bilateral treaties with the U.S., rather than a direct information sharing mechanism between the ROK and Japan. According to the deal, the two countries do not directly share their military information but shares it via the U.S. upon their consent<sup>135</sup>.

In that context, what has been the impact of President Obama’s declaration of a “rebalancing to Asia” strategy? Facing a situation of a rising China dominating the region economically and

---

<sup>134</sup> Polling data from Asan Institute for Policy Studies indicates that 63.9 percent of South Koreans support security cooperation with Japan.

<sup>135</sup> The Korea Herald Dec 26, 2014 Korea, U.S., Japan sign military info-sharing deal by Song Sang-Ho.

militarily (through its blue-water navy), the U.S. has had no choice but to sharpen its focus on the region. In order to achieve the objective of resetting the U.S.' footprint firmly and balancing China's growing clout in the region, trilateral coordination in Northeast Asia is a crucial prerequisite. In that regard, for the U.S., reconciliation between the ROK and Japan is a *sine qua non*. Such necessity motivated President Obama to visit both Korea and Japan in 2014 to strengthen bilateral ties and urge the two countries to move closer together. China, having sensed the fissure in the de facto triangular system, has sought to divide and conquer by actively promoting closer ties with South Korea and by forging a collective anti-Japanese line.

Figure 3

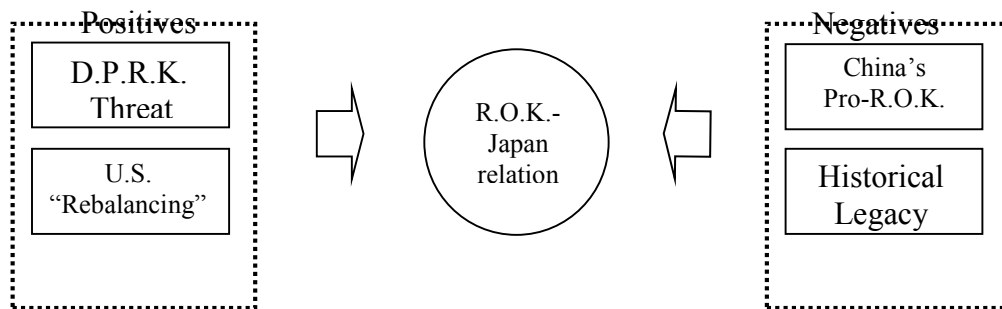


Figure 3 illustrates the positive and negative factors that are influencing the current ROK.-Japan relationship. President Obama's "pivot to Asia" has increased pressure on security cooperation and regional stabilization, aiming for a reliable triangular relationship. Adding to that, North Korea's existence as a threat factor in the region clearly provides a positive ingredient for cooperation. For example, the trilateral information sharing agreement of 2014 was prompted by the North Korean threat. Furthermore, North Korea's nuclear weapons programs and missile testing has transmogrified South Korea's security policy more in line with U.S. and Japan's. The recent debate upon THAAD (Terminal High Altitude Area Defense) is strategically linked with the missile defense system that was already deployed in Japan. Korea's refused to join the U.S.' missile defense program in early 2000s, but it is now apparently taking a favorable attitude for that aspect of trilateral cooperation.

On the other hand, the negative historical legacy and sour political ties between Japan and the ROK militate against a serious reconciliation soon. For the Japanese public, President Lee Myong-Bak's publicity-seeking visit to the Dokdo/Takeshima island in 2012 was a direct slap in the diplomatic face. Exacerbating the situation, the Japanese government's suggestion to bring Dokdo/Takeshima issue to the International Court of Justice irks the Korean government, which sees the Japanese claims to the isles as worthless.

Meanwhile, Prime Minister Abe's visit of Yasukuni shrine in 2013 and he and his administration's approaches to the textbook and comfort women issues have antagonized the

Korean public. Recent poll results indicate how unpopular the Japanese Prime Minister is among South Koreans public<sup>136</sup>. Such arrays of events have created a near-unresolvable vicious cycle, constantly re-creating negative images of the other side. Some observers have even suggested that the U.S. government should step in, but the reality is that the feud between Koreans and Japanese has already spread to the United States, where Korean and Japanese communities continue to lobby against each other on historical issues, such as the comfort women, and even territorial issues – whether the Sea of Japan should be called the East Sea in U.S. textbooks..

Perceiving such developments as a golden opportunity, China utilized this situation in its favor and strived to drive a wedge between ROK. and Japan, and, by extension, isolate the U.S. Although China's declaration of the Air Defense Identification Zone (ADIZ) affected both South Korea and Japan, President Xi Jinping cleverly took such pro-Korea measures like the high-profile opening ceremony for the Ahn Jung-Geun memorial in the Harbin (Ahn was the activist who assassinated Japanese elder statesman Hirobumi Ito in 1909) and sending a birthday card to President Park, while maintaining a relative coolness toward Prime Minister Abe. Regardless of China's true intent for such an approach, it worked and further aggravated the already prickly ROK.-Japan relationship. At the time, China was at loggerheads with Japan over the territorial claims in the East China Sea. The U.S.' strong backing of Japan's activity<sup>137</sup> in the waters near the disputed Senkaku isles may also have served as a lever for China taking a more pro-ROK stance. As long as Japan and the ROK are unable to reconcile their differences, China can be expected to exploit this weakest link of the de facto triangular security relation with the U.S.

### **Strategic decoupling - Changing circumstances, changing perception**

There being no multilateral security mechanism in the East Asian region, peace and stability has been sustained by the U.S.' hub and spokes strategy. The triangular relationship among the ROK, U.S. and Japan developed under such an understanding. Originally, the U.S.-Japan security treaty was meant to supplement the U.S.ROK security treaty and the initial alignment of U.S. bases in the two countries was made according to that principle. The only missing ingredient was security cooperation between South Korea and Japan.

Currently, the underlying security rationale for such an arrangement is undergoing a major change toward a new norm. The Obama administration wants greater burden-sharing from Japan under the new scheme, expecting more participation in non-traditional areas that include anti-terrorism, as well as traditional ones. Japan is proactively responding to the new demand

---

<sup>136</sup> Asan Institute for Policy Studies (AIPS) indicated that Abe was no more favorable than Kim Jong-un among South Koreans Jiyeon Kim, Karl Friedhoff, Kang Chungku, and Lee Euicheol, "Korea-Japan Relations in 2014," Asan Institute for Policy Studies, p. 3, February 12, 2014.

<sup>137</sup> U.S. Secretary of State John Kerry stressed that U.S. "remains as committed as ever" to protecting Japan, "with respect to the East China Sea".

motivated by its own national interests. As mentioned, Japan is embracing this occasion to expand the SDF's role, outside the traditional boundaries just short of the limits stipulated in article 9. North Korea for Japan has not been the catalyst for such strategic policy changes. It has been China. In fact, Japan has tried (and seemingly failed) to open a dialogue with North Korea on the outstanding abductee issue. Pyongyang promised a new investigation on the abductees or missing Japanese, but so far has failed to deliver a full report as promised this spring. Japan in turn has extended sanctions on the DPRK, reversing an earlier decision to ease some of them on the basis of progress in the abduction issue.

In contrast, South Korea is striving to revive the traditional alliance structure with the U.S. North Korea's repeated provocations has compelled President Park to ask for more U.S. . She apparently aspires to recover the nostalgia of the Cold-War era type alliance. However, the U.S.' changing strategic calculation has made it structurally difficult for the ROK and the U.S. to simply roll back the clock.

Meanwhile, the personal enmity between President Park and Prime Minister Abe has rendered inoperative for the time being the critical link of the de facto triangular security relationship. Such estrangement cannot be fully explained by historical antagonism or the two leaders' hatred toward one another. As aforementioned, the structural decoupling between the two alliances has created a condition for a structural crevice. To be fair, Prime Minister Abe's personal style in treating various matters has contributed to souring South Korea-Japan relations. Yet, the underlying development is another crucial factor that is making a genuine conciliation between the two, extremely difficult.

Figure 4

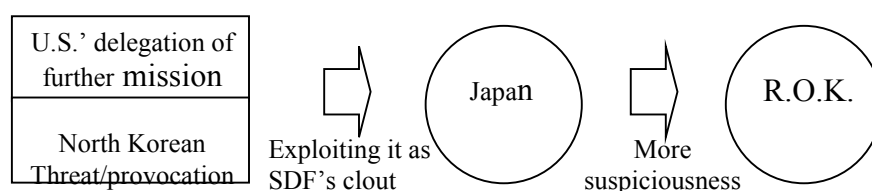


Figure 4 illustrates the aforementioned quandary. Lacking a reliable security regime between the two, South Korea and Japan are looking at each other with growing uneasiness. Japan's expansion of defense capabilities and roles offers a negative image to the Koreans, conjuring up the memories of the old imperialistic days. If more unconventional missions are delegated from the U.S. to the Japanese SDF, more suspicions are likely. Due to Japan's shallow trust-building effort, such as the unwillingness to provide the type of sincere apology for past conduct that Koreans expect, such wariness will likely gain momentum.

Meanwhile, North Korea's provocative actions that affect Japan's security interests, such as missile launches and manipulation of the abductee issue to ease sanctions will function as a justifiable ground Japan's hardening security posture. In that sense, the new security partnership between U.S. and Japan will accelerate such a shift..

At first glance, such strategic decoupling may be depicted as an ineluctable process, a necessary by-product of restructuring a 60-year old formula. Indeed, bridging the gap between the current developments and the aging structure will inevitably entail internal fissures. Unfortunately, the strategic decoupling has become a source of untenable vulnerability within the triangular relationship. Moreover, the probability of creating a vicious cycle might be heightened by a regional threat. For instance, if North Korea embarks new provocation that directly affects Japan, that country will then have good cause, as it did in the late 1990s, to further beef up its defenses against the North Korean threat. South Korea in turn will interpret such reaction as suspicious conduct, further aggravating the ROK.-Japan security relationship. The logic should be that both countries would perceive the North Korea threat as a reason for further convergence of security ties, but the reality may be just the opposite. The U.S. ends up caught in the middle.

Since a Korean Peninsula unification does not seem likely in the foreseeable future and even more unlikely the ROK and Japan seriously considering a security pact of their own, what should be done to alleviate tensions and build confidence among the three allies, including the U.S.? One possibility is for the U.S. to take the lead in forming a trilateral arrangement, based on calculated confidence-building measures. Still, due to the underlying structural decoupling, even such a task will be daunting.

## **Conclusion**

Both U.S. alliances in Northeast Asia have withstood more than sixty years of time and remain viable, thanks largely for the ability of the allies to periodically reinvigorate their security rationale and arrangements. Despite the dissolution of the Soviet Union and other catastrophic events, as well as the fissures that opened up from time to time in both alliances, they continue to operate robustly and to form the bedrock of stability and peace in the region. The weak link between the ROK and Japan has been augmented by the strong U.S. commitment in the area, enabling the de facto trilateral cooperation to operate in an effective manner. Yet the growing gap between the changing international security environment and the aging U.S.-led alliance structure in the region has created stress within the system.

While the U.S.-Japan alliance is being upgraded to a global partnership that fits the changing environment of the 21<sup>st</sup> century, the U.S.-ROK alliance is struggling over whether to remain a Cold-War oriented model of move on to take on a newer form. The result of this gap between the two alliances has made trilateral coordination a difficult task. Moreover, the festering historical

issue between South Korea and Japan continues to be an obstacle to strategic cooperation, offering a chance for China to drive a wedge between the two countries. Under such circumstances, the U.S.' role will be critical. Even with its diverse strategic interests and diversions around the globe, not to mention its fiscal constraints, the U.S. under President Obama should be more willing to commit more resources to the region as needed and not show signs of a slow retreat. The "rebalancing to Asia" policy should not be seen in the region as another word for a budget balancing and cost saving strategy.

Meanwhile, the ROK and Japan need to find a way of focusing less on unsolvable historical and territorial issues, or in other words, "beating a dead horse"<sup>138</sup>, and seek areas where the two countries' national interests converge. In that sense, policy cooperation in the security area with *practicality* is a necessity. In addition, South Korea and U.S. should rethink the objectives and meaning of their alliance and propose entering into a broader one that transcends the Cold War-oriented patron-client model. Just like the U.S.-Japan alliance has reinvented itself, the ROK version with the U.S. needs to do the same. By so doing, the recent strategic decoupling between the dual alliances will reverse its negative course and instead create a hospitable ground for a genuine, productive arrangement of trilateral cooperation. Countries like China might still attempt to drive a wedge between them, aiming the weakest link of the triangular system. Yet, strong U.S. engagement, coupled with a newly defined U.S.-ROK alliance will likely to help avoid such a trap.

## References

Armitage, Richard and Joseph Nye, "The U.S.-Japan Alliance: Getting Asia Right through 2020". *Center for Strategic and International Studies*, 2007.

AKIpress News Agency, March 27 2014, "Criticism over Japan's Response toward Historical Grievances with the R.O.K.", <http://www.highbeam.com/doc/1G1-362948981.html>?

Banyan Analytics, Mar 19 2014, "U.S.-Japan-Korea Trilateral Security Cooperation and the Rebalance", [http://www.anser.org/babrief\\_U.S.-japan-korea-trilateral-security-cooperation](http://www.anser.org/babrief_U.S.-japan-korea-trilateral-security-cooperation).

Byung Hyuk Choi, "Living with the dragon: China's ascent and the R.O.K.-U.S. alliance". *U.S. Army War College*, 2008.

---

<sup>138</sup> Instead of beating a dead horse, both leaders can make better use of their time by focusing on areas like trade issues where substantive results are more likely. PacNet NewsletterPacNet #27 Wednesday, Apr. 2, 2014 The R.O.K.-U.S. Summit: why beat a dead horse when you can move mountains?.

Cha, Victor. 1999. "Alignment Despite Antagonism: The United States-Korea-Japan Security Triangle", *Stanford University Press*, 1999.

Chang Hee Nam, "The Alliance Transformation and U.S.-Japan-Korea Security Network: A Case for Trilateral Cooperation". *Pacific Focus*, 2009, pp34-58.

China Daily, Aug 14 2012, "R.O.K.-Japan dispute worries U.S.",  
[http://www.chinadaily.com.cn/world/2012-08/14/content\\_15672863.htm](http://www.chinadaily.com.cn/world/2012-08/14/content_15672863.htm).

China Daily, Mar 18 2015, "U.S. Welcomes China-Japan-R.O.K. Trilateral FMs meeting",  
[http://www.chinadaily.com.cn/world/2015-03/18/content\\_19841042.htm](http://www.chinadaily.com.cn/world/2015-03/18/content_19841042.htm).

Christopher Hughes, "Japan's security policy, the U.S.-Japan alliance, and the 'war on terror': Incrementalism confirmed or radical leap?". *Australian Journal of International Affairs*, 2004, pp427-445.

Hyeran Jo and Jongryn Mo, "Does the united States Need a New East Asian Anchor? The Case for U.S.-Japan-Korea Trilateralism", *Asia Policy*, 2010, pp67-99.

Joint statement, Feb 7 2012, "U.S.-Japan-R.O.K. Strengthened Trilateral Cooperation", *CSIS, Asan Institute for Policy Studies, The Japan Institute of International Affairs*.

Jongchul Park, "U.S.-R.O.K.-Japan Trilateral Coordination in the Implementation of the Perry Report". *Korean Journal of Defense Analysis*, 1999, pp97-119.

Korea.net, Mar 23 2015, "Korea, China, Japan stress trilateral cooperation",  
<http://www.korea.net/NewsFocU.S./Policies/view?articleId=126381>.

Mike M. Mochizuki, "Strategic Thinking under Bush and Koizumi: Implications for the U.S.-Japan Alliance". *Asia-Pacific Review*, 2003, pp82-98.

Nae Young Lee, "Challenges Posed by the D.P.R.K. for the Alliance and the Region", *Korea Economic Institute*, 2005.

PacNet, Apr 2, 2014 "The R.O.K.-U.S. Summit: why beat a dead horse when you can move mountains?", <http://csis.org/publication/pacnet-27-R.O.K.-U.S.-summit-why-beat-dead-horse-when-you-can-move-mountains>.

PacNet, Feb 2 2015, "Steps toward a U.S.-Japan-R.O.K. trilateral partnership",  
<http://csis.org/publication/pacnet-6b-steps-toward-U.S.-japan-R.O.K.-trilateral-partnership>.

Ralph A. Cossa, “Why a “Virtual Alliance” Makes Sense”. *Korean Journal of Defense Analysis*, 2005, pp67-86.

Reuters, Mar 25 2014, “Obama brings U.S. allies South Korea and Japan together for talks”, <http://www.reuters.com/article/2014/03/25/U.S.-japan-korea-trilateral-idU.S.BREA2O1OT20140325>.

States News Service, June 29 2010, “THE 4TH R.O.K.-JAPAN COUNTER-TERRORISM CONSULTATION”, <http://www.highbeam.com/doc/1G1-230074594.html?>

Stephanie A. Weston, “The U.S.–Japan alliance in the new Post Cold War”. *Japanese Studies*, 2004, pp45-59.

Shinichi Ogawa, “Significance of the Post-Cold War U.S.-Japan Alliance and Prospects for Security Cooperation”. *Korean Journal of Defense Analysis*, 1994, pp57-78.

The Diplomat, Jan 5 2014, ““Destined to Cooperate”: Japan-R.O.K. Naval Cooperation and its Implications for U.S. Strategic Interests in Northeast Asia”, <http://thediplomat.com/2014/02/destined-to-cooperate-japan-south-korea-naval-relations/>.

The Diplomat, Feb 2 2014, “The Weakest Link: How china Seeks to Destabilize the U.S. R.O.K.-Japan triangle”, <http://thediplomat.com/2014/02/the-weakest-link-how-china-seeks-to-destabilize-the-U.S.-R.O.K.-japan-triangle/>.

The Korea Herald, Dec 26 2014, “Korea, U.S., Japan sign military info-sharing deal”, <http://www.koreaherald.com/view.php?ud=20141226000673>.

Yasuhiro Nakasone, “New roles in the Japan-U.S. alliance”. *Asia-Pacific Review*, 1996, pp37-44.

## Japan's Trade Agreement Strategies: Three Case Studies

By Ji Won Kwon

### Introduction

Following his ruling coalition's victory in the December 2014 Lower-House election, Prime Minister Shinzo Abe will be able to continue to aggressively pursue his signature policies, dubbed Abenomics, that he hopes will accelerate Japan's economic recovery in 2015. Despite two years of policy measures, the performance of the Japanese economy still does not look that promising, particularly in the trade area. Although Abe's bold monetary policy, the first arrow of Abenomics<sup>139</sup> boosted the stock market and depreciated the yen significantly, the impact on trade statistics was minimal. The gap between the value of Japan's exports and its imports grew by two-thirds in the 12 months ending March 31, 2014 to \$134 billion, Japan's largest-ever trade deficit (Shedlock, 2014).

The major causes of this massive deficit were due to an increase in fossil-fuel imports (which the weak yen made more expensive) and a decrease in exports of general machinery and electrical equipment, reflecting overseas market conditions. Growth in export volume has remained sluggish (Ministry of Economy, Trade and Industry, 2014). "Under these circumstances, it is becoming important to enhance the business environment both within Japan and overseas, in order to bolster the competitiveness of Japanese industry" (Report 3-1-1 METI, 2014). In addition, economists have criticized Abenomics' third arrow as lacking teeth for carrying out structural reforms. The reforms when implemented will have long-term effects that will not be seen soon. As a result, in order to promote the third-arrow reforms and boost the economy over the long run, the Abe administration has turned to the tactic of utilizing economic agreements.

Moving beyond short-term monetary and fiscal policies from the first and second arrows, Prime Minister Abe in June 2014 announced a broad reform package, including corporate tax cuts, agricultural sector reforms, and initiatives to overhaul regulation of the energy market and protect the environment. In addition, Japan announced a Strategy of Global Outreach that included membership in mega-free trade agreements (Mega-FTA), namely, the Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RECP), and Japan-EU FTA. The strategy also included doubling inward foreign direct investment (FDI)<sup>140</sup> and an increase in exports of infrastructure systems (Urata, 2014). Such goals indicate how important it is for

---

<sup>139</sup> Three arrows of Abenomics include fiscal stimulus, monetary easing and structural reforms

<sup>140</sup> Japan's foreign direct investment is extremely low by international standards. For example, FDI position against GDP is 54.3% for the United Kingdom, 16.9% for the United States, and 12.4% for South Korea, and only 3.8% for Japan (METI, 2014).

Japan to join the Mega-FTA trend as insurance for its economic recovery. Yasumasa Nagamine, the vice-minister for international affairs at the Ministry of Foreign Affairs, said that “the promotion of FTAs is an important element of the third arrow of so-called Abenomics, the policy package to vitalize the Japanese economy” (Jiabao, 2014).

Even though at present Japan has signed a relatively large number of FTAs or Economic Partnership Agreements (EPAs), the percentage of total trade covered by the agreements is still low for a developed country. Japan is also relatively low in terms of the percentage of tariff elimination (less than 90% in terms of tariff lines, whereas the U.S. is higher than 95%) (Urata, 2014). According to research done by the Tokyo Foundation, “Japan has free trade agreements (FTAs) and economic partnership agreements (EPAs) with many countries, but their ratios of trade liberalization are low—around 85% or 86%—with the un-liberalized items basically being agricultural products” (Yutaka, 2013).

In addition to the economic challenges of boosting trade flows, as described above, Japan also faces political issues that hinder the signing of FTAs with neighboring countries, Korea and China. Relations for several years have been icy, even tense, due to disputes over territorial claims and differing views and attitudes toward history, specifically, Japan’s colonial and militarist past. Some even fear a military confrontation with China over the disputed Senkaku (Diaoyu) Islands, and Japan-South Korean relations have been sour over competing claims to the Takeshima (Dokdo) isles. Moreover, such historical issues as the so-called comfort-women issue (women coerced into prostitution for the Imperial Japanese Army during the Pacific War) and prime ministerial visits to Yasukuni Shrine, where Japan’s war dead as well as war criminals are enshrined, have further damaged relations with South Korea and China. Against that background, it is crucial for Japan to strengthen ties with its neighbors, overcoming the historical and territorial dispute barriers, for the sake of regional peace and stability. Economic partnerships can help smooth bilateral ties.

The Japanese government should utilize economic partnerships as a strategic tool not only boost its stagnant economy, but also bring about the structural reforms associated with the third arrow of Abenomics. Over the long run, economic partnerships will boost Japan’s economic and diplomatic clout internationally, by bringing Japan back into the mainstream of the global economy as a first-tier country. A free trade agreement with the United States, which a successful 12-country TPP agreement would in effect include, will also further strengthen Japan’s alliance with that country. But the road to membership in the TPP agreement has not been easy, and obstacles and challenges to finalizing a deal with the U.S. and other participants remain.

## **Japan's New Trade Policy and EPA and FTA**

Before the Asian Financial Crisis of the late 1990s, Japan paid little attention to FTAs and the growing trend abroad to sign such agreements. At that time, Tokyo took multilateral liberalization processes more seriously than the already shifting trend toward regionalism (Yilmaz, 2014). The situation became highly noticeable to Japan when ambitious multilateral global-scale trade negotiations under the Doha Round of the World Trade Organization (WTO) stalled about a decade ago. The failure of the Doha Round has led countries, including the U.S., to find alternative multilateral or bilateral economic agreements. Currently, many countries are negotiating such agreements that will benefit their economies and domestic industries by eliminating tariffs and trade barriers, increasing competition, and rewarding economies of scale. The pacts would allow domestic companies to allocate their resources more efficiently offshore and bring in advanced technologies.

As the world globalizes and becomes highly interconnected, Japan has joined the global trend and opted to become part of a mega-FTA, which includes both developed and developing countries. A mega-FTA is seen as a sure thing for enhancing economic growth and boosting trade flows quickly among member countries (Hengel, 2013). In addition, Japan's new trade policy aims to develop a comprehensive EPA that would include trade and FDI liberalization, trade facilitation, economic cooperation, and exports of such infrastructure as transportation systems and water supply systems. The policy also seeks to attract foreign direct investment inflows, transfer certain technologies overseas, and promote tourism (Urata, 2014). The main purpose of developing such a comprehensive EPA can be derived from the Japan Revitalization Strategy, which stipulates "the government will raise the FTA coverage ratio (proportion of the value of trade accounted for by trade with FTA counterpart countries) from the current 19% to 70% by 2018" (Report 3-1-1 METI, 2014), as Japan's FTA coverage ratio is relatively small.

By the late 1990s, Japan became interested in regional trade agreements (RTAs), and soon began to join the trend towards concluding EPAs with its trading partners, negotiating both bilateral and multilateral agreements (Development Research Center, National Institute for Research Advancement (NIRA) of Japan, Korea Institute for International Economic Policy (KIEP) of Korea, 2008). The majority of Japan's EPA partners are developing countries in East Asia, with the first one being Singapore in 2002. The biggest benefit of an EPA is that partners are able to cherry-pick what they would like to see and leave out sensitive areas (Brooks, 2015), at the same time achieving trade liberalization. Thus, pursuing EPAs is a favored economic strategy for Japan. Moreover, Japan has used such a strategy not only as a means of promoting trade flows but also as a tool for its regional diplomacy (Yilmaz, 2014).

## **Trans-Pacific Partnership (TPP)**

### *Short Background and Introduction*

Prime Minister Shinzo Abe made the decision to join the negotiations for the Trans-Pacific Partnership (TPP) in March 2013 and Japan formally began participating in the talks that July. With that decision, twelve countries throughout the Asia-Pacific region led by the U.S. are now engaged in TPP negotiations. Because TPP will give Japan much greater access to a market making up 40% of world GDP, it is regarded as a critical element in the third arrow of Abenomics and its trade strategy. It is hoped that TPP will bring dynamism back to Japan's economic performance, boosting GDP and adding momentum to the third arrow of Abenomics (Takashi, 2015). Economically speaking, the U.S. and Japan account for about 80% of the total GDP of the 12 participants in the TPP, giving those two countries enormous influence and responsibility in the partnership than the other participants (Nikkei, 2014). The TPP countries also make up nearly 10 % of total world trade, with the U.S. possibly benefiting the most, since one third of its trade is with the TPP 11 (Loser, 2014).

Needless to say, Japanese business circles have enthusiastically pushed the government to participate in the TPP negotiations. They see the agreement not only as a plus for business, but also as a counter to the Republic of Korea's expansion of its FTA network and as a means for preventing a return to a strong yen situation.

### **Achieving the Third Arrow and the “Rebalancing” toward Asia**

Japan has two political goals it expects to reach by joining the TPP. First, it intends to use its TPP membership to strengthen the alliance with the U.S. In an interview, Tsutomu Kikuchi discussed the TPP in the context of the U.S.-Japan alliance, citing Japan's current security dilemma<sup>141</sup>. He argues that joining the TPP is as crucial for Japan as remaining actively engaged in the alliance, despite the risk of entrapment in unnecessary and unwanted conflict and military confrontation that comes with it. He adds that, at this moment, U.S. alliance support is crucial for Japan, given the possibility of military conflict between China and Japan over the Senkaku (Diaoyu) Islands. In addition, having a strong alliance with the U.S. gives impetus to the Abe government's attempts to move Japan toward being a “normal” country, with the Self-Defense Forces allowed to provide assistance to the U.S. forces as a result of the reinterpretation of Article 9 of the Constitution.

---

<sup>141</sup> According to security alliance dilemma theory, an alliance is subject to two opposing fears: the fear of abandonment and the fear of entrapment. Reducing one of these fears incurs the cost of heightening the other. Thus the risk of abandonment may be eased by increasing one's support of or tightening one's ties to the ally, but this heightens the risk of entrapment in the ally's quarrels with its opponent (Snyder, 2007).

Japan's second political goal is to achieve the structural reforms associated with Abenomics' third arrow -- regarded as the most challenging and difficult but essential for long-term economic growth. After almost two-years of Abenomics, there has been a lot of skepticism about the efficacy of the policy mix. Critics believe that the first two arrows only boost the economy in the short term. They argue that Abe's bid to create a virtuous cycle in the economy is only half-complete since measures until now only favor large corporations, demonstrating limited effectiveness. This is one reason why the Abe administration regards the TPP agreement as an important third-arrow instrument to capture the economic growth of the Asia-Pacific region in order to finally put Japan's economy on track. Thus, for long-term economic growth, the success of the third arrow is crucial for the Abe administration.

Additionally, according to Yusuke Horiguchi, former Director of the International Monetary Fund's Asia Pacific Department, Japan should prioritize structural reform measures. He urges Japan to complete on-going TPP negotiations as soon as possible by agreeing to liberalize the farm sector (Horiguchi, 2014). In addition, Horiguchi stresses the positive aspects of TPP for the Japanese economy: "The TPP would revitalize those sectors not only by facilitating access to overseas markets further but also by creating major domestic investment opportunities and needs in the new, more open and competitive trading environment" (Horiguchi, 2014).

From the United States' perspective, the TPP has potential implications beyond its economic interest in the Asia-Pacific. Indeed, this region is increasingly seen as being of vital strategic importance to the United States. The Obama administration views the TPP as an important element in the 'rebalancing' toward Asia (Fergusson, McMinimy, Williams, 2015). Particularly, for the U.S., Japan is the largest economy and largest trading partner among the TPP negotiating partners (Schott, 2014). Thus, the inclusion of Japan in the TPP is crucial for the U.S. if it is to maintain its traditional strong ally within its hub.

## **China-Japan-Korea FTA (CJK-FTA)**

### *Short Background and Introduction*

China, Japan and South Korea launched trilateral FTA negotiations in November 2012 (Jiabao, 2014). The first round was held in Seoul in March 2013. The fifth, and most recent, round were concluded in Beijing on September 5, 2014 (Ji, 2014). Different than typical European and North American FTA frameworks, the three countries also began to establish extra-regional FTAs (e.g. Japan-Mexico FTA, Korea-Chile FTA, China-Costa Rica FTA) soon after they began to launch their regional FTA initiatives (Choi, 2013).

Signing free trade agreements -- Japan and Korea, Japan and China, and Japan, China and Korea -- is hardly a new idea in Asia. Indeed, the concept has been discussed at various levels, including the private sector. But the actual negotiations have made little progress. Indeed, Japan's FTA negotiations with Korea have been stalled for the last five years (Nezu, 2012). The CJK-FTA is also going nowhere at this point, though there are signs it could soon restart. Apparently, sour politics has been trumping trade deals in these cases.

### **A Way to Create the East-Asian Community?**

Currently, East Asia is the only major region without a region-level trade agreement, despite its enormous economic size and the substantial amount of intra-regional trade (Choi, 2013). Since 1990, the inter-regional trade between China, Japan, and Korea has risen from 12.7% in 1990 to 23.9% in 2005. This indicates that trade interdependency among the three Asian countries has markedly grown over the past 15 years (DRC, NIRA, and KIEP, 2008). David Mitrany, in his classic work, "A Working Peace System", proposed the idea of "Functionalism" (cited in Park, 2013). Functionalism is based on the assumption that states can create a peaceful world society through gradual and pragmatic cooperation with one another in technical and economic sectors of activity, and that politics is separable from economics. Starting from economic and technical cooperation, Mitrany believed that such cooperation would eventually lead to political integration in the future through roundabout methods. This theoretical explanation might be applicable to the CJK-FTA concept.

Zhu Caihua, the Professor and Dean of School of International Economics at China Foreign Affairs University, sees a CJK-FTA as crucial for advancing regional integration (Caihua, 2013). She cites the Germany-France case of regional integration in Europe as an example to follow in pursuit of regional peace and stability. She argues that the CJK-FTA would serve as a stabilizer of political relations in the region, adding that without the existence of key bilateral or trilateral FTAs in East Asia, RCEP negotiations could hardly make a breakthrough any time soon. (The Regional Comprehensive Economic Partnership (RCEP) is a proposed free trade agreement between the ten member states of ASEAN and the six countries with which ASEAN has existing FTAs. Negotiations were launched in November 2012 at the ASEAN Summit in Cambodia and continue today) She stresses: "The East Asian community can be successfully established and what kind of community would be set up is still dependent on CJK cooperation because they are the most powerful countries in the region" (Caihua, 2013). If this analysis is correct, once the CJK-FTA is concluded, the pact can be expected to promote a community consciousness within the East Asian region and harmonize political differences, and even possibly develop an East Asia Community spirit.

## **Mongolia-Japan Economic Partnership Agreement**

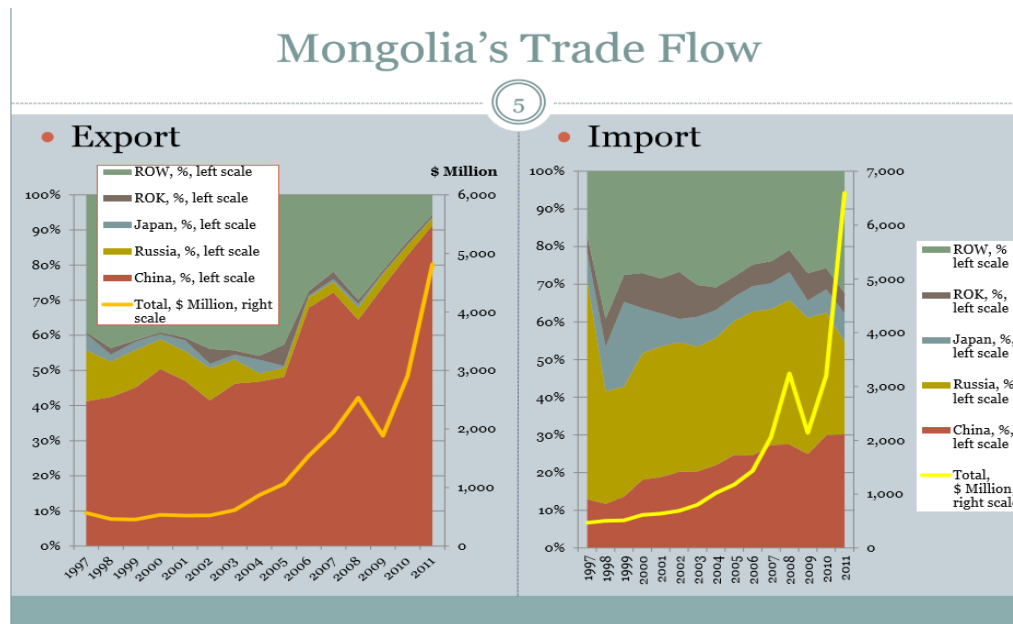
### *Short Background and Introduction*

The Mongolia-Japan Economic Partnership Agreement is representative of Japan's newest trade policy. The new initiative aims to promote the liberalization of trade and direct investment flows, economic cooperation, infrastructure exports, such as transportation and water supply systems, and attracting inflows of investment into Japan. But in this agreement, there is also a significant political component, as we shall see.

The first round of negotiations with Mongolia took place in June 2012, and the talks culminated successfully in April 2014 with the sixth round (Report 3-1-1, 2014). During his visit to Japan in the spring of 2015, Prime Minister Chimediiin Saikhanbileg signed the Mongolia-Japan Economic Partnership Agreement (EPA) with Prime Minister Abe. This EPA is the first for Mongolia and the 15th for Japan (Kameda, 2015). Although there were no particular issues to complicate the EPA negotiations, it was really the close personal relationship between Saikhanbileg and Abe that brought the agreement to the table quickly. Japan's three-year effort to sign an EPA with Mongolia has been realized. The EPA will remove tariffs on about 96% of the combined total value of trade between the two countries, which was 41.8 billion yen in 2012. According to the Ministry of Economy, Trade and Industry (METI), the Mongolia-Japan EPA would "not only assist in strengthening political economic ties between the two countries, but also be an important step toward the creation of the strategic partnership referred to in the November 2010 Mongolia-Japan Joint Statement" (Report 3-1-1, 2014).

### Strengthening a "Strategic Partnership"

In Mongolia's view, the purpose of an EPA with Japan is to successfully implement its "Third Neighbor Policy", which is designed to reduce the country's economic dependence on Russia and China. After the collapse of the Soviet Union, Mongolia, having lost the subsidies it long had received from Moscow, slowly transformed itself into a democracy and a market economy in the 1990s. According to Alicia Campi, Mongolia wants to prevent Russia and China from continuing to dominate Mongolia's economy (Campi, 2015). The Mongolians have strived to balance the influence of its two giant neighbors by establishing good ties with such democratic nations as the United States, Canada, Japan and South Korea. The result has been a reduction of economic dependence on Russia and China that will allow it to correct its perennial trade imbalance with those two neighbors.



Source: Mongolia's Current Trade Flow (Nakajima, 2013)

Mongolia currently has a huge trade imbalance. But it still only occupies 1.4% of Mongolia's total exports by value, compared to 3.6% for Canada and 90% for China. The imbalance is less in the case of Mongolia's imports, 27.6% of which came from Russia, compared to 37.8% from China (Dominguze, 2014). Additionally, Mongolia is now the recipient of large amounts of investment funds for various projects from China (\$423 million in grants and loans) and Russia (railway modernization) (Campi, 2015).

Mongolia's economy has been suffering from a number of setbacks. Its growth has steadily slowed from 2011, when it registered 17.3 % to 2013, when it dropped to 11.7 %. Both the International Monetary Fund (IMF) and World Bank estimate that Mongolia's GDP will decline to 9.5% in 2015". (World Bank, 2014). In 2013, Foreign Direct Investment (FDI) had contracted by nearly 45%. Only if inward FDI from Japan increases along with that country's ODA (Official Development Assistance), will Mongolia potentially be able to continue to sustain significant economic growth (World Bank, 2014). Despite press reports that Mongolia and China enjoy a strategic relationship, the two countries in actuality do not necessarily have a good working relationship (Campi, 2015). Owing to a worsening relationship between Japan and China, and Mongolia's willingness to reduce dependence on both Russia and China, both Mongolia and Japan have been able to take advantage of the situation each other faces. Both countries thus expect that the new EPA will become a win-win situation for them.

There is another way of looking at the Mongolia-Japan EPA. It could be interpreted as Japan's political strategy to expand its influence in Central Asia, in short, an extension of Japan's "Silk Road Diplomacy" (Rakhimov, 2013). Japan's lack of natural resources could be eased by its

establishing a new route for energy resources bound for Japan via Mongolia. Japan depends on imports for over 90% of this primary energy needs (World Nuclear Association, 2015), and transporting some of that energy via continental Asia is seen as a means of diversifying its supply routes.

With political ties with China recently in a worsening situation, Japan has had to seek alternative sources for certain natural resources that China has been supplying. Moreover, many countries including Japan that had been investing in the Middle East have not seen any noticeable progress due to unstable political situations there. Many have given up on investing in the Middle East and are now trying to find alternative sources for energy. Thus, Mongolia is poised as a candidate that could help Japan find a new land route, running through Northern China and Manchuria. Campi in an interview noted that the U.S. welcomes the Mongolia-Japan EPA, since this could create a new entry for the U.S., too, for access to natural resources that Mongolia can supply (Campi, 2015).

Japan also can potentially receive support from Mongolia to resolve longstanding political issues with neighboring North Korea, such as the abductions of Japanese citizens decades ago. Over the years, China and South Korea have built strong ties partly as a result of their FTA. However, the relationship between China and North Korea has only worsened over time. Currently, Mongolia could play a crucial role on behalf of regional stability as it is part of a small group of countries maintaining diplomatic ties to Pyongyang. Thus, Mongolia is in a unique position to play a role in ongoing negotiations to resolve the Japanese abduction issue (Campi, 2015). In fact, Prime Minister Abe and the then Mongolian President Tsakhia Elbegdorj agreed in 2014 to continue working together to resolve the abductee issue with North Korea. The Mongolian president said he could help by providing a venue for bilateral talks between Japan and North Korea (Ji, 2014).

### **Economic and Other Benefits to Japan: TPP**

The Japanese government forecasts Japan's participation in the TPP to increase its real GDP by 3.2 trillion yen, or 0.66% of GDP (Todo, 2013). Furthermore, according to Yasuyuki Todo, Japan's GDP in 2020 will be \$95.5 billion (approximately nine trillion yen) or about 2% larger if Japan and Korea are both TPP members (Todo, 2013).

Additionally, the TPP will increase Japan's trade volume (the sum of exports and imports) by \$340 billion or 6.8% of GDP in 2020. An increase in the trade share (the ratio of the trade volume to GDP) by 1% will increase the growth rate of per capita GDP by 0.027% (Todo, 2013). Accordingly, the increase in the trade volume due to the TPP will raise the growth rate of per capita GDP in 2020 by 0.18%. This increase is significant given the nearly 0.8% growth rate in Japan's real per capita GDP over the past 20 years.

In terms of FDI, the TPP will increase such to Japan by \$155.6 billion or 3.1% of GDP. Inward FDI increases the growth rate of per capita GDP, and the effect is larger for countries with developed financial systems, like Japan. When the ratio of inward foreign direct investment to GDP increases by 1%, the growth rate of per capita GDP increases by 0.78 % times the ratio of private credits to GDP. Given that the ratio of private credits to GDP for Japan in 2010 was 1.72 (World Bank's World Development Indicators), the increase in FDI to Japan due to the TPP would increase the growth rate of per capita GDP by around 1.3% (Todo, 2013).

### **The Rule-Making Benefits to Japan**

The main objective of the TPP, led by the United States, is to create “a comprehensive and high-standard” agreement that encompasses a broad spectrum of trade and trade-related issues. The agreement will set new economic rules in such areas as worker rights, intellectual property rights, pharmaceutical patent protection, and investor rights. In particular, Kensuke Yanagida, a research fellow at the Japan Institute of International Affairs (JIIA) notes that the rule-making aspect of TPP is what Japan will gain the most by joining. Private enterprises from Japan would be able to invest safely in emerging markets without having to deal with arbitrary law enforcement or a weak legal system for foreign investors (Yanagida, 2015). Prime Minister Abe also cited the harmonization of rule-making through the TPP as important for Japan: “Losing this opportunity [to join the TPP] would simply leave Japan out from the rule-making in the world. Future historians will no doubt see that the TPP as the opening of the Asia-Pacific Century” (Abe, 2013).

For example, Investor-State Dispute Settlement (ISDS) was a key issue for Japan in considering participation in TPP negotiations. Japan did not want an ISDS clause in the TPP agreement (Cheong, 2013). ISDS, which has been frequently raised by TPP opponents, would allow foreign firms that believe they have been disadvantaged by government policies in countries where they have a business presence can initiate proceedings directly against the governments of said countries in third-country arbitration tribunals or international institutions. In other words, according to one expert, “The Japanese government could potentially be sued by a foreign firm, and a third-country court or arbitration tribunal somewhere might make a ruling which goes against Japanese interests” (Cheong, 2013). However, other experts argued that “while the Japanese government has never yet been sued under this clause [in existing investment treaties and other conventions], conversely, Japanese firms have won restitution from host country governments based on ISDS provisions” (Nezu, 2012). Thus, it is possible to argue that Japan has more to gain than lose from joining the TPP negotiations during the rule-making process.

## The Economic Benefits to CJK-FTA: Win-Win-Win Strategy for the Three Countries?

Combining the trade efforts of three powerful countries in Asia will bring a synergistic effect on potential economic benefits. If an FTA is concluded, the combined GDPs of China, Japan, and South Korea represent 20% of the world's total. Similarly, their combined imports and exports account for 17.5% of global trade (Tiezzi, 2014).

**Table 4.6: Macroeconomic effects of the CJK FTA**

	Case 1		Case 2		2005 Joint Research	
	EV	GDP	EV	GDP	EV	GDP
China	4.7	0.30	5.0	0.55	3.3	0.30
Japan	19.1	0.41	9.4	0.15	16.8	0.37
Korea	20.0	5.26	10.9	2.61	12.4	3.55

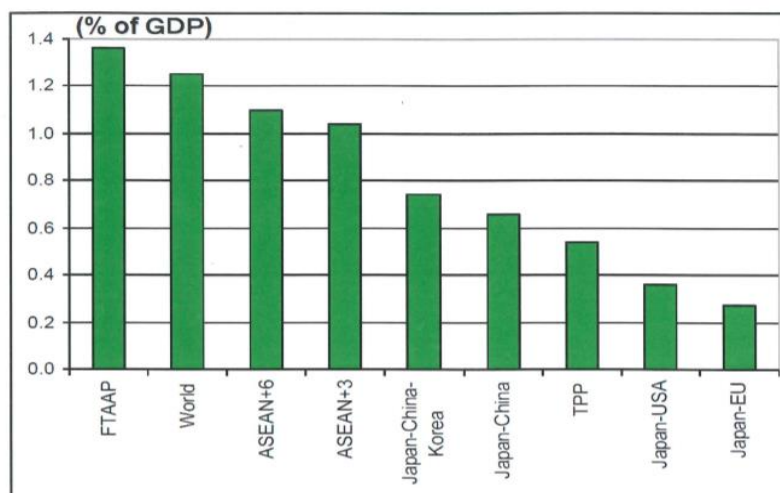
Source: the Korea Institute for International Economic Policy (KIEP).

\* Case 1 represents the elimination of bilateral nominal tariffs in all the sectors. Case 2 allows for the exemption in grains.

As one study showed, “China’s economic welfare would increase by \$4.7 billion and its GDP would increase by 0.3%. Economic welfare gains and GDP growth for Japan would be \$19.1 billion and 0.41%, respectively. Korea would be the biggest beneficiary of it– welfare gains and GDP growth would be \$20.0 billion and 2.8%” (Choi, 2013). Such results demonstrate that a CJK-FTA would be a win-win-win situation for all three countries.

## The Comparison between TPP and CJK-FTA in terms of Economic Benefits:

### Economic benefits to Japan of FTAs



Source: Kenichi Kawasaki (2011).

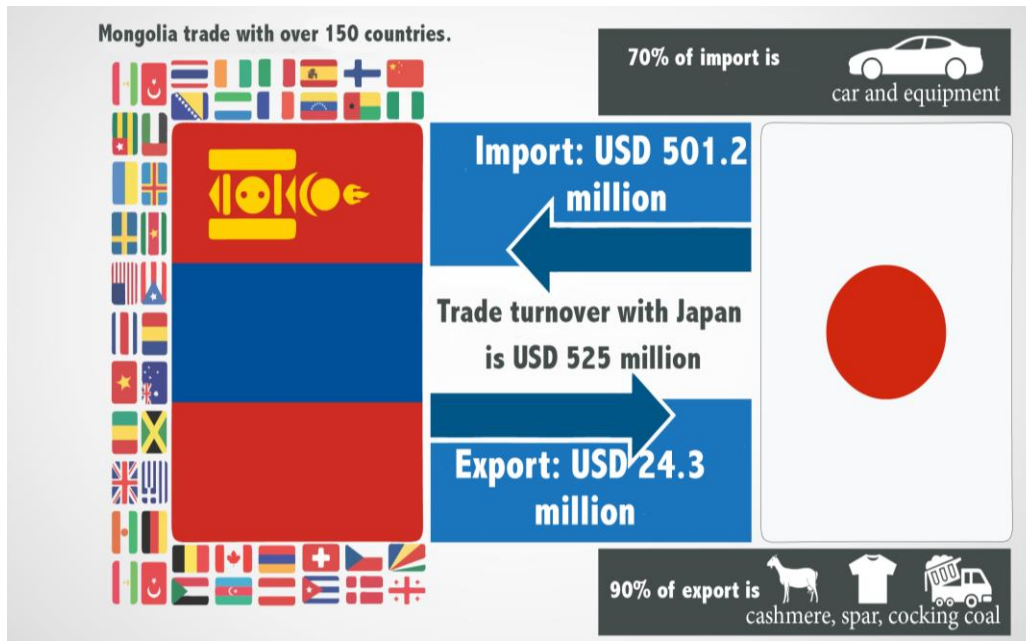
According to Kenichi Kawasaki's analysis in 2011, the economic benefits of the CJK-FTA in terms of percentage of GDP would be greater than those resulting from the TPP agreement. He argues that Japan's GDP would increase by approximately 0.5% through the TPP, but its GDP would increase by more than 0.6% through the CJK-FTA. However, based on data from 2012, Japan's National Institute for Research Advancement (NIRA), along with Chinese and Korean think tanks, see lower gains from a CJK-FTA, an estimated rise in Japan's GDP by about 0.3%. The Japanese government estimates that tariff reduction through the TPP would increase the country's GDP by approximately 0.66% (Egawa, 2013). This study finds that Japan's GDP growth due to TPP would be greater than growth due to CJK-FTA. But if Japan can succeed in securing both agreements, its economic growth would be even greater. In another study on the Regional Comprehensive Economic Partnership agreement (RCEP) for Asia, now being negotiated, NIRA estimates that it would increase Japanese GDP by 0.22%. Under a three agreement scenario, thus, Japan decidedly comes out a winner.

### **Economic and Other Benefits to the Mongolia-Japan EPA**

Although the economic benefits of the Mongolia-Japan EPA are unclear, since studies have yet to be made, there are several factors that infer that the agreement will be a win-win situation for both Mongolia and Japan. First, Japan's ODA to and investment in Mongolia aim at developing much-needed infrastructure development in that country. The infrastructure plans, combined with Japan's trade policy support, would provide economic opportunities for Japanese companies to participate in infrastructure-building projects. Japan's economic presence in Mongolia would be enhanced.

Under Japan's 'Silk Road Diplomacy', ODA loans will aid infrastructure development in Central Asia: roads, modernization of airports, railways, optical fiber lines, bridges, power plants, vocational schools, water supply, and canalization system, as well as technological innovation and construction (Rakhimov, 2013). The same program applies to Mongolia, where Japan will remain the biggest provider of ODA.

According to a 2013 study, "Mongolian-Japanese economic relations were based on loans and grant aid, but now, at this new stage of bilateral private sector cooperation, the JBIC (Japan Bank for International Cooperation)'s participation is particularly important" (Rakhimov, 2013). JBIC is a public financing and export credit agency for the Japanese government. For example, it will fund a new international airport in Ulaanbaatar, a project led by the Mongolian government, and being implemented by JICA (Japan International Cooperation Agency). Japan has pledged ¥36.85 billion (\$310 million) in loans to help the ongoing construction of that airport (CoverMongolia, 2015). Second, Japan will enjoy trade surpluses since it exports finished goods to Mongolia and imports low value-added products (e.g., livestock and minerals) from Mongolia.



About 90% of Mongolia's exports to Japan consist of cashmere wool, textiles and wearing apparel, leather, and coking coal (Kameda, 2015). Statistics for 2012 from the Mongolian government show that 66.4% of Japan's exports by value to Mongolia - ¥39.9 billion – consisted of automobiles and their components, followed by machinery at 18.5% and chemical engineering products at 5.1% (Kameda, 2015) – all high value-added goods. "Used cars currently account for 45% of Japan's exports to Mongolia, and the tariff imposed on this sector will be phased out over the next 10 years" (Richard, 2014).

Although Mongolia's manufacturing industries (textile and wearing apparel) can expect increased exports of such value-added products to Japan. Such products make up a small share of Mongolia's exports, so the impact of the FTA on the country's GDP will be minimal (Nakajima, 2013). However, Japanese companies such as Mitsubishi<sup>142</sup> and Mitsui Sumitomo will have greater opportunities to participate in Mongolia's energy and natural resources sectors, (Wise-Uranium, 2015). One product being sought is uranium: "Conventional estimates place Mongolia's uranium reserves at 62,000 tons, but untested reserves may raise the estimate to 1.39 million tons, constituting the largest reserves in the world" (Sachs, Agvaanluvsan, 2009).

<sup>142</sup> "For example, on December 21, 2009, Areva announced that it has invited Mitsubishi Corporation to participate in the development of its uranium exploration assets in Mongolia with the possibility of acquiring 34% of Areva Mongol over time. Areva currently holds 36 uranium exploration licenses on more than 14,000 km<sup>2</sup> in both the Dornogobi and Sukhbaatar provinces" (Wise-Uranium, 2015).

## Challenges for Japan in Joining the Trans-Pacific Partnership (TPP)

### 1. Opening the Agricultural Sector in Japan

The Abe administration faces a dilemma on how to manage the politically sensitive issue of liberalizing agriculture, while maintaining the ruling Liberal Democratic Party's (LDP) traditional support from farmers. To meet that challenge, the government must successfully make progress in the third arrow of Abenomics that includes structural reform of the agricultural sector. This policy includes reform of JA-Zenchu, the Japan Agriculture Cooperative. JA-Zenchu dominates agricultural interests with its strong lobbying power in the Diet. Its influence goes beyond the LDP to include other parties, as well.

The Abe administration has introduced reform legislation that takes away much of JA-Zenchu's clout. According to one study, "JA-Zenchu's defeat will help facilitate TPP negotiations. The aim of these government reforms is to strengthen regional agricultural cooperatives by freeing them from their rigid bondage to JA-Zenchu" (Pollmann, 2015). Dismantling JA is a critical and much-delayed first step towards this goal. The government plans to abolish JA-Zenchu's authority to supervise and audit agricultural cooperatives, destroying its "source of power." By March 2019, JA-Zenchu will become a general incorporated association and cooperatives will have the option of being audited by independent accountants (Pollmann, 2015). Another agricultural issue is the increasing aged farming population. The increase of elderly farmers is matched by the exodus of young farmers from agriculture (Poungchompu, Tsuneo, 2012).

On the other hand, many opponents argue that joining the TPP will undermine food security in Japan – there is a political goal of maintaining 40% food self-sufficiency – because the farming sector will not be able to compete with cheap food imports. Suzuki Nobuhiro, the author of "TPP and Japan's National Interest," is avid about the need to protect the agricultural sector in order to maintain food security, despite the fact that the shrinking agricultural sector accounts for only 1.5% of GDP in Japan (Nobuhiro, 2011). The author provides data <sup>143</sup> that Japan's food self-

---

<sup>143</sup> Excerpts from TPP and National Interest, Suzuki Nobuhiro, “だが、戦後の日本の産業政策は、輸出製造振興を優先した行動経済成長の中で、食料自給率が1960年代の70%から現在の40%にまで一貫して下落するような農業衰を退してきた。現代も、農業保護に対する国内世論の支持は得られず、農業関連予算は減額され続けている。日本では食料を戦略物資と見る認識が諸外国に比べて薄いように思われる。現在の日本の40%という低い食料自給率は、欧米主要国ではとうてい許容されない水準と思われる。“その結果、現在では、EU主要国のうち比較的低いスイスでも50%程度、他はこれを大きく上回って、イギリス70%、ドイツ80%、フランス120%程度でしている（い

sufficiency has dramatically declined from 70% in the 1960s to the 40% level it is now. In contrast, Europe, Great Britain, Germany, France maintain 70%, 80%, and 120% self-sufficiency rates, respectively (Nobuhiro, 2011). Due to Japan's vulnerability, the author argues that tariffs and other barriers are necessary to boost Japan's food security. With such arguments prevalent, reform in the agricultural sector to make it internationally viable is crucial to the TPP. The Abe administration indeed has developed a structural reform plan to revive agriculture and a strategy to export agricultural goods. Implementing such a plan is one way to persuade TPP critics that agriculture will not be sacrificed.

## 2. Is the U.S. Ready to Conclude TPP?

As of this writing in the spring of 2015, the U.S. and Japan are still negotiating to reach a final compromise on remaining issues before a final agreement on TPP can be reached. For example, according to report from the Congressional Research Service, "the United States' bilateral market access negotiations with Japan have been a challenge as Japan seeks to maintain import protections for several categories of sensitive agriculture products and the United States seeks to address concerns over non-tariff barriers in the Japanese automobile market" (Fergusson, McMinimy, Williams, 2015).

Moreover, a Tokyo Foundation research paper also notes:

"For the TPP, the United States and other member countries are believed to be seeking liberalization ratios of 96% or higher. However, the Japanese government is believed to be interested in protecting rice, wheat, beef and pork, milk products, and sugar, but if it protects them all, the liberalization ratio will only be around 90%. This would mean that the goal of the TPP—to achieve high-level trade liberalization—will not be realized" (Yutaka, 2013).

To further add to the negotiation difficulties, the U.S. Congress continues to stall on voting to give the President Trade Promotion Authority (TPA) (Fergusson, McMinimy, Williams, 2015) that would allow the TPP agreement to be signed and brought to the Congress for an up or down vote.<sup>144</sup> The last TPA expired on July 1, 2007, but the Obama Administration has proceeded to

---

ずれもカロリーベース、農水省調べ)。EU各国は域内統合を進めながらも、それぞれの食料自給率を政策によって高く維持している点を見逃してならない。(Nobuhiro, 2011).

<sup>144</sup> A report from Congressional Research Service defines a definition of "Trade Promotion Authority (TPA)" Trade Promotion Authority (TPA)—formerly fast track—is a statutory mechanism under which Congress defines negotiating objectives and consultative and notification procedures for trade agreements, and authorizes the President to enter into reciprocal trade agreements governing tariff and nontariff barriers. Under TPA, implementing bills for reciprocal trade agreements are considered under expedited legislative procedures, that is,

negotiate the proposed TPP with the hope that Congress would pass a TPA bill timed with the finalization of the TPP agreement. In the past, the objective of TPA have included reducing barriers, protecting foreign investment and intellectual property rights, encouraging transparency, fair regulatory practices, and anti-corruption, and so forth. However, Congress has revised and expanded the objectives that might include new negotiating objectives to reflect 21<sup>st</sup>-century trade policy, such as state-owned enterprises (SOEs), digital technology, and more flexibility to allow the Obama administration to negotiate a ‘living agreement’ (Fergusson, McMinimy, Williams, 2015). President Obama began asking the Congress to reauthorize TPA from July 2013, and at this writing, the bill is seen as coming up for a vote sometimes in June 2015. Unless that happens, President Obama will not be able to seal any deal with the 11 other countries in the TPP.

## **Solutions**

On TPP, the Japanese government should find a way to persuade farmers that there are benefits to be reaped from the liberalization of the agriculture sector. Yuki Tatsumi, Senior Associate, the Stimson Center points out: “Although it is a huge political challenge for Prime Minister Abe how to conclude TPP and at the same time maintain traditional support from farmers, what Abe should do is to continuously persuade farmers that Japan’s agriculture should be modernized, and help them learn how to be competitive globally. Through global competition, Japan’s agriculture sector will gain greatly” (Tatsumi, 2015).

In addition, the long negotiation between the U.S. and Japan is significantly narrowing down conflicting views. Even though, it might take longer to conclude an agreement, the establishment of a high-standard FTA is paramount. If a compromise resulting in a low-level FTA occurs, it would not only be inconsistent with Article 24 of GATT, but it also would violate the original goals of the agreement. It would not be the optimum choice in terms of economic benefits for the two countries to liberalize only a limited range of tariff lines in order to reach a deal on TPP (Choi, 2013). A senior Liberal Democratic Party lawmaker stressed in an interview that Japan would gain greatly through membership in the TPP, since it would be able to open its markets to the world. He was positive that Japan was ready to finally conclude an agreement to join the TPP (interview in March 2015).

---

limited debate, no amendments, and an up-or-down vote. The expedited consideration is conditioned on the President observing certain statutory obligations in negotiating trade agreements, including notifying and consulting Congress” (Fergusson, McMinimy, Williams, 2015).

## Challenges for Concluding a China-Japan-Republic of Korea FTA

### 1. Political and Historical Disputes

Japan's relations with China and South Korea have deteriorated rapidly in recent years due to ongoing and deep-rooted historical, political, and territorial disputes. Under Prime Minister Abe, the already sour relations have only worsened. The Senkaku (Diaoyu) Islands issue between China and Japan could even spark unplanned military conflict with naval forces circling each other around the disputed isles. There seems to be little doubt that progress on the CJK-FTA have been slowed down as a result.

The CJK-FTA also has been inhibited due to the way China and Japan see each other politically in the region: as competitors, rather than as partners for leadership in East Asia. As one expert put it,

“While the same point could be applicable in the context of the Japan-Korea relationship, China and Japan have been competing for regional leadership in economic integration. As a result, the prospect for the CJK-FTA negotiation is not optimistic as long as the current relationship in Northeast Asia is maintained. The RCEP will not be feasible without the CJK-FTA” (Cheong, 2013).

Another expert, Jing Ji, points out that geopolitical issues in East Asia also play a role. Ji argues:

“North Korea is an uncertain factor. The United States wants to keep its influence in the region and balance the potential East Asia FTA framework. It is accelerating the TPP negotiations to attract Japan and South Korea. The current FTA network in East Asia is like a ‘spaghetti bowl’, and everyone involved wants to be the hub, not a spoke” (Ji, 2014).

Such a muddled situation in the region, combined with bilateral territorial and historical disputes has indeed hampered progress on concluding the CJK-FTA.

### 2. Changes in Japan's Trade Pattern

Japan has been implementing a “China-Plus-One Strategy”, which is a policy of managing risk by locating plants and facilities in China and one other Asian nation. This explains the current trend of Japan easing back on investing in new industrial facilities in China (Topham, 2012). Recently, Japan has been diversifying its investment and reducing its overreliance on China, and moving towards investing more in such ASEAN countries as Vietnam. According to data from Japan External Trade Organization (JETRO), Japan's outward FDI in 2013 rose by 10.4% year-

on-year to \$135 billion, increasing for the third consecutive year. Of that, investment in ASEAN countries grew 2.2 times over the previous year (2012) to \$23.6 billion (JETRO, 2014). In contrast, investment in China fell 32.5% to \$9.1 billion in 2013 (JETRO, 2014). Research Fellow Kensuke Yanagida said that “the main cause of Japan’s diversifying its investment is due to the rise of labor costs, complaints from Japanese companies, and arbitrary law enforcement in China” (Yanagida, 2015). In other words, market issues and not political issues account for the investment shift.

The China-Plus-One Policy has affected trade flows as well. In 2002, China’s exports to Japan comprised 14.9% of its total exports. This proportion shrunk to 7.4% by 2012. China’s imports from Japan also dropped from 19.1% of total imports in 2002 to 10.6% in 2012. Again, market factors account for the significant reduction in trade. In addition, both FDI from the U.S. and from Japan to China has dropped significantly. According to the Financial Times, “This year, investment has dropped most obviously from Japan, which has been locked in a bitter diplomatic battle with China over historical interpretations and sovereignty over uninhabited islands in the East China Sea. Investment from Japan fell 43.3% from a year earlier in the first eight months of the year, while FDI from the US and EU also fell between 17 and 18% each” (Anderlini, 2014).

China in short has become less attractive for Japan to invest in. But Tsutomu Kikuchi cautions: “Although Japan’s investment to ASEAN countries doubled over that destined to China, realistically speaking, it does not sound feasible for Japan to move an entire factory from China to ASEAN countries due to the high cost. And, many Japanese still want to keep bases in China because of the size of market. At the same time, Japanese companies are looking for other countries to manufacture in” (Kikuchi, 2015). So the shifting figures do not necessarily mean that companies are abandoning China; they are mostly seeking new locations to expand to.

### 3. Lack of Leadership and Motivation

But as to the question as to whether historical, political, and territorial disputes have slowed the progress of the CJK-FTA, Kensuke Yanagida argues, “Unlike what people think, political and historical conflicts have had very little impact on a Japan, China, and South Korea FTA” (Yanagida, 2015). Kikuchi seems to agree: “I do not think that it is all about political and historical disputes. It is due to the absence of strong leadership to push Japan, China, and South Korea FTA forward. There will be somehow be progress on CJK-FTA regardless of political and historical disputes” (Kikuchi, 2015).

Kikuchi’s observation is worth emphasizing: Different from the European Union, the East Asia region faces an absence of much needed political leadership to both resolve the historical and political disputes as well as to move forward the CJK-FTA. Kikuchi notes that the “none of the current leadership has strong motivation to move forward on the CJK-FTA,” adding that

“particularly, at this moment, Japan’s priority is to conclude the TPP as soon as possible and use this as a force to conclude other economic partnerships that are currently under negotiation” (Kikuchi, 2015). In short, Japan currently has less motivation to fast-track the CJK-FTA, as well Ji agrees: “CJK-FTA negotiations are partly dependent on progress in the TPP negotiations” (Ji, 2014).

Once the CJK-FTA is concluded, some industries will gain while others will lose. Korea, aware of that, might be reluctant to conclude the CJK-FTA due to the possibility of increasing its trade deficit as it opens its market to Japan. It may fear a possible negative impact on the agricultural sector and on small and medium-sized enterprises (SMEs) that compete with foreign companies. “Korea imports large amounts of components from Japan that are produced by many Japanese small and medium-sized companies,” notes Kikuchi (Kikuchi, 2015). Further, the Japanese government gives substantial support to small and medium-sized businesses. On the other hand, the South Korean government does not offer similar level of support, so its small and medium-size businesses will lose their competitiveness” (Kikuchi, 2015). According to Chiang Min-Hua, “South Korea is also concerned that a CJK-FTA will lead to its further dependence on Japan for core components and technology and worsen South Korea’s trade deficit with Japan, which had amplified from \$9 billion in 1991 to 26 billion in 2012” (Chiang, 2013).

Moreover, Yanagida notes that South Korea will not likely join the CJK-FTA quickly because there is no merit for them to do so. South Korea now already has nine FTAs in effect, covering 26 % of its total trade, including the recent comprehensive agreements with the United States and the European Union (Schott, 2014). In particular, South Korea “intends to prioritize bilateral negotiations with China because of its export potential. China is the largest export destination for South Korea, accounting for 24% of its total exports in 2012” (Chiang, 2013). On the other hand, China recorded huge trade deficits in the manufacturing sector including automobiles, chemical, and electronics and has an interest in these areas, which Korea and Japan have comparative advantages. (Choi, 2012).

#### 4. Losing Competitive Advantage

Both Korea and Japan share the same problem of how to liberalize the agricultural sector. China enjoys a competitive advantage in agricultural products but suffers a disadvantage in some manufacturing sectors like steel, machinery, chemicals, automobiles and even textiles (Caihua, 2013). Thus, China would welcome liberalization of the agricultural sector in a free trade agreement. Moreover, the agricultural sector is one of the most actively organized interest groups in South Korea, just as it is in Japan. Both governments therefore chose to start FTA negotiations with countries that are least likely to threaten their agricultural sector. Korea has started negotiations with Chile, Singapore, and Japan, while Japan picked Mexico, Singapore, and South Korea.

Like Japan's, FTA opponents in South Korea argue that such an agreement would threaten food security, eventually endanger the sovereignty of the whole nation. Lee Kwang Seok of the Korean Peasants League points out: "With rice out of the equation, Korea would only be 5-6 % food self-sufficient." (Miles, Ahn, 2011) He claims that if the FTA is implemented, South Korean agricultural production will decrease by 45 % and roughly half of ROK farmers would lose their livelihoods (Miles, Ahn, 2011).

China, too, believes the CJK-FTA will bring many challenges. First, China has a disadvantage when it comes to such manufactured goods as steel, machinery, and automobiles. Its services sector, too, is below par. Moreover, in order to conclude the CJK-FTA, China would have to meet the standards the agreement would impose, such as improving the investment environment, government, opening government procurement, protecting intellectual property rights, protecting the environment, and technical standards. All would ultimately require domestic reforms (Caihua, 2013).

Jing Ji points out an irony should Japan conclude both the TPP and the CJK-FTA:

"Japan's strategy seems unclear. Japanese lawmakers have expressed concerns that a U.S.-Japan FTA would force Japan to open up protected sectors such as farming and healthcare to U.S. competition. This makes Japan's participation in the CJK-FTA seem contradictory. It seems that on the one hand, Japan wants to weave an FTA network with itself as the only hub; on the other hand, it has to consider how to share the region with its ally, the United States, or its competitor, China" (Ji, 2014).

Japan therefore might have to choose between prioritizing which is more importance, the TPP or the CJK-FTA.

## **Solutions**

Both the CJK-FTA and TPP are important for Japan's export expansion goal. China is an especially crucial market for Japan's machinery and electrical machinery (45% of Japan's total exports to China in 2012), while the U.S. is an essential market for Japanese motor vehicles (33% of Japanese total exports to the US in 2012) (Chiang, 2013). Prioritizing the TPP and losing the opportunity to conclude the CJK-FTA would not be beneficial for Japan. Somehow, Japan must find a way quickly for prioritizing both agreements without abandoning one or another.

Despite the obstacles for concluding the CJK-FTA, the positive sign is that all three countries favor continuation of FTA talks, which represents a diplomatic victory in itself, regardless of

what progress is made. China, Japan and South Korea seem willing to put aside political differences in order to reap shared economic benefits. According to a plan agreed upon by research institutes of the three countries, a six-year joint research project, “Economic Effects of a Possible CJK-FTA,” is to be concluded this year. Since the CJK-FTA is an important element in an earlier agreed Action Strategy on Trilateral Cooperation among the three countries, the dialogue mechanism established in 2008 on this topic needs to be retained (DRC, NIRA, and KIEP, 2008).

## **Challenges of a Mongolia-Japan EPA**

### **1. Arbitrary Law Enforcement**

Despite Mongolia having signed an EPA with Japan, there is a possibility that Japanese companies will suffer from arbitrary law enforcement in that country. Foreign investors, as well as the U.S. government, have criticized Mongolia’s unpredictable investment climate. In its January 2013 Investment Climate Statement on Mongolia, the U.S. Embassy in Mongolia described the regulatory environment for foreign investment in the country as “extremely chaotic, characterized by abrupt, non-transparent attempts to change laws” (Fergusson, McMinimy, Williams, 2015). In addition, investors have the impression that laws are hastily passed and the regulations are slowly created and partially implemented and concerned that criticism from some political quarters of current investment agreements and statutory obligations undertaken by past governments portends that commitments may not be fully respected (Fergusson, McMinimy, Williams, 2015). The Asian Development Bank attributed a recent sharp decline of FDI to Mongolia to “uncertainties related to the regulatory framework for foreign investor.”

### **2. Cultural Differences**

Mongolians are seeking either a short-term or medium-term bilateral investment program that would enable it to build power stations, railways, steel and copper processing plants, highways, and a capital metro system, even though most of them require long-term plans (Campi, 2015). Japanese companies will face some difficulty in establishing long-term programs in these sectors with Mongolia expecting quick results. The main cause of this difficulty is that Mongolia still has many other alternative countries, such as China and Russia, eager to invest in Mongolia as a way to diversify its economic partners. As a result, Mongolia to Japan’s dismay does not seem to be concerned if projects suddenly stop and are left incomplete.

For example, government officials and members of parliament in Mongolia have registered their concerns about the terms of completed investment. This includes calling for renegotiation of the terms of Mongolia’s flagship foreign-investment project, a massive copper and gold mine project

at Oyu Tolgoi and a combined open pit and underground mining project within the south Gobi Desert (Fergusson, McMinimy, Williams, 2015).

Many of the problems stem from cultural differences, which make negotiating with Mongolians exceedingly difficult. Historically, Mongolia does not like foreigners trespassing across its country, including those who come in to build the power stations and infrastructure the country needs (Campi, 2015).

## **Solutions**

To deal with the challenges related to implementing the Mongolia-Japan EPA, Campi emphasizes the importance of building personal ties of trust between the two countries. In order to maintain long-term goal, Japan must have to submit to renegotiating agreements at times, and make the extra effort to understand the cultural differences and their impact on economic relationships (Campi, 2015). Due to its small population, Mongolia has a small business community in which everyone knows everybody else, resulting in reputation and relationships being very important. Thus, getting to know each other through informal interaction, such as going out drinking or for a meal is common practice and a good way to establish and build good relationships (KPMG, 2012).

Mongolia on its part must realize that establishing a solid legal system is crucial for the success of long-term investments from foreign entities. Here, there has been progress in strengthening FDI regulations to show that Mongolia welcomes foreign investors by providing the benefits they expect. For example, “in October 2013, Parliament passed the Investment Law of Mongolia (IL). Entering into effect on November 1, the IL replaced the 1993 Foreign Investment Law of Mongolia (FILM), and the controversial 2012 Strategic Entities Foreign Investment Law (SEFIL), which most investors saw as being anti-foreign investment and one of the prime causes of the over 50 % drop of FDI in the time between its passage and its revocation. Overall, the law sets down the legal rights and obligations of investors in Mongolia, stabilizes the tax environment, establishes the powers and responsibilities of the agency that will regulate investment, and provides incentives to encourage investment. Foreign investors are given the same protections as domestic investors” (U.S. Department of State, 2014).

In addition to strengthening regulation for foreign investors, Mongolia now provides tax and non-tax incentives for foreign investors, particularly for long-term projects. “New projects and some older projects that meet requirements may qualify for favorable tax treatment for periods up to twenty-seven years. Affected taxes may include corporate income tax; customs duties; value-added tax; and mineral resource royalties. The most important criterion for tax stabilization is the amount of investment, determined by reference to specific sectors and the geographical area within which the investment is made” (U.S. Department of State, 2014).

## The Future of TPP, CJK FTA, and Mongolia-Japan EPA

### Simulation of TPP Results

What can we expect from the TPP and its other counterparts? The chart below shows the three types of TPP structure agreement and what results if chosen. Based on the chart, Japan can have the greatest economic gains. It could achieve economic gains by participating in the TPP, and much higher gains under the TPP12+People's Republic of China (PRC) scenario (Cheong, 2013). According to *Impact of the Trans-Pacific Partnership on the Gross Domestic Product of Economies in Asia and the Pacific*, Japan's GDP will grow 0.21% under TPP12, but grow by 0.53% under TPP 12 + PRC.

**Table 3: Impact of the Trans-Pacific Partnership on the Gross Domestic Product of Economies in Asia and the Pacific (%)**

Country/Region	TPP9	TPP12	TPP12+PRC
New Zealand	0.17	0.97	0.60
Chile	0.01	(0.13)	(2.40)
Peru	0.27	(0.04)	(0.35)
Singapore	0.41	0.48	(0.79)
United States	0.01	0.00	0.45
Australia	(0.01)	0.22	0.23
Malaysia	0.71	0.70	(0.24)
Viet Nam	0.29	0.18	0.08
Canada	(0.04)	0.02	(0.34)
Mexico	(0.13)	0.90	1.12
Japan	(0.01)	0.21	0.53
Korea, Rep. of	(0.03)	(0.11)	(1.73)
PRC	(0.03)	(0.11)	4.51
India	(0.01)	(0.05)	(0.38)
RASEAN	(0.06)	(0.37)	(1.59)
EU	(0.01)	(0.04)	(0.33)
ROW	(0.02)	(0.07)	(0.57)

( ) = negative value. PRC = People's Republic of China; EU = European Union; RASEAN = Cambodia, Indonesia, Lao People's Democratic Republic, Myanmar, Philippines, Thailand; ROW = rest of world; TPP9 = Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, United States, Viet Nam; TPP12 = Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Viet Nam.

Source: Cheong and Tongzon (2013).

Thus, it is significant that China should join the membership of TPP sooner rather than later. In addition, the idea that the TPP is part of the U.S. and Japan's policy to contain China is a misperception. Both Kikuchi and Yanagida insist that it is a wrong assumption that TPP is an economic agreement to contain China, But Kikuchi notes that although "there is potential for China to join the TPP membership, right now, it is not yet ready to do so" (Kikuchi, Yanagida, 2015). China will be able to join the TPP membership if it meets all of the requirements, with the most challenging being whether China will have equivalent rule-making standards compared with other countries in the TPP (Cheong, 2013). In particular, it is important that China should reform its competition policy, particularly its policy on State-Owned Enterprises (SOEs) and Intellectual Property Rights, in order to increase investor confidence (Cheong, 2013).

### **The Simulation of CJK-FTA:**

#### **1. Establishment of Japan-Korea FTA (JK-FTA) and then include China?**

Japan and South Korea would like to conclude a CJK-FTA that excludes the agricultural sector. In this case, China would be highly reluctant to participate in that FTA, expecting no benefits from its comparative advantage in agriculture. If a JK-FTA is first formed, moreover, the agricultural industry interest group (IIGs) in Japan and Korea would severely oppose including China in a CJK-FTA” (Choi, 2013). Unfortunately, talks on a JK-FTA have been suspended since late 2004, not surprisingly due to the difficulty of narrowing down differing views on the agricultural sector (Yonhap News, 2014).

#### **2. Establishment of China-Korea FTA (CK-FTA) and then include Japan?**

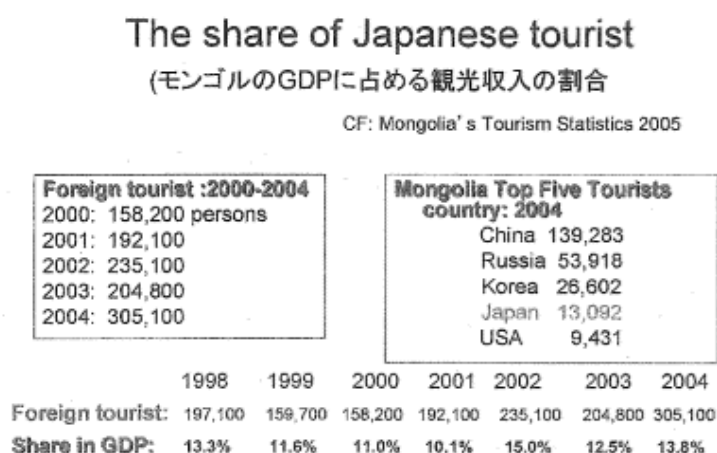
Another possibility is the sequential path of forming a CK-FTA plus Japan. The probability of such is higher than that of a JK-FTA which would then include China. The trade complementarity is still higher between China and Korea than it is between Japan and Korea (Choi, 2013). A CK-FTA would lead the Korean government to reallocate its resources to capital-intensive and high technological industries, while China could focus on developing its labor-intensive and heavy industries. Thus, a CK-FTA would be a win-win strategy for the two countries. But Korea would be reluctant to then add Japan to the FTA since it does not have comparative advantages in capital-intensive and high technology industries over Japan. It would fear losing out to Japan if that country joins the CK-FTA.

The question is not only whether China and Korea would agree on the participation of Japan following the establishment of a CK-FTA but also whether Japan would accept an invitation (Choi, 2013). Additionally, compared to the JK-FTA negotiation, which is suspended, China and Korea finished signing all texts of the CK-FTA and confirmed the contents of the agreement on February 25th (China FTA Network, 2015). This clearly indicates that CK-FTA will be concluded very soon. Thus, the CK-FTA plus Japan sounds much more feasible than the previous simulation.

### **The Future of Mongolia-Japan EPA: Potential Industry to Grow**

Through the Mongolia-Japan EPA, a variety of industries have the potential to grow, such as nuclear power and eco-tourism. Mongolia plans to have its first nuclear power plant by 2020 and engage in nuclear fuel production by tapping the country’s rich uranium resources (Shen, 2011). In addition, Japan can offer technological expertise that is greater than that from China, and help Mongolia develop the needed infrastructure (Richards, 2014). Mongolia, too,

desires to acquire Japanese expertise and investment in its fledgling nuclear power industry, Japan has one of the largest nuclear power industries in the world, and Japanese multinational corporations such as Toshiba and Hitachi are hoping to secure the lucrative contracts to help build Mongolia's first nuclear reactor (Miller, 2012).



Sustainable development – economic development without degeneration of the environment -- is crucial for the success of the Mongolia-Japan EPA. This is linked to the potential importance of promoting eco-tourism in Mongolia. Japan already is ranked as fourth largest source of tourists to Mongolia (13,092), after China (139,283), Russia (53,918), and South Korea (26,602) in 2004. To promote the eco-tourism business, Japan, according to one study, should transfer appropriate environmental technology to Mongolia (Nobuto, Atsushi, Masao, 2010)<sup>145</sup>. The by-product of that would be a boom in tourists coming to Mongolia from Japan, with Japanese companies jumping in to develop an eco-tourism industry.

## Conclusion

Based on this paper's analysis of the political, social, and economic benefits to Japan from participating in the three economic agreements discussed above, Japan will continue to actively engage in negotiating more FTAs and EPAs based on market-driven and policy-driven motives. The side-benefit for that trend will be a freer and more open Japanese market in the global

<sup>145</sup> 我が国とモンゴルの FTA 形成によって拡大するのは、農産物や鉄工業品などの「財」の分野ではなく、モンゴルの自然環境を中心とした「サーバス貿易」の分野である。モンゴルのゴビ砂漠や高原地帯などの大自然には、日本を含めて先進国の外国人観光客を魅了する潜在的な要素がある。ただし、現在は自然環境保全の技術が未熟なために、この大自然が、ほとんど野放図にされたままである。もし「エコツーリズム」の考え法に基づいて、日本の環境保全技術や環境保全系のリゾート、ノウハウが導入されれば、同時に外国人観光客も増加して、モンゴルのサーバス貿易黒字は増大する。(Nobuto, Atsushi, Masao, 2010)

economy. Japan will be able to expand its economic influence, avoiding the kind of isolation in the world that it once seemed headed for. At the same time. Japan's membership in the TPP – which has the potential of expanding into an Asia-Pacific free trade pact (APFTA) – will join the U.S. as an economic leader in the region. Moreover, in more general terms, Japan's moves will further strengthen its alliance with the U.S., begin a new era of political and economic cooperation with China and South Korea, and, in the case of the EPA with Mongolia, lead to an expanding of its presence in Central-Asia. The Mongolia connection in itself has the potential of helping Japan to revolve such unresolved issues with North Korea as the abductions of Japanese citizens by that country, given Mongolia's special relationship with North Korea.

Japan's economy can be expected to receive a solid boost from joining the TPP and eventually signing a CJK-FTA – ending the lingering effect of two decades of stagnation. Not only will trade figures soar, FDI will flow in and out of Japan, much to its economic benefit.

Compared to the two agreements above, Japan's EPA with Mongolia is not likely to add much to its economic growth. Different from the TPP and CJK-FTA, Japan concluded the pact with Mongolia more for the immediate and long-term political benefits rather than economic benefits (Brooks, 2015). Still, Japan will be able to significantly increase its exports of automobiles and consumer goods to that country, build infrastructure, and engage in niche market activities, such as eco-tourism and the nuclear energy business.

The challenges described in this paper to signing or implementing the three agreements can be daunting, but under the Abe administration, there has been a much more proactive and forward-looking stance toward FTAs and opening the Japanese market than any of cabinet before it. TPP will most likely be signed – assuming the U.S. Congress does not pull the plug by refusing President Obama fast-track authority (TPA). And there are positive signs that the CJK-FTA may finally be ready to move forward. During the fifth round of CJK-FTA negotiations in Beijing, on September 1st, 2014, the three sides all agreed to accelerate the talks, and optimistically expect to conclude them sooner than the RCEP – which may drag on throughout 2015 (Jiabao, 2014). On March 21, 2015, the finance ministers of the three countries met in Seoul, for the first time in three years, and signaled that gradual progress on the CJK-FTA is being made (WantChinaTimes, 2015). To do so, of course, political issues among the three countries will have to be put aside, at least for a while. Moreover, it is possible that once Japan concludes the TPP agreement with the U.S., it will act as pressure on the CJK-FTA negotiations.

## References

- Miles, A., & Ahn, C. (2011, February 15). Free Trade Kills Korean Farmers. Retrieved April 25, 2015, from [http://fpif.org/free\\_trade\\_kills\\_korean\\_farmers/](http://fpif.org/free_trade_kills_korean_farmers/)
- 2014 JETRO Global Trade and Investment Report On making Japan a base for international business circulation. (2014). Retrieved March 21, 2015, from [https://www.jetro.go.jp/en/reports/white\\_paper/trade\\_invest\\_2014\\_overview.pdf](https://www.jetro.go.jp/en/reports/white_paper/trade_invest_2014_overview.pdf)
- Anderlini, J. (2014). Foreign investment into China slumps. The Financial Times. Retrieved April 18, 2015, from <http://www.ft.com/intl/cms/s/0/86808f42-3d7c-11e4-b782-00144feabdc0.html#axzz3aFI46c3h>
- Brooks, W. (2015, April 10). Japan's Economic Partnership Agreements [Personal interview].
- Brooks, W. (2015, April 28). The Mongolia-Japan Economic Partnership Agreements [Personal interview].
- Caihua, Z. (2013). CJK FTA from a Political Economy Perspective. Retrieved April 26, 2015, from [https://www.jef.or.jp/PDF/cjk\\_07\\_Talking points.pdf](https://www.jef.or.jp/PDF/cjk_07_Talking points.pdf)
- Campi, A. (2015, February 20). About Us Programs Regions Press Multimedia Archives Store Subscribe Mongolia Signs Economic Deal With Japan to Offset Chinese and Russian Trade Domination. Retrieved April 28, 2015, from [http://www.jamestown.org/single/?tx\\_ttnews\[tt\\_news\]=43566&tx\\_ttnews\[backPid\]=7&cHash=e7183a5f6bf6228c3481f6957aacb4c3#.VTVXNiFViko](http://www.jamestown.org/single/?tx_ttnews[tt_news]=43566&tx_ttnews[backPid]=7&cHash=e7183a5f6bf6228c3481f6957aacb4c3#.VTVXNiFViko)
- Campi, A. (2015, March 2). The Discussion about Mongolia-Japan EPA [Personal interview].
- Cheong, I. (2013). The Prospects for Korea's Participation for Mega FTAs in the Asia Pacific Region. Retrieved April 17, 2015, from <https://www.pecc.org/resources/trade-and-investment-1/2012-the-prospects-for-koreas-participation-for-mega-ftas-in-the-asia-pacific-region/file>
- Cheong, I. (2013). Negotiations for the Trans - Pacific Partnership Agreement: Evaluation and Implications for East Asian Regionalism. ADBI Working Paper Series. Retrieved April 13, 2015, from <http://www.adbi.org/files/2013.07.11.wp428.trans.pacific.partnership.east.asian.regionalism.pdf>

- Chiang, M. (2013). The Potential of China-Japan-Korea Free Trade Agreement. EAI Background Brief No. 823. Retrieved April 18, 2015, from <http://www.eai.nus.edu.sg/BB823.pdf>
- China-ROK FTA Negotiations Completed. (2015, March 11). Retrieved April 23, 2015, from [http://fta.mofcom.gov.cn/enarticle/enkorea/enkoreanews/201503/20755\\_1.html](http://fta.mofcom.gov.cn/enarticle/enkorea/enkoreanews/201503/20755_1.html)
- Choi, N. (2012). Impacts and Main Issues of Korea-China FTA. Korea's Economy 2012. Retrieved May 1, 2015, from [http://www.keia.org/sites/default/files/publications/kei\\_koreaseconomy\\_05\\_choinakgyoon.pdf](http://www.keia.org/sites/default/files/publications/kei_koreaseconomy_05_choinakgyoon.pdf)
- Choi, Y. (2013). Political Economy of Free Trade Agreements in China, Japan, and South Korea: Sectoral and National Security Politics of The FTA Wave. University of Wisconsin Milwaukee UWM Digital Commons. Retrieved April 25, 2015, from <http://dc.uwm.edu/cgi/viewcontent.cgi?article=1249&context=etd>
- Despite politics, quiet progress on FTA between China, Japan and S Korea. (2015, March 27). Retrieved April 25, 2015, from <http://www.wantchinatimes.com/news-subclass-cnt.aspx?id=20150327000036&cid=1501>
- Dominguez, G. (2014, February 9). Mongolia's 'rebalance' towards Russia and China. Retrieved March 30, 2015, from <http://www.dw.de/mongolias-rebalance-towards-russia-and-china/a-17892498>
- Dyck, J., & Arita, S. (2014). Japan's Agri-Food Sector and the Trans-Pacific Partnership. United States Department of Agriculture. Retrieved April 7, 2015, from <http://www.ers.usda.gov/media/1692618/eib129.pdf>
- Egawa, A. (2013, October 1). TPP participation gives Japan a bargaining chip in trade negotiations. Retrieved from <http://www.bruegel.org/nc/blog/detail/article/1184-tpp-participation-gives-japan-a-bargaining-chip-in-trade-negotiations/>
- Executive Summary. (2014). Retrieved April 14, 2015, from <http://www.state.gov/documents/organization/231251.pdf>
- Fergusson, I., McMinimy, M., & Williams, B. (2015). The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress. Retrieved April 25, 2015, from <https://www.fas.org/sgp/crs/row/R42694.pdf>
- Hengel, R. (2013). The Rise of Mega-FTAs. Retrieved April 27, 2015, from

[http://www.academia.edu/11896537/The\\_Rise\\_of\\_Mega-FTAs](http://www.academia.edu/11896537/The_Rise_of_Mega-FTAs)

Horiguchi, Y. (2014, November 17). Delay the second consumption tax hike. Retrieved April 25, 2015, from <http://www.economist.com/blogs/freeexchange/2014/11/japans-Economy>

Investment in Mongolia. (2012). Retrieved April 17, 2015, from <https://www.kpmg.com/MN/en/IssuesAndInsights/ArticlesPublications/Investment-2012/Documents/InvestmentInMongolia2012.pdf>

Japan Tries 'China Plus One' Strategy with Vietnam. (2014, October 23). Retrieved April 21, 2015, from <http://www.economywatch.com/features/Japan-Tries-China-Plus-One-Strategy-with-Vietnam.10-23-14.html>

Kikuchi, T. (2015, March 20). Japan' Policy Related to Economic Agreements [Personal interview].

Ji, J. (2014). Mongolia pledges cooperation in resolving North Korean abduction issue. The Japan Times. Retrieved May 4, 2015, from <http://www.japantimes.co.jp/news/2014/09/24/national/politics-diplomacy/mongolia-pledges-cooperation-resolving-north-korean-abduction-issue/#.VVZTepM6gg5>

Ji, J. (2014). Tough times ahead for China–Japan–South Korea joint FTA. Retrieved April 25, 2015, from <http://www.eastasiaforum.org/2014/12/06/tough-times-ahead-for-china-japan-south-korea-joint-fta/>

Jiabao, L. (2014, September 2). China, Japan, S.Korea FTA 'should be done by 2015' Retrieved April 17, 2015, from [http://usa.chinadaily.com.cn/business/2014-09/02/content\\_18527930.htm](http://usa.chinadaily.com.cn/business/2014-09/02/content_18527930.htm)

Joint Report and Policy Recommendations on the Possible Roadmaps of a Free Trade Agreement between China, Japan and Korea. (2008). 10-11. Retrieved May 3, 2015, from <http://www.nira.or.jp/pdf/0805report-E.pdf>

Kameda, M. (2015, February 11). Japan, Mongolia sign economic partnership agreement. Retrieved May 3, 2015, from <http://www.japantimes.co.jp/news/2015/02/11/business/japan-mongolia-sign-economic-partnership/>

Liberal Democratic Party Senior Official. (2015, March 18). The Question about the TPP [Personal interview].

- Loser, C. (2013, May 6). Where Trade Is Free, Powerful Economic Growth Is The Norm. Retrieved May 9, 2015, from <http://www.forbes.com/sites/realspin/2013/05/06/where-trade-is-free-powerful-economic-growth-is-the-norm/>
- McBride, J., & Xu, B. (2015, March 10). Abenomics and the Japanese Economy. Retrieved April 27, 2015, from <http://www.cfr.org/japan/abenomics-japanese-economy/p30383>
- Miller, B. (2012, March 6). Mongolia Eyes Nuclear Ties. Retrieved April 20, 2015, from <http://thediplomat.com/2012/03/mongolia-eyes-nuclear-ties/>
- Ministry of Economy, Trade and Industry (METI) report 3-1-1. (2014). Mongolia 2013 Article IV Consultation- Staff Report; Press Release And Statement by the Executive Director For Mongolia. (2014). IMF Country Report, 14(64). Retrieved April 21, 2015, from <http://www.imf.org/external/pubs/ft/scr/2014/cr1464.pdf>
- Mongolia Growth Group Ltd. January 2015 Monthly Letter to Shareholders. (2015). Retrieved April 24, 2015, from <http://covermongolia.blogspot.com/2015/02/trq-sells-remaining-sgq-xam-restarts.html>
- Mongolia and Japan sign the medium term program for Strategic Partnership. (2013, September 16). Retrieved April 20, 2015, from <http://www.infomongolia.com/ct/ci/6681>
- Mulgan, A. (2014, August 27). Why the US struggles against Japan in TPP negotiations. Retrieved April 22, 2015, from <http://www.eastasiaforum.org/2014/08/27/why-the-us-struggles-against-japan-in-tpp-negotiations/>
- Nakajima, T., & Enkhbayar, S. (2013, June 8). Impacts of Mongolia's FTA with the Countries in Northeast Asia: CGE Analysis with GTAP Database. Retrieved April 16, 2015, from [http://jsie2013spring.org/pub/A-3\\_slides.pdf](http://jsie2013spring.org/pub/A-3_slides.pdf)
- New Uranium Mining Projects - Mongolia. (2015, April 27). Retrieved May 2, 2015, from [www.wise-uranium.org/upmn.html](http://www.wise-uranium.org/upmn.html)
- Nezu, R. (2012, February 29). Why the TPP Negotiations Could Benefit Japan. Retrieved May 5, 2015, from <http://www.iist.or.jp/en-m/2012/0204-0830/>
- Nobuhiro, S. (2011). TPP and Japan's National Interest (TPP と日本の国益).

Nobuto, I., Atsushi, K., & Masao, S. (2010). *Projects in Mongolia: Mongolia-Japan FTA*. Tokyo.

Nuclear Power in Japan. (2015). Retrieved May 11, 2015, from <http://www.world-nuclear.org/info/Country-Profiles/Countries-G-N/Japan/>

Tatsumi, Y. (2015, April 10). Opinion about the Challenges related to the TPP [Personal interview].

Park, J. (n.d.). *The Paradigm of International Politics* (3rd ed., Vol. 3). Seoul: Beop-Mun-Sa.

Pollmann, M. (2015). Agricultural Reforms in Japan Pave the Way for TPP. *The Diplomat*. Retrieved April 13, 2015, from <http://thediplomat.com/2015/02/agricultural-reforms-in-japan-pave-the-way-for-tpp/>

Poungchompu, S., & Tsuneo, K. (2012). Aspects of the Aging Farming Population and Food Security in Agriculture for Thailand and Japan. *International Journal of Environmental and Rural Development*. Retrieved April 16, 2015, from <http://iserd.net/ijerd31/31102.pdf>

Prime Minister Shinzo Abe's Statement on joining the TPP. (2013, March 15). Retrieved April 26, 2015, from <http://japan.kantei.go.jp/>

Rakhimov, M. (2013). Central Asia and Japan: Bilateral and multilateral relations. *Journal of Eurasian Studies*. Retrieved April 24, 2015, from <http://www.sciencedirect.com/science/article/pii/S1879366513000328>

Richards, C. (2014, July 23). The Japan-Mongolia FTA Is About Cars, Minerals and Abductees. Retrieved April 24, 2015, from <http://thediplomat.com/2014/07/the-japan-mongolia-fta-is-about-cars-minerals-and-abductees/>

S, Y. (2014). China-Japan-Korea Free Trade Agreement. *China-Japan-Korea Free Trade Agreement*. Retrieved from [http://www.academia.edu/1749854/China-Japan-Korea\\_Free\\_Trade\\_Agreement](http://www.academia.edu/1749854/China-Japan-Korea_Free_Trade_Agreement)

S. Korea-China-Japan FTA talks end with little progress. (2014, September 5). Retrieved April 16, 2015, from <http://english.yonhapnews.co.kr/business/2014/09/05/37/0502000000AEN20140905004900320F.html>

Sachs, R., & Agvaanluvsan, U. (2009, September 1). Fueling the Future: Mongolian Uranium and Nuclear Power Plant Growth in China and India. Retrieved April 17, 2015, from [iis-db.stanford.edu/pubs/22637/Uranium\\_Report\\_\\_\\_Final.pdf](http://iis-db.stanford.edu/pubs/22637/Uranium_Report___Final.pdf)

Schott, J. (2014). The United States, Japan, and the Trans - Pacific Partnership. Retrieved April 26, 2015, from <http://www.iie.com/publications/papers/schott20140602.pdf>

Shedlock, M. (2014, April 22). Despite Abenomics, Japan Trade Deficit Largest in History. Townhall Finance, p. 1. Retrieved May 5, 2015, from <http://finance.townhall.com/columnists/mikeshedlock/2014/04/22/despite-abenomics-japan-trade-deficit-largest-in-history-n1827317>

Shen, R. (2011, April 7). Mongolia eyes first nuclear power plant by 2020: MonAtom. Retrieved April 12, 2015, from <http://www.reuters.com/article/2011/04/07/us-mongolia-nuclear-idUSTRE73625A20110407>

Snyder, G. (2007). Alliance politics. Ithaca, N.Y.: Cornell University Press.

TPP's success hinges on Japan-US teamwork. (2014, November 6). Retrieved May 11, 2015, from <http://asia.nikkei.com/magazine/20141106-Asia-s-most-desired-brands/Viewpoints/TPP-s-success-hinges-on-Japan-US-teamwork>

Takashi, T. (2015, February 5). Assessing Abe's Economic Agenda: Abenomics, TPP, and Domestic Politics. Retrieved May 1, 2015, from <http://www.theasanforum.org/assessing-abes-economic-agenda-abenomics-tpp-and-domestic-politics/>

The Lecture of Functionalism. (2007). Retrieved March 27, 2015, from [http://ocw.umb.edu/political-science/international-relations/lectures-assignments/polSci 220/lectures and assignments/Lecture10.pdf](http://ocw.umb.edu/political-science/international-relations/lectures-assignments/polSci%20220/lectures%20and%20assignments/Lecture10.pdf)

Tiezzi, S. (2014). China-Japan-South Korea Hold FTA Talks Despite Political Tension. The Diplomat. Retrieved May 1, 2015, from <http://thediplomat.com/2014/03/china-japan-south-korea-hold-fta-talks-despite-political-tension/>

Todo, Y. (2013). Estimating the effect of the TPP on Japan's growth. Retrieved April 24, 2015, from <http://www.voxeu.org/article/tpp-s-effect-japanese-growth>

Topham, J., & Nakagawa, I. (2012, October 23). As China tensions simmer, Japan pulls back from "world's factory" Retrieved May 2, 2015, from <http://www.reuters.com/article/2012/10/23/us-japan-china-firms-idUSBRE89M1GS20121023>

Urata, S. (2014, August 7). Japan's FTA Strategy. Retrieved May 3, 2015, from  
[http://web.waseda.jp/gsaps/eaui/educational\\_program/PDF\\_2/1\\_SS\\_Symposium\\_Prof.  
URATA, Shujiro \\_WU\\_ Japans FTA Strategy.pdf](http://web.waseda.jp/gsaps/eaui/educational_program/PDF_2/1_SS_Symposium_Prof.URATA,Shujiro_WU_Japans_FTA_Strategy.pdf)

White Paper on International Economy and Trade 2014 (Outline), June 2014, METI

Yanagida, K. (2015, March 19). The Discussion about Japan's Economic Agreements  
[Personal interview].

Yutaka, H. (2013). Japan's Agriculture and the TPP. The Tokyo Foundation. doi:November  
21, 2013

## **Changing Trade Patterns among the U.S., Japan and China: Does Politics Trump Market Forces?**

By Jenny Yiwei Pan

### **Introduction**

Japan has long been struggling to emerge from its two “lost decades” of stagnant economic growth. The return to power of the Liberal Democratic Party (LDP) in December 2012 and the election of Shinzo Abe as Prime Minister ushered in a period of long-overdue comprehensive economic reform designed to bring back Japan’s international competitiveness. The results of Abe’s pro-active economic policy measures, dubbed “Abenomics”, are still spotty, but the tide may just be turning in mid-2015 during the Prime Minister’s third year in office.

On the trade side, the subject of this paper, Abenomics has boosted Japanese exports thanks largely to a weaker yen, but has hurt imports, including energy supplies, which are now more expensive. However, the longer-term prospects for improved trade flows, particularly between Japan and the U.S., are likely if the long-negotiated 12-nation Trans-Pacific Partnership (TPP) is launched as now planned later in 2015. Prospects for smooth trade relations between Japan and China, however, are unclear, diplomatic ties having been jolted by several years of political wrangling, centered on an escalating dispute over islands that both nations claim. How serious an effect has such growing tensions between the two major economic powers had on trade and investment flows? Is a structural change going on between Japan and China in trade and investment patterns?

The U.S. and China in contrast have had relatively smooth political ties, despite recent tensions in the South China Sea over China’s land reclamation and territorial claims there. Economically, China remains the U.S.’s foremost trading partner and destination for foreign direct investment (FDI). The attractiveness of China for both the U.S. and Japan has been until recently the combination of a low-cost labor force and a convenient platform for export of finished products either back home or to third countries.

Japan, too, has used China as a processing stage, mainly for its exports bound for the U.S. China has welcomed Japan for the comparative advantage of the high technology of Japanese companies, as well the merits of having its factories being used as a main stop for Japan’s Asia-wide production network. China and Japan have benefited from exploiting their mutual common interests and achieving a win-win goal in global markets, especially the U.S., which remains to a great extent one of the engines to drive the Japanese economy to some degree.

The U.S., Japan and China in effect have developed a triangular economic relationship as interdependence deepened through business cooperation, market competition and meeting the challenges of trade issues. The interdependent economic relationship among these three countries is acting as engine to help the development of the world economy, as well. What happens in these giant economies can have a large impact for better or worse on the global economy. The bigger challenge lies not so much in maintaining a viable triangular economic relationship but in promoting better political ties, given the issues that are now dividing the three countries.

This paper first approaches the triangular relationship on the macro-economic level, I checked trade and investment data over the past 5 years to see whether there has been any marked change in trade patterns among the three countries. Second, I analyzed the data, seeking to find linkages between trade, politics, and policies. Third, I looked at the micro-economic level, focusing on production networks in East Asia. I studied the phenomenon of the “Asian Factory”, as the common product of the triangular economic relationship. Finally, I reached a conclusion that market-driven forces and not politics (at this point) or policy (TPP, etc.) will continue to be the main factor influencing trends and patterns in trade flows between Japan and China, and between the U.S. and Japan.

### **Abenomics and Regional Trade and Investment Patterns**

The term “trade pattern” refers to what goods and services a country trades, with whom, and in what direction. In other words, which goods a country will export and which it will import. Japan has been China’s largest destination of exports since 2009 until 2013, when the U.S. took over that slot. Japan since 2005 has been China’s largest source of imports, with the U.S. as second. While that overall pattern has not changed, there may have been signs of significant shifts within that framework.<sup>146</sup>

The Japanese economy in GDP terms is now the world’s third largest after the U.S. and China. It currently faces three main problems: 1) the legacy of weak growth for the “two lost decades,” caused, in part, by long-standing and unaddressed structural problems; 2) deflation (falling prices), which has become entrenched since the late 1990s and has served to shrink the economy; and 3) the high level of public debt,. The combination of weak growth and repeated use of government fiscal stimulus plans led to debt levels currently unparalleled among major economies. The nation’s gross debt stood at 238% of GDP in 2012 (compared to 90% for the UK).<sup>147</sup>

Prime Minister Abe has embarked on a radical plan to revitalize the economy over the short to long-term. The set of policies, known as Abenomics, consists of “three arrows”: monetary policy

---

<sup>146</sup> William H. Cooper, (2014) ,U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options , Congressional Research Service

<sup>147</sup> Masaaki Shirakawa(2012), Japan-U.s. Economic Relations What We can learn from Each Other, Bank of Japan

– with the Bank of Japan dramatically expanding its quantitative easing (QE) program, to aggressively end deflation by injecting more money into the economy; fiscal policy – a short-term stimulus package designed to kick-start economic activity, followed by a medium-term plan to reduce the large deficit and tackle the public debt; structural reforms – a long-term growth strategy made up of structural reforms in the labor market and deregulation in some sectors of the economy.

Japan has staked its economic future on Abenomics, and it has a lot to lose if the policies fail. Much of its growth will continue to depend on trade and investment in East Asia, a region that rapidly integrating economically. With market forces leading the process, firms are building production chains across the region that exploit the comparative advantage of individual countries. Japan has been in the lead, consolidating those forces through a series of formal agreements – mostly economic partner agreements (EPAs) -- to deepen economic relationships.

A formal mechanism now being promoted by the Abe government is the three-pillar Global Outreach Strategy. This strategy aims to promote the export growth of top global niche companies and expand opportunities for Japanese companies doing business overseas to enjoy the fruits of the growing world economy.

The first pillar is to build economic partnership networks around the world, in other words, to develop a business environment favorable to overseas expansion to promote the capturing of growth markets. The government will multilaterally promote not only the Trans-Pacific Partnership (TPP), but also the Regional Comprehensive Economic Partnership (RCEP), the Japan-China-South Korea FTA, and the Japan-EU EPA to build economic partnership networks covering most of Japan's trade partners.

The second pillar is a mix of strategic economic approaches to emerging countries, specific to each emerging country while identifying priority sectors. The aims are to help Japanese companies expand their businesses, export infrastructure and systems, and secure resource supplies all targeting emerging countries. The government will tailor the strategic approach based on the differing circumstances of each country and region. It will consider such factors as level of economic development, market access for Japanese companies, and level of competition with local companies or other foreign companies.

For China and ASEAN countries, although Japanese manufacturers have set up industrial clusters and have gained a substantial market presence, the Japanese government aims to create more advanced supply chains. Because the consumer market has expanded, it has become more significant to gain market shares. Exports to China and ASEAN countries, which are Japan's main partners, have slowed down due to weak demand. Some items, particularly general equipment such as industrial robots and machining centers, have improved their export competitiveness since a decade ago. They seem to have avoided commodification by providing

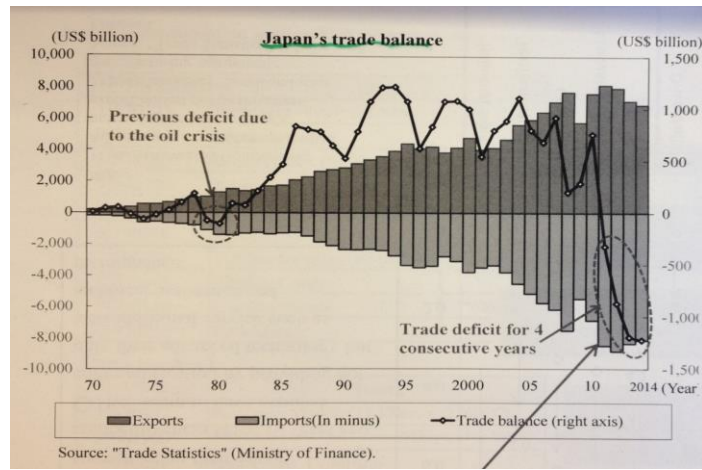
not only their advanced technology but also additional service such as technical assistance and maintenance.

A significant decrease was seen in transport equipment and electric equipment exports. The first three ranking of the Japanese consumption goods which expanded their export quantity are passenger vehicles, electronics, motorcycles which may be due to high quality, and they are mainly exported to China, with the confidence of “made in Japan” It is noteworthy that playing cards, upright pianos, fish-hooks are also ranked high because of the rising income levels in emerging countries. Firms intending to expand exports increased from 70.1% to 77.2%. Intention to expand exports increased even more among small and medium enterprises (SMEs) (67.3% increased to 76.4%).

A total of 64.9% of firms intend to expand overseas operations (new investments, adding to existing operation bases). Large-scale firms and SME’s willing to expand overseas operations declined compared to the previous survey, but maintain a high level. The biggest reason for overseas expansion is “increasing overseas demand”. The ratio of firms citing this reason is increasing. The ratio of firms citing “avoiding influence of exchange rate fluctuations” is decreasing. The ratio of SMEs citing “difficult domestic business environment in Japan (labor costs, tax burden, domestic regulations)” is higher than that of large-scale firms (20.1%).

The third pillar is the promotion of FDI. The government will increase investment incentives and strengthen the systems for discovering, attracting and supporting technologies and personnel, while listening to requests from the top management of global companies in order to produce concrete system improvements. Japan’s outward FDI for 2013 rose by 10.4%, the highest increase since 2008. The United States was Japan’s largest investment recipient. In 2013, investment in ASEAN grew 2.2 times over the previous year to \$23.6 billion, marking a historical high. In contrast investment in China fell by a whopping 32.5% to \$9.1 billion.

## Export and Import Analysis



Between 1980 and 2010 Japan recorded a trade surplus every year. But since the Fukushima nuclear disaster in March 2011, imports have surged due to the weakening of the Japanese yen and increased purchases of fossil fuels and gas. As a result in 2014 the trade deficit was the worst on record. In 2014, the biggest trade surpluses were recorded with: United States, Hong Kong, South Korea, Taiwan and Singapore. The biggest trade deficits were recorded with: China, Saudi Arabia, Australia, United Arab Emirates, Russia and Malaysia. Japan has had a global trade deficit for four consecutive years.

Sluggish exports can be attributed to weak foreign demand, particularly because of slowing economic growth in Asia as a whole, although situations depend on the economic or political situation of each country. A second reason is linked to the overseas expansion of Japanese manufacturers. For example, automakers have been transferring production overseas as part of their long term strategy. Manufacturers have built production bases in emerging countries or regions, including China and ASEAN. Automakers are also expanding their assembly operations in South and Central America, particularly in Mexico. Third, Japan's export competitiveness is weakening, particularly in electrical equipment. Japanese products are losing out to those of other Asian countries like China, Korea and Taiwan in terms of price competitiveness.

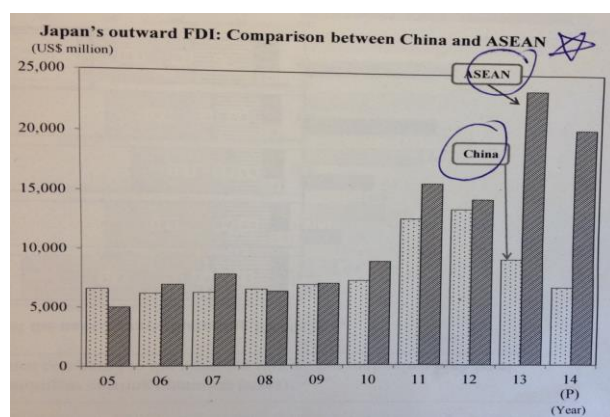
## Effects of Political Factors

### Sino-Japan Relations

A long-standing dispute over ownership of the Senkakus, a small group of uninhabited islands in the East China Sea erupted into anti-Japanese demonstrations across China in 2012. These protests erupted when the Japanese government "nationalized" three of the islands, purchasing

them from a private owner for more than \$25 million. Relations around the isles have remained tense ever since, with naval vessels from both countries regularly approaching each other in waters claimed by Japan. Political relations have been icy since then, although there have been signs of a political thaw in recent months.

How has the period of sour political ties impacted on trade and investment? Japanese economists consulted for this paper point out that there has been no obvious change in trade patterns among the three big economies in recent years. In contrast, political factors did indeed affect Japanese direct investment levels in China.



“Since China and Japan established diplomatic relations in 1972, economic relations have made remarkable achievements. In 1972, the trade volume between China and Japan was only \$1 billion. This figure has skyrocketed since, reaching \$344.9 billion in 2011.”<sup>148</sup> Investment until then was also remarkable, but as bilateral political relations soured in 2012 and 2013, Japan’s investment in China dropped dramatically. In comparison, making investments in ASEAN countries has been increasingly attractive to Japan. As we can see from the chart above, investments to ASEAN countries increased remarkably in 2013.

Still, Japan remains a key investor in China. By the end of 2011, Japan had invested in more than 40,000 projects in China, amounting to a total of \$81.23 billion. More importantly, the investment structure has shifted from labor-intensive to technology- and capital-intensive, with investment fields extending from clothing and foodstuffs to electronics, machinery, automobiles, building materials, and services. That investment stock remains, despite the short-term trend of new investments going to Southeast Asia.

<sup>148</sup> Jiang Yuechun( March 5<sup>th</sup>, 2015), Ties that bind, China Today  
[http://www.chinatoday.com.cn/english/columns/2015-03/05/content\\_673008.htm](http://www.chinatoday.com.cn/english/columns/2015-03/05/content_673008.htm)

Although trade patterns were not significantly damaged by the souring of Sino-Japan relations in recent years, politics did block high-level interaction between the two economies. Looking at the key frameworks for economic dialogue between the Japanese and Chinese governments, the Japan-China High-Level Economic Dialogue, for example, which was held three times in the past decade (Dec.2007, June 2009, Aug.2010), has been halted. And the last Beijing China-Japan-Korea Trade Ministers' meeting was held in 2012, indicating the dialogue on the economies between policy makers in Japan and China has stagnated.

### **Effects of Abenomics**

Let us look at the effects of “Abenomics” on trade, starting with the depreciation of the yen as a result of the BOJ’s monetary policy. In 2012, the Japanese yen traded at about 80 yen to the U.S. dollar, but as the first “arrow” of Prime Minister Abe's economic policy was launched, the yen began to depreciate and at has now (mid-2015) slipped to 120-124 to the dollar, marking a huge decline in the value of the yen.

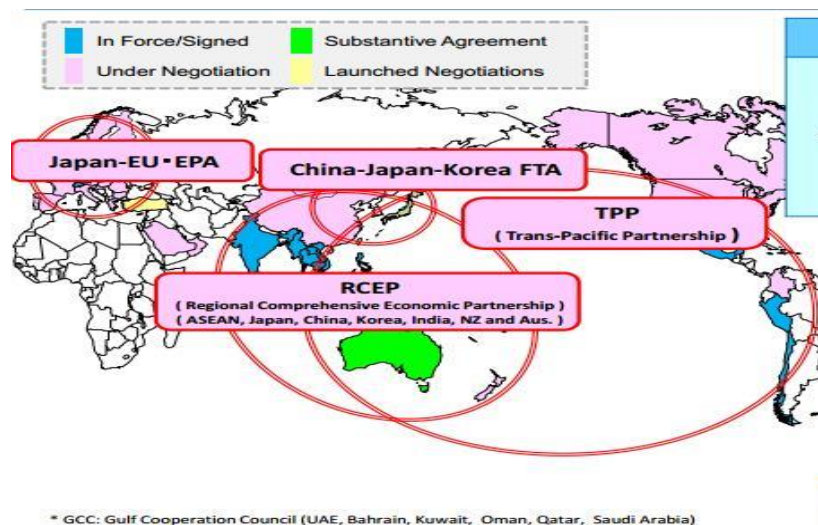
The weak Japanese yen means Japanese goods are cheaper on the global market, which potentially can increase Japan’s GDP due to the higher demand for goods made in Japan. The weak yen has forced some small Japanese companies to move back to Japan due to the increasingly high cost of Chinese labor. In contrast, almost all big Japanese companies chose to keep their production bases in China, since they have already invested large sums. According to JETRO’s latest survey on the international operations of Japanese firms, the intention of Japanese companies to expand overseas operations has remained largely unchanged.<sup>149</sup>

For Japanese multinational enterprises such as Toyota Motor Corporation, it is reasonable to bring parts of their functions which were once located overseas (production, research and development, etc.) back to Japan for the purpose of cost-saving. Due to the limited domestic demand, it is expected that the trend of moving back will not be large-scale.

The second effect of Abenomics comes from the third arrow, which is heavily based on domestic structural reform. According to “Basic Policies on Economic and Fiscal Operation and Reform 2014” (June 24<sup>th</sup>, cabinet decision), the Japanese government is dedicated to further open the domestic economy. As a result, to further spur the globalization of the economy, Tokyo has engaged in negotiations on a wide range of FTAs.

---

<sup>149</sup> JETRO (Mar, 2015) Current Situation of the Japanese Economy, International economic Research Division, Overseas Research Department



According to METI, “The government will multilaterally promote not only the Trans-Pacific Partnership (TPP), but also the Regional Comprehensive Economic Partnership (RCEP), the Japan-China-South Korea FTA, and the Japan-EU EPA to build economic partnership networks covering most of Japan’s trade partners.”<sup>150</sup>

The TPP was first initiated on November 12, 2011 among nine countries - Australia, Brunei Darussalam, Chile, Malaysia, New Zealand, Peru, Singapore, Vietnam, and the United States for the purpose of enhancing trade and investment among these countries, in turn promoting the economic growth and creating more jobs. Since then, Japan, Canada and Mexico joined the negotiations. The process of conducting the negotiations has taken a long time and it is expected to be wrapped up sometime in 2015, depending on the decision of the U.S. congress.

In Asia, the ASEAN+6 (ASEAN plus Australia, China, Japan, Korea, India and New Zealand) launched Regional Comprehensive Economic Partnership (RCEP) negotiations in 2012. RCEP participation is important for Japan in order to protect and expand its supply chain and production network in the region. According to JETRO, the Japanese companies already procure over 90% of their parts for products sold to countries in the region from RCEP participants. Because of its well-installed production network, Japan will likely sign on with RCEP whether or not it joins the TPP. RCEP also represents no threat to Japan’s agricultural interests because of its laxer rules than TPP.<sup>151</sup>

<sup>150</sup> METI (2014). White Paper on International Economy and Trade

<sup>151</sup> JETRO (Mar, 2015) Current Situation of the Japanese Economy, International economic Research Division, Overseas Research Department

Along with the Trans-Pacific Partnership (TPP), the RCEP also could be a way to reach a Free Trade Area of the Asia Pacific (FTAAP) by 2020 or later. The two efforts would build momentum for global trade reform, as envisioned by the WTO. At this time, China and the US would finally be fellow participants in a mega-FTA. RCEP negotiations began in May 2013. Since then, four rounds have been carried out, with the last round held in June 2014. RCEP members are aiming to conclude negotiations later in 2015.

It has been said that in comparison to TPP, RCEP has a lower standard. Countries will reduce trade barriers at different rates and make limited demands for regulatory harmonization. In this sense, the two negotiations complement each other and also can be seen as an Asia-Pacific FTA.<sup>152</sup>

## Case Study- Asian Production Network- Factory Asia



Since Asia is the region in which the largest number of Japanese overseas affiliates are located, it is critical for the future of Japan's economy. Payments to Japanese investors (dividends and royalties) from overseas affiliates in Asian countries account for the largest percentage in the manufacturing industry. Until fiscal 2012, China had been considered the most promising country for Japan's overseas business, but according to a survey conducted in 2013, Indonesia has taken over as first place, followed by India, Thailand and China.

<sup>152</sup> Myron Brilliant (Sep, 2007), A free trade area of the Asia-Pacific: An idea with merit, but is it feasible , Brookings East Asia Commentary, <http://www.brookings.edu/research/opinions/2007/09/northeastasia-brilliant>

As important links in the global supply chain, trade among these countries illustrates the ways in which production fragmentation, foreign investment, and reduction in trade costs have transformed the linkages that tie together national economies. Geography and comparative advantage enable Japan and the U.S. to become the major suppliers of technology and capital-intensive goods, as well as the final destination of labor-intensive consumer goods for East Asian economies.<sup>153</sup>

Among China, the U.S. and Japan, there are interdependent economic relations. In basic manufactured intermediate goods, and machinery and transportation equipment, Japan exports to China. China exports non-durable consumer goods to the U.S, indicating that China enables Japan to become a second channel of exports to the U.S.

“Regionalization” can be defined as the integration across national borders, but within a macro region, of markets for goods, capital, services, knowledge, and labor.<sup>154</sup> In East Asia, the electronic industry is a good example of the product of “regionalization.” Trade and investment, transfer of technology and knowledge diffusion are all displayed in the integration of production networks within this industry.<sup>155</sup>

In the 1990s Japan experienced a long-term decline in its share of global trade and FDI. The development of the electronics industry in East Asia rescued the Japanese economy from lasting decline. Japanese companies have been increasingly dependent on East Asia. In the past, this region served as a production base due to its relatively cheap labor force, especially China. Now this region is becoming a major sophisticated market for Japanese products, services and technology. They are upgrading their regional production networks with more sophisticated endowments in this area.

Looking to the future, it is highly possible that the trend of regionalization will continue to be driven by market forces. China’s labor force is distributed over vast regions which differ greatly in economic development, which implies that cheap labor will still last for a long period, despite China’s economic growth. Hence, the infusion of foreign funds, technology, and marketing expertise will further enhance China's prospects as a high-volume, low-price producer of labor-intensive goods in the years to come. The second trend is that industry in East Asia is moving up the value chain from manufacturing into knowledge-intensive services, such as software,

---

<sup>153</sup> Mitsuyo Ando, Sven W. Arndt, Pukunari Kimura (2006) .Production Networks in East Asia: Strategic Behavior by Japanese and U.S. firms, Japan center for economic research

<sup>154</sup> Hadi SOEASTRO (2006)1, 215-234, Asian Economic Policy Review, Regional Integration in East Asia: Achievements and Future Prospects

<sup>155</sup> Prema-chandra Athukorala(August, 2010), reduction Networks and Trade Patterns in East Asia: Regionalization or Globalization, ADB Working Paper Series on Regional Economic Integration

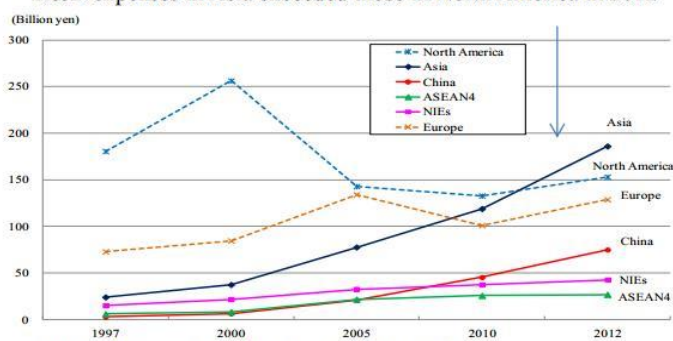
information services, engineering, product development- creating more finely sorted patterns of production in East Asia.<sup>156</sup>

Trade and investment relations have deepened between East Asian countries, and Japanese companies have also been active in promoting East Asia-wide development and production. As Japanese companies began engaging in production in East Asia, local content rates increased, but the value of purchases from Japan did not decline. Looking at different sectors, certain percentages of supplies for the electrical machinery industry come from the countries where overseas affiliates of Japanese companies are located, while some come from Japan or other Asian countries. The percentage of local purchases has increased significantly in the transportation equipment industry.

According to METI's White Paper on trade, Japanese companies' shares of local sales are increasing. An increasing number of Japanese companies are actively involved in research and development (R&D) in Asia. They are deepening their local business activities and Japan will be able to continue contributing to the long-term development of other Asian countries by offering assistance in the development of human resources in addition to transferring Japanese business know-how.<sup>157</sup>

**[Chart 2: R&D Expenses of Japanese Manufacturing Affiliates]**

– R&D expenses in Asia exceeded those in North America in 2012 –



Notes: Hong Kong is included in the NIEs for 1997 and in China from 2000 onward.  
Source: Basic Survey of Overseas Business Activities (Ministry of Economy, Trade and Industry)

While East Asian nations have been engaged in a series of efforts to institutionalize market-led integration, the region has also witnessed an unfolding structural change: the rise of China. China began to deregulate its foreign exchange and capital markets far later than the crisis-affected

<sup>156</sup> IDE, JETRO and WTO (2011), Trade Patterns and Global Value Chains in East Asia, p74-p75,

<sup>157</sup> METI (2014). White Paper on International Economy and Trade

countries of ASEAN or South Korea, which helped contain the contagion effects of the crisis of 1997-98. While most countries in the region were busy over the past decade implementing structural adjustments and reforms, China, under its own model of economic development, continued to grow at a torrid pace, becoming the biggest export market for most regional economies in the first decade of this century. Not only has China grown to become the world's second-largest economy, eclipsing Japan, it has also established itself as the crucial core of the production network in East Asia.

Moreover, China is expected to make the transition from being the final goods assembler for the world to being a major consumer in its own right within this decade. In 2000, China still exported mainly consumer goods (48.8 percent), while it imported intermediate goods. China's final goods exports outside the region increased rapidly. Exports to the U.S. increased from \$92.4 billion in 1999 to \$ 215.0 billion in 2009, while those to the EU soared from \$37.7 billion to \$207.9 billion. In contrast, Japan saw its exports of final goods to the U.S. and the EU tumble from \$94.4 billion to \$51.1 billion.<sup>158</sup> On the other hand, Japan has become a major supplier of intermediate goods to China. Interestingly, even ASEAN has emerged as a supplier of intermediate goods. As a result, China has taken over the role of final goods exporter from ASIAN. This pattern has become dominant in East Asian trade.

These developments have not changed the traditional pattern of open trade in the region. The only change has been that China has taken a greater lead in intra-regional trade. But the next major change, which will see China emerge as a net final goods importer rather than exporter, holds more significance for the region's development as an autonomous, independent trade bloc. China's imports are still dominated by intermediate goods, but by volume, China is rapidly emerging as a final goods importer, like more mature economies such as the EU, the U.S. and Japan. For now, the major portion of final goods still consists of capital goods, not consumer goods, but with the pace of income improvement in China creating a larger and larger middle and upper-middle class, the import of consumer goods is set to rise dramatically in the future.<sup>159</sup>

Trade-and-investment integration in East Asia has been market-led and bottom-up which allow American and Japanese multinational corporations to set up vertically-integrated production networks, linked to global supply chains and final markets in the west. There are three detailed examples to illustrate this triangular pattern more clearly and verify that the trade pattern is driven by the market forces.<sup>160</sup>

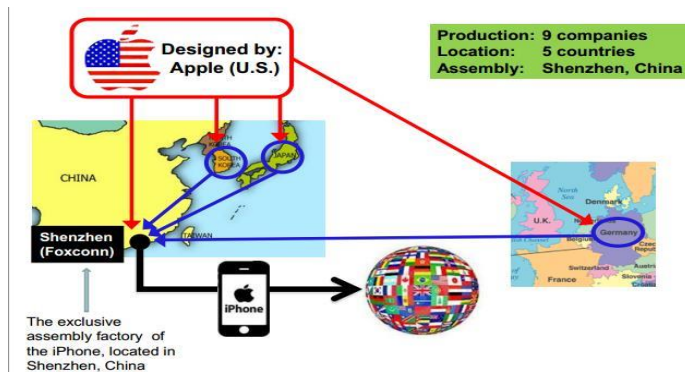
---

<sup>158</sup> Razeen Sally(2010), *Regional Economic Integration in Asia: The track record and Prospects*

<sup>159</sup> Fred Bergsten , *China and Economic Integration in East Asia- Implications for the United States*, Chapter 9

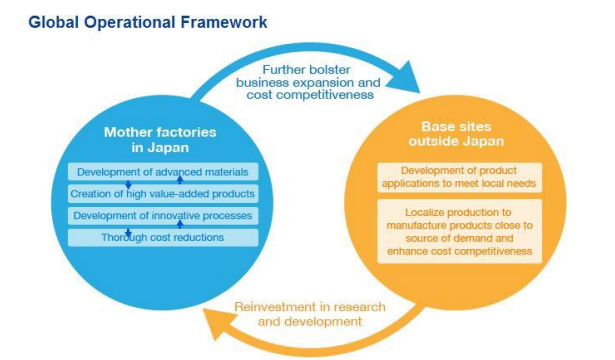
<sup>160</sup> Fukunari Kimura and Ayako Obashi, (2011), *Production Networks in East Asia: What we know so far*, ADBI Working Paper Series

## iphone 3G



The first example is the production of the 3G iPhone. The manufacturing process of iPhones illustrate how the global production network functions. In this case, China is an exporter, while the U.S. is an importer. iPhones are originally designed and marketed by Apple, headquartered in the U.S., while the production is entirely located outside the U.S. Nine companies (Toshiba, Samsung, Infineon, Broadcom, Numuyx, Murata, Dialog Semiconductor, and Cirrius Logic) are involved in production in China, Germany, Japan and the Republic of Korea. The final components are transported to Foxconn, a company headquartered in Taipei, Taiwan, while its production factories are located in located in Shenzhen, China. The company does the final assembly of parts and then exports back to the U.S. market and the rest of the world.

## Toray weaves production hub network



The second example is Toray's global operations. Toray Industries, Inc. is a multinational corporation headquartered in Japan that specializes in industrial products focused on

technologies in organic synthetic chemistry, polymer chemistry, and biochemistry. Toray's business covers areas of pharmaceuticals, biotechnology and R&D, medical products, reverse osmosis of big membranes, electronics, IT-products, housing and engineering, as well as advanced composite materials. "The company is listed on the first section of Tokyo Stock Exchange and is a constituent of the TOPIX 100 and Nikkei 225 stock market indices."<sup>161</sup>

Toray Group is engaged in a wide range of production activities, from basic to advanced materials and products. Furthermore, to provide customers with the best solutions, they maintain a worldwide network of production locations and global operation functions.

This enables them to serve their customers with integrated operations through a geographically optimized structure. In addition, to make sure that they are able to offer customers high-quality products and services, Toray Group keeps its production technology being researched and developed in Japan along with Japanese plants as the global mother plant.

Considering the growing demand of Asian countries, Toray launched a project named AP-G 2016 in April 2014. In the future, it will continue to enhance cooperation with overseas bases to enlarge the market and business in Asia and emerging countries.

In addition, in North and Latin America area, Toray Group aims to enlarge its net sales "from 809.3 billion yen in fiscal year 2013 to more than 1.15 trillion yen in fiscal year 2016."<sup>162</sup> This is because of the shale-gas innovation and the government's policy to revitalize the manufacturing industry. Toray Group has found the business opportunity from the U.S. economy.

To give a specific example, the Advanced Materials Research lab is Toray's base for cultivating the Chinese market. It is located inside the Zizhu Hi-Tech Industrial Development Zone in Shanghai. It is now engaged in the development of technologies and products such as water treatment membranes, films and macromolecular polymers.

The advanced Materials Research lab is Toray's base for cultivating the Chinese market. It is now engaged in the development of technologies and products such as water treatment membranes, films and macromolecular polymers. The lab's predecessor opened in 2004.

The lab is developing water treatment membranes using samples collected from various parts of the country. The water samples are purified by the membranes. China's water problems vary depending on regional economic conditions, according to the lab. In addition to gathering water samples from major cities such as Beijing and Guangzhou, the lab also takes tap water samples from all of Shanghai's 16 administrative districts. It aims to develop treatment membranes suitable for various parts of the country.

---

<sup>161</sup> [https://en.wikipedia.org/wiki/Toray\\_Industries](https://en.wikipedia.org/wiki/Toray_Industries)

<sup>162</sup> [http://www.toray.com/ir/management/man\\_009.html](http://www.toray.com/ir/management/man_009.html)

### **Toyota's localization strategy**

In order to serve its global strategy, Toyota has utilized a flexible localization strategy- not only locating manufacturing facilities close to markets to serve local demand, but also making small changes in products according to different markets. Toyota has basically three profit bases: Japan, North America and Europe.

Recently, Toyota is finally shifting into an expansion mode after a period of caution during which President Akio Toyoda called for an overhaul of manufacturing lines. Toyota aggressively built new plants in the early and mid-2000s, leaving it with excess capacity and high fixed costs after the global financial crisis. It hasn't made a major investment in new factories since 2012, when it announced a new plant in Thailand. Mexico has developed into an auto manufacturing hub that exports cars to the U.S., while China is its biggest auto market.<sup>163</sup>

Toyota has been engaged in manufacturing lines that can respond to changes in the local market, which are highly efficient and flexible.

### **Conclusion**

The triangular trade relationship among Japan, China, and the U.S. was originally based on a pattern in which Japan set up manufacturing or processing plants in China that exported finished products to the U.S. as well as back to Japan. That pattern still exists of course but Japan is also producing goods in China increasing for the domestic market. My research has shown that political issues between Japan and China have not seriously affected trade flows and that existing investments continue to thrive. The business decisions by Japanese companies to either move existing plants in China to other countries, like Vietnam, or back to Japan were due to market-driven problems (higher wages and costs in China, exchange rates, etc.) and not due to political reasons. Abenomics as a policy has also given impetus to positive business decisions.

China has achieved annual growth averaging nearly 10% for over 30 years through quantitative expansion of human and physical capital, and has strengthened its presence in the world economy. However, the growth rate recently dropped to approximately 7%. As seen in the demographics, China's population growth has peaked, changes have emerged among the conventional growth elements. There is an urgent need for China to change its growth model, which is excessively dependent on inward investment. China must also address the issue of excessive production capacity and problems concerning state enterprises.

According to METI's white paper "Reshoring -- or the return to the U.S. of its manufacturing base, focused largely on domestic demand -- is occurring because of an improved business environment. This is marked by rising wages overseas and the risk of technology leakage, against the background of the recent policy prioritizing manufacturing." The overseas

---

<sup>163</sup> 日本経済新聞(April 3, 2015)トヨタ、中国に新工場

deployment of U.S. business as a whole remains on an upward trend, as value-added, employment, fixed investment and other indexes of their overseas subsidiaries continue to rise.

It is noteworthy that there are some new trends and common interests for the economic dynamics between Japan and China, such as the service industry. According to the balance of payments statistics as attached, Japan has a payment surplus with China. Trade surplus are large in sea transport, travel, and royalties and license fees (use of intellectual property). An obvious example is “travel”. Tourists from China to Japan have been sharply increasing these 2-3 years, which contributed to the expansion of travel credit. Chinese people tend to spend more during their stay compared to other tourists. Also, with the rise of China, the living standard in China is getting better and the size of middle class is increasing, as well. As a result, more and more Chinese people are turning to Japanese agricultural products, which are now being exported. They trust agricultural products tagged “Made in Japan”. This can be seen in JETRO’s data, which show that the value of agricultural, forestry, fishery and food exports from Japan in 2013 reached a historical high.

At present, the Chinese economy is experiencing a period of transition. On one hand, labor costs are not as cheap as before, on the other hand, as the size of the middle class grows, Chinese consumers are spending more on consumer goods and services industries. Japanese corporate investments are switching to consumer goods and services, indicating that the Chinese market is still attractive and remains potential for Japan.

The U.S market also is significantly important to Japanese companies for two reasons. First, consumer demand for Japanese high-quality products is always high in the U.S. And Americans do not have a habit of saving money, preferring to spend their savings on the types of products that Japan can supply.

It is said that the TPP is another kind of “U.S.-Japan Alliance.” What this indicates is that economics has the capacity to strengthen political relations. But whether the close ties between the U.S. and Japan, as nurtured by the TPP – a breakthrough free-trade agreement between Japan and its ally – can spill over to help improve the political ties and cultural communication with China is an open question. Particularly, if China in the future joins the TPP, will this help improve trilateral political ties? The rise of China seen in economic terms can be an opportunity to boost relations with Japan, and put aside the growing sense of threat or crisis that has been emerging. Does trade ultimately lead to better relations? Logic seems to say yes. Significant development in bilateral economic relations not only serves the common interests of both countries and peoples, but also could pave the way for closer political cooperation and the resulting positive contribution to the peace and prosperity of Asia and the world.

## References

Fred Bergsten , China and Economic Integration in East Asia- Implications for the United States, Chapter 9

Fukunari Kimura and Ayako Obashi, (2011), Production Networks in East Asia: What we know so far, ADBI Working Paper Series

Hadi SOESASTRO (2006)1, 215-234, Asian Economic Policy Review, Regional Integration in East Asia: Achievements and Future Prospects

IDE, JETRO and WTO (2011), Trade Patterns and Global Value Chains in East Asia, p74-p75,

JETRO (Mar, 2015) Current Situation of the Japanese Economy, International economic Research Division, Overseas Research Department

METI (2014),.White Paper on International Economy and Trade

Mitsuyo Ando, Sven W. Arndt, Pukunari Kimura (2006) .Production Networks in East Asia: Strategic Behavior by Japanese and U.S. firms,Japan center for economic research

Masaaki Shirakawa(2012), Japan-U.s. Economic Relations What We can learn from Each Other, Bank of Japan

Prema-chandra Athukorala(August, 2010), reduction Networks and Trade Patterns in East Asia: Regionalization or Globalization, ADB Working Paper Series on Regional Economic Integration

Razeen Sally(2010), Regional Economic Integration in Asia: The track record and Prospects

William H. Cooper, (2014) ,U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options , Congressional Research Service

日本経済新聞(April 3, 2015)

## Impact of “Abenomics” on Mergers and Acquisition Trends in Japan

By Luoxi Dao

Cross-border mergers and acquisition (M&A) deals are always a popular business topic due to their importance in international investment and their narrative drama. Since his re-election in 2012, Japan’s Prime Minister Shinzo Abe has initiated sweeping economic reforms, popularly known as “Abenomics,” which include efforts to boost international investment. Not coincidentally, under Abe, M&A activity in Japan has rebounded after two decades of stagnation and is now a rather vibrant area of the economy. However, the activity is concentrated in outward investment. Despite Abe’s best efforts, inward investment, particularly in the form of M&As, has remained sluggish relative to trends in other developed economies. Close analysis shows that while Abe’s policies are the driver for the uptick in outbound M&As, deeper cultural factors beyond the reach of policy seem to be impeding inbound M&As.

This paper seeks to understand and assess the policy implications of “Abenomics” for Japanese M&A activity and, more specifically, analyze the potential policy reorientation under the Abe administration resulting from Japan’s recent cross-border investment practices. How are the “three arrows” of “Abenomics” influencing outbound and inbound M&A activity? What are the drivers behind such investments? What are the major challenges imposed on the Abe administration by recent M&A practices?

### Background

Today M&A is one of the most important components of a company’s growth strategy. Given the global integration of national economies, ordinary, organic growth within a company is by itself sometimes not enough to achieve long-term earnings growth and take advantage of opportunities and competitive advantages in both domestic and international markets. Successful M&A activities can lead to the better usage of production facilities, improved financial profiles for deal participants, and sharing of new technology and products.

Cross-border M&As are also a significant component of a country’s foreign direct investment (FDI), with the other two major forms being greenfield investment and the extension of capacity of established direct-investment firms.<sup>164</sup> Growing at a phenomenal global rate since the early 1980s, both inward and outward FDI and technology flows have enabled the expansion of

---

<sup>164</sup> “Mergers and Acquisitions (M&As), Greenfield Investments and Extension of Capacity,” International Monetary Fund, Online, <<https://www.imf.org/External/NP/sta/bop/pdf/diteg42829.pdf>>.

transnational trade and production activities.<sup>165</sup> Unlike portfolio equity investments, which are more subject to investors' short-term profit pursuits and whims, cross-border M&As are much less volatile. For target firms, cross-border M&As can function as channels for financing sources and corporate restructuring. For acquirers, M&A deals provide access to overseas opportunities that can help improve international production networks, increase growth or profits, and meet strategic goals.

Currently, Japan has the lowest FDI to GDP ratio of all Organization for Economic and Development (OECD) countries. Its ratio is even lower than some developing economies, such as China.<sup>166</sup> As a share of FDI, the role of M&A in the Japanese economy is very limited, which though an indicator of weakness is also an indicator of an area with potential impact on the whole economy. Although previous governments also attempted a variety of policies to encourage foreign investments, the Abe administration appears especially ambitious and willing to try bolder new approaches to revitalize the investment environment and drive Japan out of its economic doldrums.

The performance of cross-border M&A in Japan will be crucial since it will at least partially reflect the success or failure of Abenomics. A vibrant M&A market is a signal of positive public expectations for the overall health of the Japanese economy. In the last two decades, Japan's so-called "lost" decades of poor economic growth, such confidence in the Japanese market has been sorely lacking. This state of affairs has revealed itself in a sense of malaise that underlies a broad range of interconnected issues, including a stubborn deflationary spiral, stagnant economic growth, a dismayed labor market with wages not growing, a rapidly aging and shrinking population, and insufficient domestic demand. The success of the Abe administration will be directly related to the outcomes of his economic reforms, and the Prime Minister has knowingly wagered political capital on this factor, evident not only in the boldness of his reforms but in the confident branding of them with the eponymous portmanteau "Abenomics."

### **Implications of Abenomics for M&A strategy**

Generally, a company's M&A strategy is determined by its own unique corporate characteristics and industry dynamics. However, the effects of macroeconomic conditions on M&A activity are equally important, albeit sometimes largely overlooked by the market participants.

In addition to hard economic measures of M&A performance, market expectations are key. So far, Abe's expansionary monetary policy and boosts of fiscal spending have been received well

---

<sup>165</sup> "Foreign Direct Investment in Developing Countries," *International Monetary Fund*, Online, <<http://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm>>.

<sup>166</sup> 2014 U.S. Department of State Investment Climate Statements.

on a popular level despite mixed reactions from economic observers. Polls show, however, that the public has yet to tangibly feel any results.

Monetary easing and fiscal stimuli in theory have already created a conducive macroeconomic environment for M&As. Short-term interest rates and money-market rates have fallen to extremely low levels in the wake of a massive purchase of government securities. Since strong quantitative easing began in late 2012, the asset market has also responded favorably and fulfilled expectations. Listed companies have seen resurgence in earning powers, and the equity market's performance has improved as well. As of May 2015, the Nikkei 255 stock index hit a 15-year-high.

That said, a booming stock market does not necessarily mean long-term, sustainable economic growth. However, it does suggest that the popular outlook is positive, and popular expectations, as has been mentioned, play a key, though perhaps not fully understood, economic role. Furthermore, the Consumer Price Index (CPI) of Japan in March also indicated upward growth of 2.3 percent over the past year, strong proof that Abe's deflation-targeting policies are taking hold.<sup>167</sup> Again, though, despite being a clear reason for optimism, a healthy level of inflation will have to be sustained over a longer period, including when large expansionary policies are no longer feasible.

Japanese companies currently enjoy record levels of cash reserves. Ultra-low interest rates and the depreciation of yen put Japanese companies in a better financial shape, generating surplus capital and inflating their balance sheets. Large multinational corporations are therefore inspired to increase their footprints overseas and seek M&A opportunities. For some Japanese corporations, such as Sony, Abe's economic easing policies offered a chance to repair their balance sheets through booming share prices.<sup>168</sup> Furthermore, the yen's depreciation greatly benefits Japanese corporations that are heavily reliant on exports. Even when compared to corporations in some emerging economies, some export-oriented Japanese corporations now enjoy competitive advantages in their product prices, which may help increase revenues and expand their global manufacturing reach. In addition, a cheaper yen also makes inward M&A by foreign companies more attractive because companies are both cheaper to buy and expected to receive a performance boost from cheaper exports.

Nevertheless, the first two "arrows" alone cannot guarantee sustainable, long-term growth. Japan must also successfully fire the third arrow of structural reform and embrace more market liberalization to create a competitive environment where more opportunities are available to both domestic corporations and foreign investors. The third arrow is not just a simple campaign of deregulation. It is a sweeping policy to improve market competitiveness for domestic and foreign

---

<sup>167</sup> Statistics Bureau of Japan, Online, <<http://www.stat.go.jp/english/data/cpi/1581.htm>>.

<sup>168</sup> "Abenomics Drives Nikkei to Highest Yearly Gain Since 1972," *The Telegraph*, 31 Dec. 2013.

participants. Though comprehensive structure reforms in a range of industries appears indispensable for Abenomics to be sustainable, their implications turn out to be the most vague and difficult to predict.

The significance of the “third arrow” for Japanese firms and M&A activity cannot be overstated. First and foremost, structural reforms aim to open up the domestic market for more competition and investment, both domestic and foreign. To cope with long-lasting stagnant domestic demand, a higher degree of liberalization will invigorate the domestic consolidation process and force some “dinosaurs”—big yet ineffective industries—to make real changes. Second, spillover effects from foreign participation will likely trigger innovation and lead to productivity improvements in Japanese firms. Furthermore, more financial and technological output for Japanese firms can be expected based on the implementation of the aforementioned reforms.

With regard to the launch of structural reforms, Abe’s growth strategy report in 2013 outlined broad strategies including the utilization of human resources, growth markets creation, industrial revival, and global economic integration.<sup>169</sup> Among these measures, industrial reforms and global economic integration are of particular importance to cross-border M&A activity since they strongly impact the direction of Japanese corporations and deliver a clear message that officials will favor industrial reorientation. The ultimate success of Abenomics and the flourishing of cross-border M&A activity will be heavily dependent on the specific impacts of such changes.

On the industrial side, the major sectors in which the Abe administration plans to implement reforms include the highly-concentrated electricity and power sector, the agricultural sector, and the pharmaceutical industry. One acute problem for the Japanese economy in the post-earthquake period has been the electricity power shortages. Following the Fukushima nuclear accident in March 2011, the weaknesses of the electricity monopoly became apparent. In response to demands to secure the energy supply, the government implemented drastic reforms in the electric generation and transmission area and enacted the Amended Electricity Business Act in 2013. The act aimed to promote full retail competition, unbundle the distribution sector, and expand opportunities for consumers and business.<sup>170</sup>

The changing awareness of the government indicates the potential expansion of business opportunities for foreign entrants who have experiences in fields related to new energy sources and energy conservation. Considering Japan’s advanced technology and high energy demand, the opening of the electricity sector will likely result in a swarm of foreign firms entering production and transmission networks. Forced by the government to open up to competition, existing

---

<sup>169</sup> “Abe’s Master Plan,” *The Economist*, 18 May. 2014.

<sup>170</sup> Ministry of Economics, Trade and Industry, Online, <[http://www.meti.go.jp/english/policy/energy\\_environment/electricity\\_system\\_reform/index.html](http://www.meti.go.jp/english/policy/energy_environment/electricity_system_reform/index.html)>.

Japanese power companies may consider selling parts of their electricity businesses to foreign acquirers. While foreign firms are seeking to expand into Japan, possibly through the form of M&As, there are also more restructuring opportunities for Japanese firms given their knowledge about the market and other local advantages.<sup>171</sup>

In addition to addressing the problem of over-protected industries, Abe also made a commitment to fostering reforms in the healthcare and pharmaceutical industries. In the past, medical services were primarily operated by domestic institutions with cutting-edge products and technologies imported from Western countries. However, owing to Abe's enthusiasm for strengthening the core of the Japanese pharmaceutical sector, Japan could see a surge in healthcare M&A deals with purchases of foreign-produced medical devices and pharmaceuticals.

Abe's policies thus encourage global participation in M&A and other activities in order to help revive the Japanese economy. The policies not only support the global expansion of Japanese corporations but also promote inbound direct investment by foreign firms. According to an announcement by the Abe administration in June 2013, Japan is planning to double its inward FDI stock to 35 trillion by 2020.<sup>172</sup> It is estimated that the continued global integration of economic activities will not only promote foreign investment inflows and outflows but also improve the globalization of Japan's workforce, which is necessary for any cross-border business activity.

However, one area of uncertainty is to what degree the Abe government will free up the market. Combining elements of Keynesian and neoliberal economics, Abenomics is characterized by massive government spending with a high tolerance for government debt and deep market liberalization. Nonetheless, the priorities and implementation of the third arrow are not yet well defined. The foundation of Abe's structural reforms is supposed to be deregulation and liberalization, which will reduce government protection and funding support. In practice, it is still unclear whether Abe's structural reforms will rely more on market mechanisms to achieve fair competition between domestic and foreign companies. Abe's industrial revival plan clearly stated the government's commitment to helping Japanese small and medium-sized enterprises (SMEs) innovate. With the liberalization process slowly taking shape, it is possible that this support will mean continued underwriting of some of the "zombie" companies that have blighted the Japanese economy for so long.

The numerous political obstacles for thorough structural reform under Abenomics are easily foreseeable, since the reform measures will unavoidably threaten domestic vested interests in protected industries, especially agriculture and power utilities. Political uncertainty will no doubt dampen foreign investors' enthusiasm. That said, Abenomics has already had a positive impact

---

<sup>171</sup> 2014 JETRO Global Trade and Investment Report.

<sup>172</sup> 2014 U.S. Department of State Investment Climate Statements.

on Japanese M&A activity by boosting public expectations, strengthening domestic corporations' purchasing power, and restoring at least some level of international investor confidence in doing business in Japan. Despite the controversy over the long-term effectiveness of fiscal and monetary policies, Abenomics as a whole appears poised to get the Japanese economy moving again.

The long-term effects of structural reform are too difficult to predict. However, the third arrow is the most significant component in Abe's quiver, and in some ways is a quiver of arrows in its own right. If successful, the structural reforms will open industries up for future growth and create new opportunities for companies to invest. The major challenge is for the Abe administration to unleash market forces while expectations are still riding high on expansionary policies.

### **Other Investment Policy Implications on M&A**

In almost every country, institutional, regulatory, legal and even social systems are major structural impediments that influence the identification and completion of M&A deals. Under the Abe administration, additional policies that aim to promote the business environment for cross-border investments are therefore worth analyzing.

Institutional support in Japan for M&A activity is considerable and even includes assistance to foreign firms investing in Japan. The Ministry of Economy Trade and Industry (METI) and Japan External Trade Organization (JETRO) are the principle agencies behind such support. JETRO, an independent government agency, offers investment-related information and "one-stop" support services to prospective foreign investors. JETRO has provided support for over 10,000 investment projects into Japan in the past decade, among which 1,136 companies have established bases in Japan.<sup>173</sup> Specifically, JETRO helps foreign investors navigate the government administrative and legal procedures relevant to their investment schemes. In accordance with Abe's reform-based growth strategy, the JETRO 2014 report outlined the prioritized sectors for foreign investors, including environmental and health sectors.<sup>174</sup> In addition to the central government's efforts, active programs on a prefecture level also exist to attract more foreign acquirers.

In general, the Japanese regulatory and legal environment is fertile enough to support Abe's growth strategy to foster inward investment. With a sound legal foundation, a favorable regulatory environment, independent judiciary and little corruption in governance, the risks associated with foreign investment in Japan are very low. Overall, Japan is seen as a mature and

---

<sup>173</sup> 2014 JETRO Global Trade and Investment Report.

<sup>174</sup> Ibid.

wealthy market with considerable earnings potentials, especially under Abe's supportive policies on corporate consolidation and industrial restructuring.

The legal hurdles in a country are among the most important determinants in promoting cross-border M&A, since laws on investor protection are closely linked to buying decisions. In recent years, reduced legal obstacles and improved transparency for foreign acquirers has contributed towards a growing M&A momentum in general. In Japan, recent legal developments in financial regulation include the revised Company Act, which adopts changes affecting cross-border M&A. Such legal revisions were approved by the Japanese Diet in June 2014, driven by the policy rationale to enhance the trust and confidence of foreign players who have interest in investing in the Japanese market.

Legal reforms on the Company Act will change the depth and scope of M&A-related disclosures. Notably, the reform increases the variety of M&A transactions. For instance, the integration of two semiconductor suppliers, the Japanese company Tokyo Electron and the U.S. company Applied Materials in late 2013, represented a pioneering deal in Japan M&A history.<sup>175</sup> It was the first time a Japanese company merged with a company in the same industry outside Japan, and it was one of the biggest merger deals involving a Japanese company. This transaction served as a positive sign that Japanese companies were now more comfortable with various M&A practices and were moving forward in the globalized business realm. Furthermore, the amendment also aimed to enhance the flexibility of M&A activity to allow for a greater variety of transaction options besides cash.

Taxation in Japan plays a significant role in M&A since it can impact the cost structure of the involved deal participants. The current taxation structure is a big obstacle that impedes Japan's promotion of inbound M&A flows. The effective tax rate for corporate income in Japan is as high as 35 percent, compared to the roughly 17 percent in Singapore and 25 percent in China.<sup>176</sup> Additionally, there is no tax-free spin-off option in Japan. Large Japanese corporations such as Toshiba have complex subsidiary structures but are dis-incentivized from selling their subsidiaries to other buyers. JETRO's survey on foreign firms substantiates that such business costs are greatly hindering the inward investment environment as a whole.<sup>177</sup>

---

<sup>175</sup> "Applied Materials to Acquire Tokyo Electron," *The Wall Street Journal*, 25 Sep. 2013.

<sup>176</sup> 2014 JETRO Global Trade and Investment Report.

<sup>177</sup> 2014 U.S. Department of State Investment Climate Statements.

Obstacles			
	World Economic Forum (WEF)	JETRO	Ministry of Economy, Trade and Industry
1	Tax rates	Business cost	Business cost
2	Restrictive labor regulations	Uniqueness of the Japanese market	Exclusivity and uniqueness of the Japanese market
3	Inefficient government bureaucracy	Communication in a foreign language	High level of customers' demand
4	Policy instability	Administrative procedures/authorization system	Regulations/authorization system
5	Insufficient capacity to innovate	Securing human resources	Difficulties in securing human resources
Overall rankings of Japan	9th/148 countries/regions	n.a.	n.a.
Notes	Ranking based on percentage of responses by companies. Multiple answers up to 5 choices.	Ranking based on the number of companies that responded. Multiple answers up to 4 choices.	Ranking based on percentage of responses by companies. Multiple answers up to 5 choices.

Source: "Doing Business 2014" (World Bank), "World Competitiveness Yearbook 2013" (IMD), "World Investment Report 2012" (UNCTAD), "The Global Competitiveness Report 2013-2014" (WEF), "Survey of Trends in Business Activities of Foreign Affiliates (2012)" (METI), "Results of JETRO's survey of foreign firms regarding obstacles and necessary improvements in doing business in Japan" (JETRO).

Another dynamic regulatory change is Abe's overhaul of corporate governance. Initially appearing in the third arrow of Abenomics, the proposed changes were due to growing concerns that Japanese corporate misconduct disappointed foreign buyers. In addition, the lack of independent directors obscured the objectivity of board decision making, another impediment to more foreign investment. More importantly, cross-shareholding between Japanese companies greatly complicates M&A, especially when a foreign participant is involved in the deal. The New Company Act suggests that the listed domestic companies should appoint at least one outside, independent director to the board. An alternative structure may be established where an audit and supervisory committee is responsible for monitoring large publicly-listed corporations. These new guidelines will likely mitigate the conflicts between Japanese and foreign companies on their different perceptions of management. Corporate governance reforms, once implemented, may be a key step to improving overall corporate structure.

Increasing foreign participation in Japanese corporations may help incubate fresh ideas and bridge the misconceptions between Japanese and foreign companies. Corporate responses to the reforms seem promising. Panasonic, for example, reacted promptly. As of June 2014, Panasonic had appointed 3 independent directors out of 17 and established 3 outside Audit and Supervisory Boards (A&SB) out of five total.<sup>178</sup> Another notable case was Nissan, which appointed 3 non-Japanese directors on its 12-member board. The increasing presence of foreign shares in Japanese companies may further push such changes.

<sup>178</sup> Panasonic Official Website, Online, <http://www.panasonic.com/global/corporate/sustainability/management/governance.html>.

Nonetheless, it still takes time to alter the entrenched norms of Japanese management. Most Japanese companies historically value the long-term stable relationship with employees and thus consider the board position as a reward for the life-long career for those directors. In Japan, whether the newly-introduced outside management works better than the traditional practice of promoting management inside Japanese corporations still remains uncertain. Keidanren, Japan's most influence business association, publicly opposed the mandatory installation of independent directors based on the skepticism that Japanese companies would perform better.<sup>179</sup> Until 2013, 600 out of the 1400 largest listed Japanese companies resisted appointing independent directors.<sup>180</sup> Understandably, these same companies are unlikely to enthusiastically embrace Abe's proposition.

In the United States, all the corporations listed on the New York State Exchange have to comply with corporate governance standards that require a majority of outside directors.<sup>181</sup> For foreign entrants from the United States, Japan's legal system design and regulatory restrictions constrain their growing M&A prospects. The U.S. Department of State 2014 Investment Climate Statement points out that American companies have long been inconvenienced by excessive regulations in Japan. The report also states that the United States has for several years called on Japan to improve its regulatory system and solve the problem of a dearth of government information.<sup>182</sup> The costs of doing business, including foreign companies engaged in M&As, are still high. Without universal access to the policymaking process, a transparent and efficient environment for vibrant M&A activity is hard to expect. However, Japan's tightening of the rules of M&A is necessary in the wake of the accounting fraud of Japanese corporation Olympus in 2011. Japan has a single regulator system with the Financial Services Agency (FSA) under the Ministry of Finance (MOF) overseeing the financial market. FSA strengthened the M&A disclosure over fears that a high-profile case of fraud, ongoing for 13 years, would undermine the confidence of domestic and foreign investors towards Japan. However, if Abe's general outlook is any indicator, Japan's current legal rules will continue to become more favorable for market actors.

Beyond all the domestic reform implications of the Abe government, however, the fundamentals of Japanese business and management culture distinguish Japan from other developed economies. Japanese business culture is by nature consensus-driven, which makes the friendly transfer of subsidiaries by far the most common M&A form in Japan. Japan has long

---

<sup>179</sup> "Japan Seeks to Lure Investors With Improved Corporate Governance," *The Wall Street Journal*, 27 Jun. 2014.

<sup>180</sup> Economist Intelligence Unit, May 2014

<sup>181</sup> New York Stock Exchange, Online,

<[http://nysemanual.nyse.com/LCMTTools/PlatformViewer.asp?selectednode=chp\\_1\\_4\\_3&manual=%2Ficm%2Fsections%2Ficm-sections%2F](http://nysemanual.nyse.com/LCMTTools/PlatformViewer.asp?selectednode=chp_1_4_3&manual=%2Ficm%2Fsections%2Ficm-sections%2F)>.

<sup>182</sup> 2014 U.S. Department of State Investment Climate Statements.

remained resistant to all foreign takeovers, let alone hostile takeovers. It is almost impossible for Japanese companies to circumvent their cultural mentalities in the short term. For example, when faced with a potential acquisition, despite the benefits of changing ownership for both the deal participants, Japanese companies are often more comfortable to be bought by a domestic company than by a foreign company. There also remains a strong preference to maintain the independence of management within the target company. Thus cultural factors can impede international M&A deals involving a Japanese company.

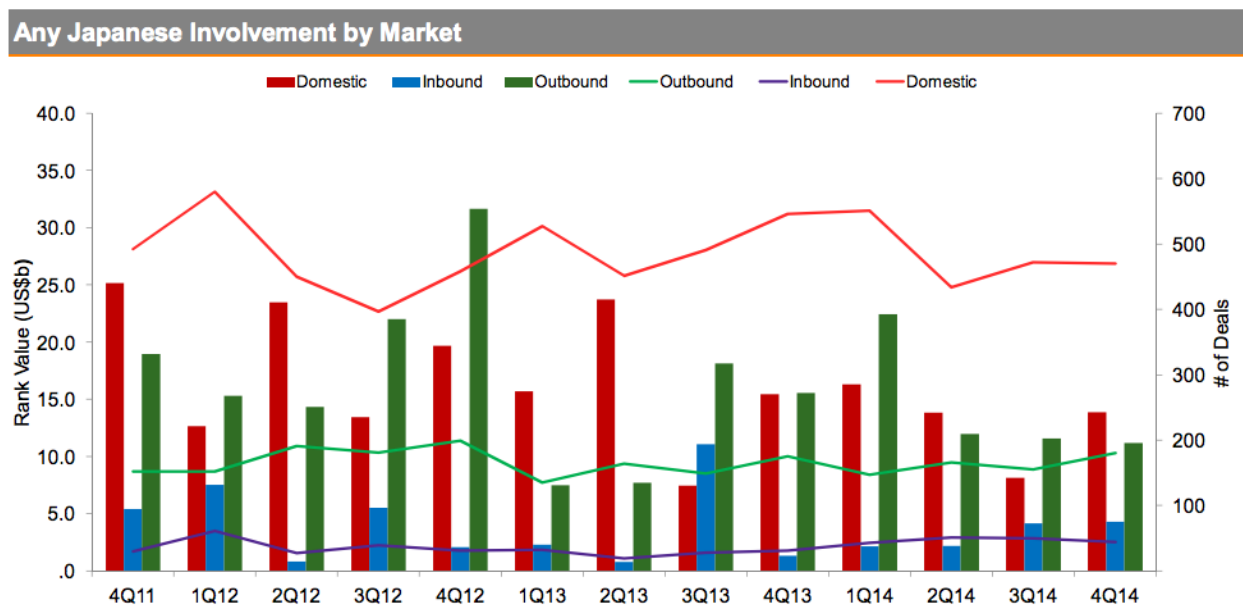
### **Cross-border M&A in Japan and the Challenges for “Abenomics”**

For companies, the competitiveness and efficiency of a market largely decides the destination for cross-border business. Although there is no single explanation that captures the motives of every company, major determinants of cross-border M&As include new opportunities in consumer markets, prioritized cost structures, research and development (R&D), and favorable conditions in foreign markets.

The three arrows of Abenomics and a series of other policy reforms since Prime Minister Abe's election in 2012 have boosted market expectations and initiated some positive trends in the Japanese economy. By dividing Japanese M&A into the two categories of outbound and inbound investment, analysis provides insights into the implications of Abenomics on M&A activity. However, the problems reflected in Japan's M&A practices raise questions about the future of Abenomics, especially with regards to the implementation of the structural reform.

Over the last two years, Japanese companies have been particularly active in pursuing M&As. Targeted industries for such deals appear to be in the consumer area, real estate, industrials, and healthcare. Not surprisingly, Japan's core strength in technology and innovation lead to the bulk of deals being made in the consumer and industrial areas. Meanwhile, the 2020 Tokyo Olympics has provided impetus for further infrastructure development, and thus the real estate sector has seen growth over the past year. The Abe government's promotion of healthcare strengthened investors' enthusiasm for entering the healthcare industry.

However, Japanese-involved deal values of outbound M&A significantly outweigh that of inbound M&A. Meanwhile, despite the decrease in the third quarter in 2013, the domestic market has seen an upward M&A trend since Abe took office.



(Source: Thomson Reuters)

### Japan's Global Outbound M&A: Continued Growing Momentum

Japan's debut as an international acquirer happened as early as the 1980s. The significant appreciation of the yen brought on by the 1985 Plaza Accord greatly influenced the manufacturing, production, distribution, and cost structure of Japanese industry and incentivized Japan to look abroad for financial opportunities. Japan then saw its outbound investment take off. With the encouragement of monetary and fiscal expansion under Abenomics, Japanese corporations are even more financially prepared to advance overseas.

The advantages of outbound investment include access to growing market shares, access to new products and technology, access to the benefits of global competitiveness, and enhanced company reputation. Furthermore, Japan's shrinking population and stagnant domestic demand have left Japanese companies with no choice but to compete overseas if they are to continue growing.

**Japanese Involvement Announced M&A - Top Advisors by Target Industry**
**Jan 1 - Dec 31 2014**

	<i>Rank Val US\$m</i>	<i>Rank</i>	<i>Mkt. Share</i>	<i>No. Deals</i>
<b>Consumer Staples</b>	<b>23,483.3</b>			<b>205</b>
Mitsubishi UFJ Morgan Stanley	20,369.2	1	86.7	5
Credit Suisse	15,687.6	2*	66.8	1
Centerview Partners LLC	15,687.6	2*	66.8	1
<b>Real Estate</b>	<b>21,874.1</b>			<b>219</b>
Mizuho Financial Group	3,345.2	1	15.3	2
Mitsubishi UFJ Morgan Stanley	1,607.4	2	7.4	3
Citi	526.8	3	2.4	5
<b>Financials</b>	<b>18,593.8</b>			<b>173</b>
Goldman Sachs & Co	9,143.1	1	49.2	6
Mitsubishi UFJ Morgan Stanley	6,972.8	2	37.5	6
Nomura	4,209.3	3	22.6	14
<b>Industrials</b>	<b>12,160.0</b>			<b>425</b>
Nomura	1,759.6	1	14.5	12
Sumitomo Mitsui Finl Grp Inc	1,348.2	2	11.1	17
Citi	1,317.7	3	10.8	2
<b>Healthcare</b>	<b>10,696.4</b>			<b>135</b>
Goldman Sachs & Co	7,223.2	1	67.5	2
Citi	4,206.7	2	39.3	2
Evercore Partners	4,164.7	3	38.9	2

\* tie

In 2014, the United States was the most popular destination for Japanese buyers and accounted for 64 percent of the total outbound deal values of \$36.4 billion.<sup>183</sup> This can be explained by the strong U.S. economic recovery following the 2008 financial crisis and plentiful opportunities owing to its status as the largest economy in the world. Japanese companies are also expanding beyond Western industrial countries, especially in neighboring emerging markets, such as China and Southeast Asia.

Abenomics drives the momentum of outward M&A since it improves the financial condition of large Japanese companies. Due to rising share prices, a consequence of expansive government spending, some financially floundering companies seized the opportunity to rebound. The cheaper yen also led to a favorable price for domestic exports. Encouraged by a surplus of cash on their balance sheets, Japanese corporations now have a strong appetite for a strengthened global position. They are eagerly looking overseas for more business presence. Furthermore, the fairly good financial situation provides Japanese firms with a large cushion; they are more willing and able than before to absorb the risks involved in the outbound investments.

A second motivation behind outward M&A growth is Japanese companies' desire to increase their foreign market shares. In almost every major industry, trends show that Japanese companies are seeking to be competitive in the global market, especially in Europe and the United States companies. Since the establishment of the EU-Japan Centre for Industrial Cooperation in March 2013, Japanese acquisitions of European companies have been progressively increasing by roughly €10 billion EUR annually with the total amount per year hitting €160 billion EUR.<sup>184</sup> In 2014, Japan's foray into the European market was remarkable, as evidenced by several ambitious

<sup>183</sup> 2014 Thomson Reuters Mergers and Acquisitions Full Year Review.

<sup>184</sup> EU-Japan, Online, <<http://eu-japan.com/investment/japan-to-europe/>>.

mega deals by Japanese industrial giants, such as Canon's tender offer for all outstanding shares of the Swedish surveillance leader Axis AB, totaled \$2.8 billion USD, and Hitachi's acquisition of a European rail manufacturer for \$2.2 billion USD.<sup>185</sup> In addition, finding an outside niche market for certain products and technology is an important concern for Japanese corporations. Diversifying through global markets enables companies to better manage the risks associated with dependence on a single target.

Enhancing global competitiveness is the third and perhaps biggest motivation for Japanese firms to invest and compete overseas. Since the Fukushima earthquake, there has been a growing demand for alternative energy sources. In order to compete with its rival General Electric, Mitsubishi Heavy Industries and Hitachi decided to create a new joint venture in 2013 to enlarge its business scale and make it globally competitive.<sup>186</sup>

Structural reform under Abenomics also motivates outward investment, though motivations vary from industry to industry. In finance, the primary consideration for acquisition is the target's profitability and potential to generate sufficient future cash flows. In manufacturing, identification of the "weakness" in the company's global production lines and value chains is the major concern. Considering Japan's position in the automobile industry, it is common to see M&A activity concentrated in the manufacturing sector in emerging markets. Growing market demand and access to lower labor costs offer a logical incentive for Japanese companies to explore business opportunities in developing countries. For some underdeveloped yet promising industries, such as the pharmaceutical sector, domestic companies are eager to find overseas destinations mainly for new products and technology, especially in the United States, given its advanced R&D.

However, Abenomics faces obstacles in promoting Japanese outbound M&A activity. Overcoming these obstacles will require further efforts on the policy level. Most challenges are a consequence of the organizational and managerial abilities of Japanese companies during the decision-making and post-acquisition period. The highly complex approval process and multi-layers of management within a company impede the efficiency of deal completion between Japanese companies and foreign targets. This has prevented Japanese firms from improving their efficiency and profitability. A risk-averse business culture also explains the inefficiency problem prevalent in Japanese-involved M&A transactions. Most Japanese corporations tend to cautiously evaluate the risks in every stage to come up with a thorough analysis of a potential M&A deal. Such strong detail-orientation is influenced by Japanese business culture. The due diligence process is often lengthy and costly, which is sometimes difficult for foreign participants to understand and accept during negotiations. The insufficient post-acquisition

---

<sup>185</sup> Ibid

<sup>186</sup> "Lixil to buy Grohe in \$4 billion landmark deal," *Reuters*, 26 Sep. 2013, Online, <<http://www.reuters.com/article/2013/09/26/us-japan-grohe-lixil-idUSBRE98O1BJ20130926>>.

management on foreign acquired targets suggests the need for better coordination between Japanese acquirers and acquired foreign companies. Without appropriate corporate management, it is hard to generate actual efficiency gains of the new firm following a merger of acquisition.

Many problems that crop up in Japanese outward M&A are related to corporate governance. However, the first decision for Abe's structural reform is between market forces and government support as the source of nurturing competitiveness. In many outward M&A deals, it is common to see Japanese banks' participation as financial backstops for Japanese companies to acquire a foreign company. For instance, in 2013, the government-backed Development Bank of Japan was involved in Lixil's purchase of Grohe, a German manufacturing company, which became the largest acquisition of a European company by a Japanese acquirer in history. In addition to secured bank loans, DBJ support even allowed Lixil to keep debt off its balance sheet.<sup>187</sup> With an additional layer of government support, Japanese companies enjoy the benefits of cheap and plentiful loans and less downside from using leverage buyouts. Such a connection between government banks and Japanese firms, however, seems contrary to the spirit of Abenomics that aims to rely on liberalized market forces for rather than government protection to drive future growth and innovation.

### **Japan's Inbound M&A: Future Prospects on "Abenomics"**

Despite the spree of outward investment in recent years, Japan's international M&A performance is not merely a story of going abroad. Increased non-Japanese involvement can not only help invigorate the Japanese economy, but can also improve the management efficiency and corporate profitability. In 2014, inbound M&A activity in Japan totaled \$12.8 billion, accounting for merely 9.85 percent of total cross-border M&A activity, a fall of 17.2 percent from 2013 and a record low.<sup>188</sup> However, since 2013 the total deal count has greatly increased, by 69 percent, achieving 188 deals in 2014.<sup>189</sup>

Abenomics clearly provides a policy direction for nurturing a competitive market and promoting inward investment to invigorate domestic industries. However, Japanese cultural barriers are still by far the biggest obstacle for foreign takeovers and are unlikely to be overcome using policy tools. Furthermore, without strong the determination and capability of Abe's administration to implement structural reforms on industry and corporate management, it will be nearly impossible to see a surge in inbound M&A activity in the short term, which will in turn cast doubts on the Abe government. That said, the ultimate success of "Abenomics" will be largely dependent on the promotion of foreign investments in Japan and the invigoration of the domestic economy.

---

<sup>187</sup> 2014 Thomson Reuters Mergers and Acquisitions Full Year Review.

<sup>188</sup> Ibid.

<sup>189</sup> "Why M&A is Different in Japan?" *Columbia Business School*, Online, <<http://www8.gsb.columbia.edu/chazen/globalinsights/node/277>>.

During the postwar period, a large number of Japanese firms grew to be characterized by incredibly complex enterprise structures. For instance, Hitachi built more than 1,000 affiliated businesses.<sup>190</sup> With regard to Abe's ambition for enhanced competitiveness and industrial revival, there is a sign of a growing willingness among Japanese companies to sell off non-profitable and non-core segments and to build leaner and more efficient businesses. Through a broad range of divestiture techniques, further industrial consolidation across the country can be expected. For most Japanese companies, such shifts will allow them to stay competitive in an industry and to react quickly to changing consumer demands and market conditions.

In the past, a common motive for welcoming foreign buyouts was to address the distressed financial situations of Japanese companies. However, as the Japanese economy has gradually recovered from deflation under Abe's tenure, the Japanese market is now more attractive for investment for positive reasons. The weak yen significantly lowers the costs of foreign acquirers and makes Japanese companies more promising targets. With regard to the main areas for inbound M&A flows, the Japanese electronic consumer goods and semi-conductor manufacturing industries are particularly popular among foreign buyers.<sup>191</sup> Since 2010, roughly 30% of the inbound M&A transactions volumes have been concentrated in the industrials and chemicals sectors, testament to Japanese's long-lasting core competitiveness in industrial technology.<sup>192</sup>

Theoretically, favorable government policies and a better regulatory environment in Japan will open up the domestic market to foreign investors. Investment flows into different industries can accelerate the economic recovery and attract even more foreign participation. In reality, strong enthusiasm of foreign companies will likely to be limited by the foreign lack of experience in doing business in Japan. Furthermore, the language barrier will likely be a major inconvenience for foreign investors. Compared with other developed Asian economies, such as Singapore and South Korea, Japanese English language abilities are lacking.<sup>193</sup>

Another big domestic obstacle is the bias in Japanese business culture against foreign buyouts of domestic companies. By definition, hostile takeovers are never welcome, but in Japan, more takeovers are likely to be seen as hostile. Even in the United States, legal regulations on the hostile takeovers make it a sophisticated and difficult business. In Japan, they are even more difficult due to the different shareholding structure. Japanese companies are highly protected from foreign hostile bids and the cost of changing the ownership of corporate assets is high. However, as the economy continues to evolve, there is still the possibility that changes may

---

<sup>190</sup> "Japan's Inbound Potential", *Deloitte Newsletter*, Feb. 2014.

<sup>191</sup> *Ibid.*

<sup>192</sup> *Ibid.*

<sup>193</sup> "Japan's globalization imperative," *McKinsey Quarterly*, Jun. 2011.

happen, in line with broader reforms. Corporate takeovers may become more acceptable in Japan at some point, but this will first require Japanese corporations to be more open to foreign control.

Foreign Private Equity (PE) investment is another important path for promoting inward M&A activity. In 2014, private equity investment represented 21.9 percent of total global M&A activity.<sup>194</sup> Overall, the speed of deal-making by PE investment in Japan has remained quite stagnant. Similarly, Japan's long-term aversion to foreign PE investors is reflected in the widespread resistance among Japanese corporate executives to company break-offs and employee lay-offs. However, Panasonic's selling of its healthcare unit to KKR, a leading global PE fund in 2013, could be a positive sign of change. The deal was in the form of a spinoff with value totaling \$1.7 billion USD.<sup>195</sup> This was KKR's biggest deal in Japan and marked a turning point in the Japanese market to welcome more PE inbound investment. The trend may continue if more deals turn out to be not only beneficial for foreign buyers, but also capable of enabling Japanese firms to create more jobs and improve their financial profiles. In the longer term, despite the recent stock market resurgence, there is still little the government can do to change Japan's attitude towards PE buyouts. Without fundamental changes in place, foreign investors and their hopes for M&A opportunities in Japan may remain unfulfilled.

The potential benefits of bringing foreign capital, whether in the form of corporate buyout or PE investment, to revitalize Japanese economy are undeniable. Under each alternative, a better communicative framework between Japanese sellers and foreign acquirers is crucial to maximize deal benefits. For Japanese firms and the Abe government, ongoing conflicts between management styles, business culture, and language barriers have to be resolved in order to realize significant improvements in inward M&A. These challenges are by no means small, and their roots in the greater Japanese culture are sometimes beyond the policy scope of Abenomics.

### **Case Study: Cerberus Takeover of Seibu**

This case provides a vivid illustration of how cultural barriers and conflicts surrounding corporate management pose major obstacles to M&A in Japan and discourage foreign investors from entering the Japanese market. This case also illustrates how even Abenomics reforms are unlikely to completely turn around the inward M&A market.

Cerberus Capital Management, an American PE corporation based in New York City, has struggled in Japan in recent years and is cutting back its operations to leave the market.<sup>196</sup> In Japan, many large companies are family-controlled. Seibu Holdings, a Japanese holding company that primarily owns hotel and railway operations in Japan. In 2006, Cerberus bailed out

---

<sup>194</sup> 2014 Thomson Reuters Mergers and Acquisitions Full Year Review.

<sup>195</sup> "Japan's Inbound Potential", *Deloitte Newsletter*, Feb. 2014.

<sup>196</sup> "Cerberus Boosts Seibu Stake but Misses Goal," *The Wall Street Journal*, 1 Jun. 2013.

Seibu after it was discovered that its finances had been misstated for over 40 years and it had been delisted from the stock market. However, fights between Cerberus and Seibu over operational changes within Seibu's railway and hotel divisions did not stop. Tensions continued to escalate, which led to a delay in Seibu's planned re-listing schedule. Eventually, Cerberus failed to change the board make-up of Seibu and finally sold its roughly 35 percent stakeholder ownership.<sup>197</sup>

Cerberus's failure came at the moment when Prime Minister Abe announced reforms in his growth strategy for the incorporation of outside directors. For American investors, Seibu's behavior was somewhat contrary to the spirit of Abenomics vis-a-vis company board reform and market liberalization. However, from the Japanese perspective, the hostile takeover would have harmed the corporation's value. For family-owned businesses, such as Seibu, to relinquish controlling power and to incorporate foreign management is an extremely difficult and nearly impossible decision to make in Japanese culture.

In this case, a confluence of factors explains the failure of Cerberus's shareholder activism. Seibu had a broad public presence with considerable domestic influence. Such influence over individual Japanese shareholders is crucial. Before the results of the tender offer came out, Seibu publicly asked its shareholders to oppose Cerberus's proposition, which led to the failure of the American PE giant and raised questions about the transparency and openness of Japanese corporate governance.

Cerberus's subsequent exit from Japan undoubtedly is a negative sign for other foreign entrants. Cultural impediments and problems rooted in Japanese corporate boards will prevent the introduction of more foreign capital as the Abe government proposed. If the positive effects of quantitative easing decline in the near future, the imbalance between increasing investment demand and capital inadequacy will worsen the economy and undermine the vitality of businesses.

## Conclusion

An examination of the policy implications of Abenomics on Japan's cross-border Merger and Acquisitions (M&As) reveals promising trends as well as considerable challenges and limitations relevant to Japanese M&A activities. Under the framework of Abenomics, it can be seen that expansionary economic policies are major contributing factors to a stronger M&A environment. Japan's already favorable regulatory environment, recent legal developments, and strong institutional support are also beneficial to encouraging future M&As. Structural reforms are now the most crucial component and perhaps the best hope Abenomics has to increase the competitiveness of the Japanese market, revive domestic industries, and fulfill Abe's goal to

---

<sup>197</sup> Ibid.

double foreign investment by 2020. However, in the short term, it is difficult to see such policies promoting much inbound M&A activity, primarily due to cultural barriers and ongoing problems with Japanese corporate governance, two areas that are less sensitive to policy changes.

## References

- 2014 JETRO Global Trade and Investment Report.
- 2014 Thomson Reuters Mergers and Acquisitions Full Year Review.
- 2014 U.S. Department of State Investment Climate Statements.
- “Abenomics Drives Nikkei to Highest Yearly Gain Since 1972,” *The Telegraph*, 31 Dec. 2013.
- “Abe’s Master Plan,” *The Economist*, 18 May. 2014.
- “Applied Materials to Acquire Tokyo Electron,” *The Wall Street Journal*, 25 Sep. 2013.
- “Cerberus Boosts Seibu Stake but Misses Goal,” *The Wall Street Journal*, 1 Jun. 2013.
- Economist Intelligence Unit, May 2014.
- EU-Japan, Online, <<http://eu-japan.com/investment/japan-to-europe/>>.
- “Foreign Direct Investment in Developing Countries,” *International Monetary Fund*, Online, <<http://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm>>.
- “Japan’s globalization imperative,” *McKinsey Quarterly*, Jun. 2011.
- “Japan Seeks to Lure Investors With Improved Corporate Governance,” *The Wall Street Journal*, 27 Jun. 2014.
- “Japan’s Inbound Potential,” *Deloitte Newsletter*, Feb. 2014.
- “Lixil to buy Grohe in \$4 billion landmark deal,” *Reuters*, 26 Sep. 2013, Online, <<http://www.reuters.com/article/2013/09/26/us-japan-grohe-lixil-idUSBRE98O1BJ20130926>>.
- “Mergers and Acquisitions (M&As), Greenfield Investments and Extension of Capacity,” *International Monetary Fund*, Online, <<https://www.imf.org/External/NP/sta/bop/pdf/diteg42829.pdf>>.
- Ministry of Economics, Trade and Industry, Online, <[http://www.meti.go.jp/english/policy/energy\\_environment/electricity\\_system\\_reform/index.html](http://www.meti.go.jp/english/policy/energy_environment/electricity_system_reform/index.html)>.
- New York Stock Exchange Website, Online, <[http://nysemanual.nyse.com/LCMTTools/PlatformViewer.asp?selectednode=chp\\_1\\_4\\_3&manual=%2Fflcm%2Fsections%2Fflcm-sections%2F](http://nysemanual.nyse.com/LCMTTools/PlatformViewer.asp?selectednode=chp_1_4_3&manual=%2Fflcm%2Fsections%2Fflcm-sections%2F)>.
- Panasonic Official Website, Online, <<http://www.panasonic.com/global/corporate/sustainability/management/governance.html>>.
- Statistics Bureau of Japan, Online, <<http://www.stat.go.jp/english/data/cpi/1581.htm>>.
- “Why M&A is Different in Japan?” *Columbia Business School*, Online, <<http://www8.gsb.columbia.edu/chazen/globalinsights/node/277>>.

## Japan's Long Road to Corporate Governance Reform

By Ben Garton

### Introduction

The summer of 2014 was not being particular kind to Prime Minister Shinzo Abe. It had only been a year and a half since his most recent election to Japan's top office and Abe's domestic approval ratings had fallen below 50% for the first time since he took office in December 2012.<sup>198</sup> Abenomics—the collection of monetary, fiscal, and structural economic revitalization policies that was implemented to end Japan's long period of slow growth—was struggling to provide its promised improvements to the Japanese economy. Japan's stock market, which had widely been seen as one of the major Abenomics success stories thus far, had recently lost a third of its new gains as foreign investors lost confidence in Abe's ability to deliver on his promises.<sup>199</sup> And foreigners weren't alone in their pessimistic assessment as Japanese consumers reacted to a recent consumption tax hike amidst slow wage growth with disappointment.

According to a Bank of Japan survey, only a scant 11% of the population held the opinion that their economic situation would improve within the next year, whereas almost three times that number felt as though the situation would only get worse (see Figure 1).<sup>200</sup> If this was not enough to dampen Abe's spirits, much of Japan was also suffering through a record-breaking heat wave that stretched into the August months.<sup>201</sup> With the real prospect of losing his newly established LDP majority, it was clear that Abe would need to make good on his promises to revitalize the economy in a sustained, tangible way.

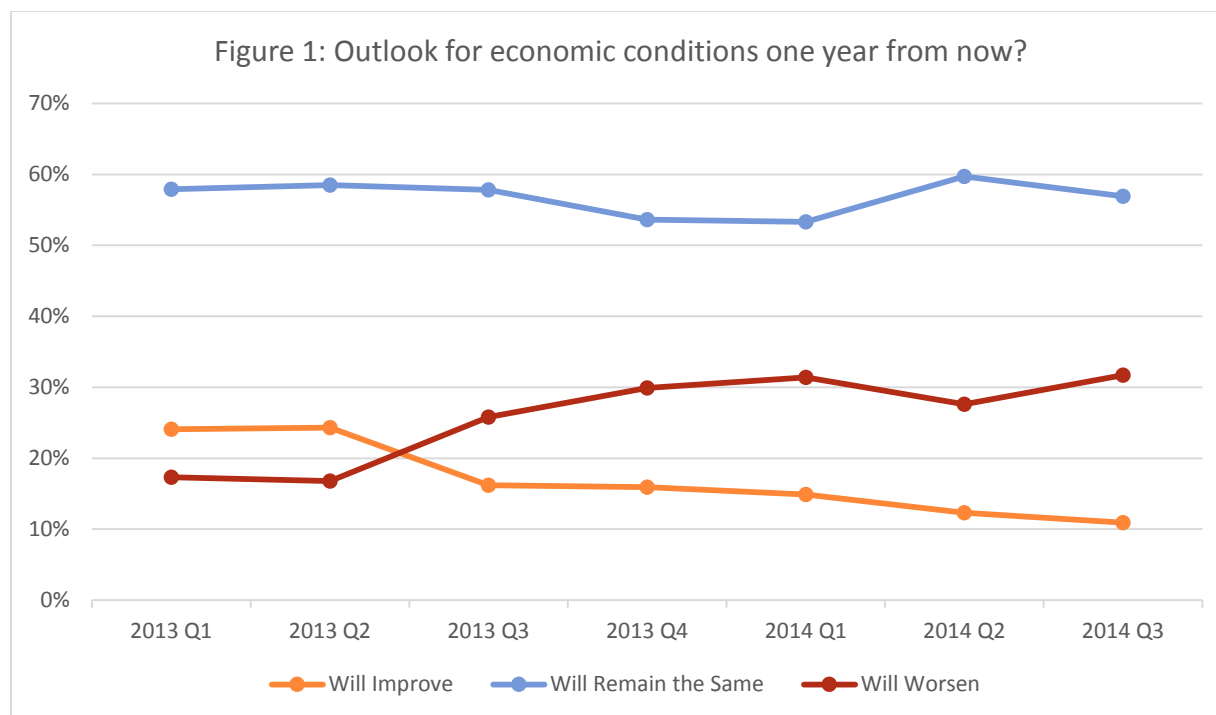
---

<sup>198</sup> Davis, Andrew. "Abe's Support Dips Below 50% in Fallout Over Easing Pacifism." BloombergBusiness. July 28, 2014. Online Available: <http://www.bloomberg.com/news/articles/2014-07-28/abe-s-support-drops-below-50-in-fallout-over-easing-pacifism>

<sup>199</sup> Katz, Richard. "Voodoo Abenomics: Japan's Failed Comeback Plan." Foreign Affairs. July/August 2014.

<sup>200</sup> Bank of Japan. "Results of the 59th Opinion Survey on the General Public's Views and Behavior." October 9, 2014.

<sup>201</sup> Wiltgen, Nick. "17 Dead, Thousands Hospitalized in Japan's Historic Heat Wave." Weather.com. August 14, 2013. Online Available: <http://www.weather.com/news/news/japan-sizzles-all-time-national-record-high-20130812>



It was around this time that the Ministry of Economy, Trade, and Industry (METI) released a final version of its year-long study on sustainable growth led by Professor Kunio Ito, of Hitotsubashi University's Graduate School of Commerce and Management. The study was commissioned to better understand the necessary requirements for long-term economic growth and included the participation of various individuals from the financial, corporate, and academic worlds. The final report highlighted several major issues with Japan's current corporate environment including low returns on equity and the inability of many Japanese corporations to attract significant long-term capital from investors.<sup>202</sup> Low returns on equity in particular--averaging only around 3% compared to a global average of 13% in developed nations (see Figure 2)<sup>203</sup>--was seen as a uniquely Japanese problem, wherein Japanese management refused to consider positive returns on equity as a primary "goal for management" and not simply the "result of business activities."<sup>204</sup> Considering that low corporate profitability is tied to the issues of lower investment, stagnant wages, and anemic consumer spending, the report made several key recommendations, chief among which was the need for corporate governance reform.<sup>205</sup> Given that national growth could be achieved if Japanese corporations could enhance their

<sup>202</sup> METI. "Ito Review of Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors: Final Report." August, 2014.

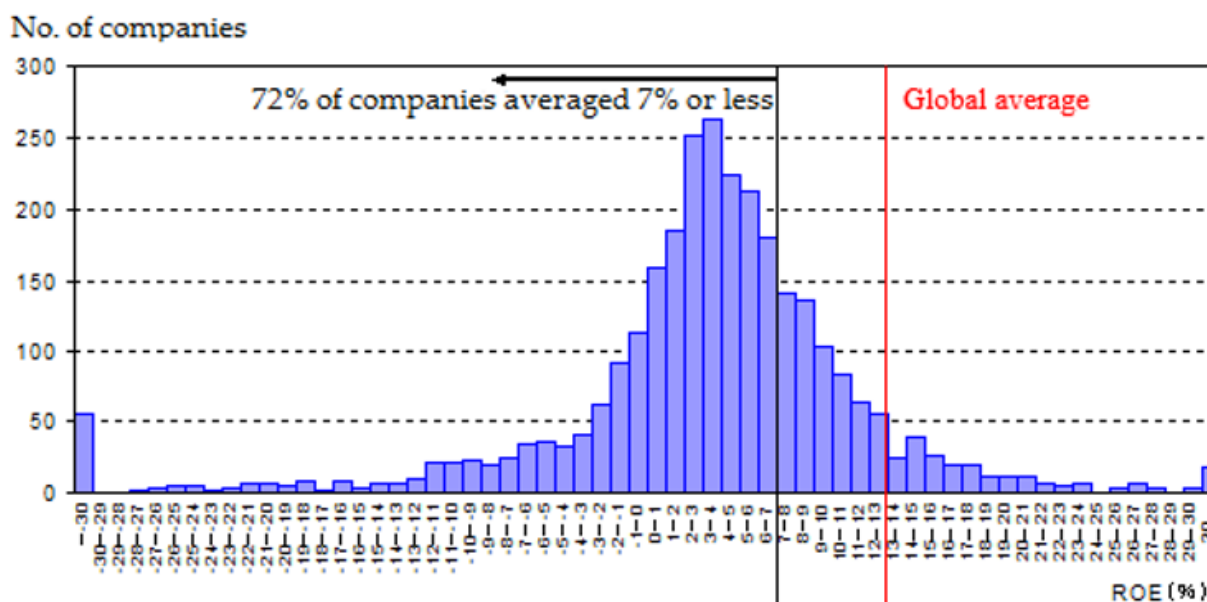
<sup>203</sup> Kobayashi, Keiichiro. "Moving the ROE 'Mountain:' A Framework for Capital Market Reform." The Tokyo Foundation. May 27, 2014. Online Available: <http://www.tokyofoundation.org/en/articles/2014/moving-roe-mountain>

<sup>204</sup> METI. "Ito Review of Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors: Final Report." August, 2014.

<sup>205</sup> *ibid*

earning power and deliver sustained value to potential investors, the Abe administration latched onto the idea and has since pushed for companies to adopt corporate governance reform.

Figure 2: Frequency Distribution of ROE in Japan (10-yr average 2004-2013)



### The Importance of Corporate Governance and Western Reforms

Corporate governance, or the system under which corporations make strategic decisions and manage their operations, is of crucial importance when it comes to maintaining a robust economic society. Effective corporate governance leads to the efficient use of company resources and yields potential profits that may be reinvested into new ventures that grow an economy further. Good corporate leadership also effectively minimizes risks to a corporation's long-term health--though there are different models depending on whether shareholders or stakeholders (direct employees) of a corporation are emphasized.

The United States is currently leading the charge for corporate governance reform and attempting to reinsure investors shaken by past financial crises by emphasizing the rights of shareholders and requiring corporate management to act in the best interest of these shareholders. The model of corporate governance being improved upon and championed in the United States may be considered a classic model which “sees the company as the property of the shareholders, and executives as their agents whose primary duty is to secure maximum gains for the owners in the immediate, short term” (see Figure 3).<sup>206</sup> Under this classic model, companies are primarily

<sup>206</sup> Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press.

backed by *vocal owners* (private investors, trusts, hedge funds, etc.)<sup>207</sup> who may also choose to voice their preferences to management if they have long-term holdings. It is in the best interest of corporate governance regulators in the United States to ensure that shareholders can feel confident in their investments.

Figure 3: Classical Models of Corporate Governance

= Strong Association	Shareholder Value Maximization	Interest in Long-Term Growth	Short-Term Orientation	Stakeholder Orientation
<b>Classic Model (Exit Type)</b>	●	○	●	○
<b>Classic Model (Voice Type)<sup>208</sup></b>	●	●	●	●

The push for better corporate governance in the United States started when such companies as Enron, WorldCom, and Lehman Brothers became synonymous with corporate irresponsibility that cost investors, shareholders, employees, and retirees' savings and even livelihoods. In the aftermath of the 2008 financial crisis, the United States passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which was the largest addition to Western corporate governance and accounting regulations since Sarbanes-Oxley was enacted in 2002. While the net benefits of such reforms are still a matter of debate considering the cost of compliance,<sup>209</sup> it is clear from their nature that they are intended to prevent another Enron-like scandal by reinforcing the requirements for companies to act in the best interest of their shareholders. One of the most prominent changes that "Sarbanes-Oxley engendered was a shift from a perspective that the board serves management to a perspective that management is working for the board."<sup>210</sup> In essence, Western corporate governance reforms are focusing on improving this classic model of corporate governance where shareholders have the balance of power in any shareholder vs. stakeholder debate. While the shareholder-focused model encourages investment, this view of the role of corporate governance is still in contrast with the pluralist model of corporate governance commonly seen in Japan.

<sup>207</sup> *ibid*

<sup>208</sup> The voice type model is only applicable for large shareholders that can have an influence in company direction over time. The exit type model, therefore, is far more prevalent for the majority of individual and corporate investors.

<sup>209</sup> Coates, J. and S. Srinivasan. "SOX after Ten Years: A Multidisciplinary Review." *Accounting Horizons*. Sept. 2014: 28(3):627-671.

<sup>210</sup> Maleske, Melissa. "8 ways SOX changed corporate governance." *InsideCounsel Magazine*. Jan. 1, 2012. Online Available: <http://www.insidecounsel.com/2012/01/01/8-ways-sox-changed-corporate-governance>

## Traditional Japanese Corporate Governance and its Historical Origins

Unlike the classical model of corporate governance followed in the United States, Japanese corporations foundationally follow a pluralist system. The pluralist model of corporate governance emphasizes the stakeholders within an organization and considers the long-term health of a company without focusing excessively on the short-term (see Figure 4).<sup>211</sup> There are several historical reasons behind why Japanese corporations embraced this model of corporate governance as well as reasons why the model is still so prevalent in Japan today.

Figure 4: Classical Models of Corporate Governance vs. Japanese Pluralist Model

= Strong Association	Shareholder Value Maximization	Interest in Long-Term Growth	Short-Term Orientation	Stakeholder Orientation
<b>Classic Model (Exit Type)</b>	●	○	●	○
<b>Classic Model (Voice Type)</b>	●	●	●	○
<b>Pluralist Model</b>	○	●	○	●

From a historical perspective, the role of a postwar Japanese company was heavily influenced by tacit coordination between government and business. Rapid, postwar economic growth was largely directed through a “loan consortia organized under government and central bank auspices,<sup>212</sup>” which allowed corporations to focus on production without concern for shareholder returns. With both guidance and financing provided by major banks, outside shareholders were cut out of the management process and “an environment developed where the interests of management, employees, and banks drove corporate strategy.<sup>213</sup>” In such an environment, “shareholders are not community members” and “their interests are sacrificed in favor of employee interests.<sup>214</sup>” This held especially true when shareholder interests, such as cost reduction through downsizing often seen in Western firms, came into conflict with Japanese employment models where permanent employment was not only a way to achieve economic

<sup>211</sup> Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press.

<sup>212</sup> Whittaker, D. Hugh and Simon Deakin. *Corporate Governance and Managerial Reform in Japan*. 2010: Oxford University Press. p5.

<sup>213</sup> Buchanan, John, Dominic Hessang Chai, and Simon Deakin. *Hedge Fund Activism in Japan: The Limits of Shareholder Primacy*. 2012: Cambridge University Press. p105.

<sup>214</sup> Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press. p27.

security, but “also the only source of social and emotional support for the majority of Japanese.”<sup>215</sup>

Today one of the major reasons behind why Japanese companies have been able to keep this pluralist model intact is made apparent when one looks at the composition of major shareholders of Japanese corporations. In 2005, almost all (98%) of companies in Japan had stable shareholders that included major banks, employee associations, and even key customers/trading partners.<sup>216</sup> Unlike the *vocal owners* seen commonly as part of Western corporate shareholders today, the stable shareholders in Japan are *silent partners* who do not involve themselves in the strategic decisions made by a business.

Furthermore, even if there was a minority shareholder of a large Japanese corporation who did want to exercise their rights—rights which do happen to conform to global standards and are even superior to some Western markets<sup>217</sup>—they would have to compete with a vast network of cross-shareholding company interests. A historical example of this type of cross shareholding can be seen in the Sumitomo group, in which the eleven Sumitomo firms have numerous reciprocal shareholding relationships (see Figure 5).<sup>218</sup> And while cross-shareholdings have reduced by as much as two-thirds since the 1990s,<sup>219</sup> they still play the part of *silent partners* along with major banks against potential vocal shareholders looking to change a business.

---

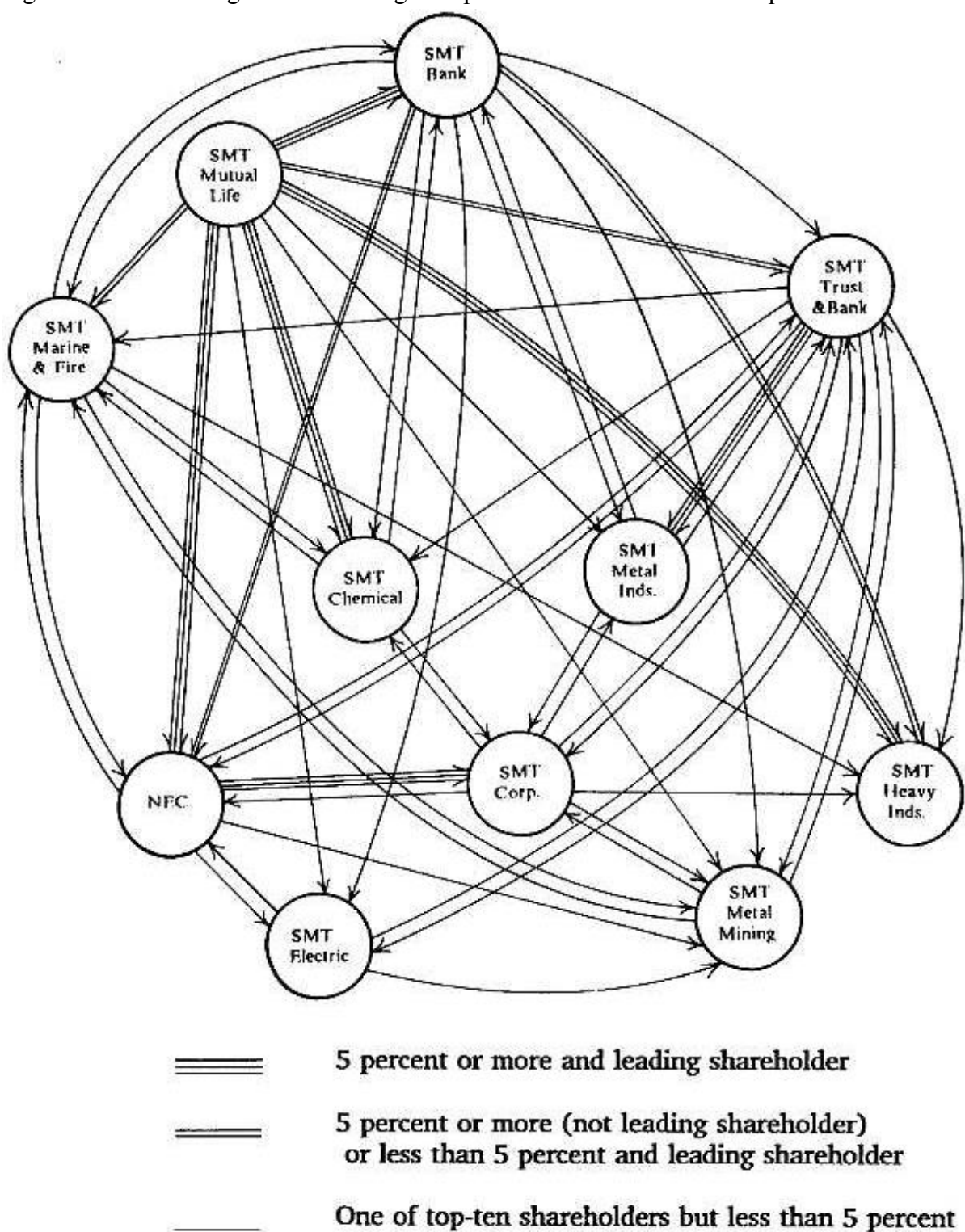
<sup>215</sup> Crawcour, Sydney. “The Japanese Employment System.” *Journal of Japanese Studies*. 1978:4(2):225-245.

<sup>216</sup> Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press.

<sup>217</sup> Gourevitch, Peter A. and James Shinn. *Political Power & Corporate Control: The New Global Politics of Corporate Governance*. 2005: Princeton University Press.

<sup>218</sup> Gerlach, Michael L. *Alliance Capitalism: The Social Organization of Japanese Business*. 1992: University of California Press.

<sup>219</sup> Ito, Masaharu. “Kaisho ni Mukauno ka Nihon Kigyo no Kabushiki Mochiai? (Will Cross-shareholdings in Japan be Unwound?)” Daiwa Institute. 2009.

Figure 5: Crossholdings of the Leading Companies in the Sumitomo Group<sup>220</sup>

<sup>220</sup> Original data from Industrial Groupings in Japan (1982). Also note that SMT = Sumitomo.

## The Council of Experts Speedily Recommend Changes

Despite the entrenched nature of the Japanese pluralistic form of corporate governance, METI's Ito Review and the Abe cabinet's revisions to the Japan Revitalization Strategy both suggested the need for significant changes. In August of 2014 and at the behest of the Abe administration, Japan's Financial Services Agency and the Tokyo Stock Exchange selected a group of individuals with experience in finance, industry, law, and academia to be part of the *Council of Experts Concerning the Corporate Governance Code*. Similar to the Ito Review, the initiative was headed by a professor<sup>221</sup> and expected to consult with the wider business and investment community before making recommendations as to how Japanese corporate governance should change. On March 5<sup>th</sup> of this year, following a number of meetings and time for public comment,<sup>222</sup> the council released their final proposal containing Japan's new Corporate Governance Code and the proposal is expected to be adopted by the Tokyo Stock Exchange on June 1, 2015.

The newly proposed corporate governance code targets "transparent, fair, timely and decisive decision-making by companies" and includes several major changes to traditional Japanese corporate governance.<sup>223</sup> Among these changes are (1) a shift in focus from company stakeholders to company shareholders, (2) continuous corporate oversight through the use of independent directors, and (3) a stronger emphasis placed on transparent financial disclosure. All of these changes together are intended to support sustainable corporate growth in both the mid- to long-term by shifting Japanese corporations towards a classic, Western model of governance with a shareholder focus.

For many observers of the process, the most surprising part of the Council of Experts initiative was the speed at which the project was both completed and recommendations were adopted as new law. Researchers at a large automotive think tank commented that this was "a large amount of change in a small period of time" and that the implementation timeline was far "too rapid."<sup>224</sup> And when one compares past financial and corporate reform efforts to the Council of Experts recommendations, one can see why domestic observers might feel this way.

Following the collapse of Japan's asset bubble in the early 1990s and the Asian Financial Crisis from 1997-1998, there were a series of financial and corporate law changes known as the "Big Bang" reforms. These reforms included new, more transparent accounting rules (including an

---

<sup>221</sup> Professor Kazuhito Ikee of the Faculty of Economics, Keio University.

<sup>222</sup> Despite the scale of proposed changes, only 80 individuals/entities bothered to comment on the new code within the one month period in which public comments were accepted. 41 of these comments were submitted in English and the majority were in support of the proposed changes (often noting positives for potential investors).

<sup>223</sup> Japan's Corporate Governance Code [Final Proposal]. March 5, 2015. Online Available: <http://www.fsa.go.jp/en/refer/councils/corporategovernance/20150306-1/01.pdf>

<sup>224</sup> Interviews conducted by the author on March 27, 2015.

important requirement to consolidate subsidiary holdings on a single balance sheet to help prevent corporations from hiding losses from the market) and general corporate law revisions that allowed management more flexibility to run their respective businesses.<sup>225</sup> These reforms were implemented over a period of five years with a great deal of support from Japanese ministries. Compared with this five year timeline, the new Council of Expert changes were created, introduced, and accepted by the Tokyo Stock Exchange in less than eight months. And while this may not be the best of news for corporations that need to make changes quickly, it has at least had some immediate benefits such as attracting optimistic outside investors back to Japan.<sup>226</sup>

### **Code Implementation Questions and the Domestic Pressure for Change**

One potential reason for the quick adoption of the new corporate governance code is that the new code is not legally binding. The changes are being implemented under a UK-style “comply or explain” model where if a company is unwilling or unable to abide by the new principles of governance, then they are simply required to explain why they did not comply through a Corporate Governance Report submitted to the Tokyo Stock Exchange. And though there is the potential for delisting if a company is not in compliance, the Tokyo Stock Exchange has only forcibly delisted a single company in the past three years.<sup>227</sup> In addition to this seemingly lax implementation, the new governance code “does not adopt a rule-based approach, in which the actions to be taken by companies are specified in detail.”<sup>228</sup> Rather companies are free to choose the way in which they interpret the changes to best fit their current management style. Thus, there was an open question as to whether or not Japanese companies will really embrace the new corporate governance code this June or if companies will choose instead to explain how the changes towards a classic Western governance model do not work for them.

To illustrate the difficult choice facing publicly listed corporations in Japan, one may consider the seemingly mundane requirement to hire independent directors which are employed by most Western corporations. At first glance, this requirement does not appear to violate any of the major tenants of the Japanese pluralist model of corporate governance, yet in comparison to corporate boards in the United States, Japanese corporate boards are “generally composed of internally appointed executive directors who control affairs with a minimum of external

---

<sup>225</sup> Park, Yung Chul and Hugh Patrick. *How Finance is Shaping the Economies of China, Japan, and Korea*. 2013.

<sup>226</sup> Fisher, Seth. “Japan’s Return-on-Equity Revolution.” *Wall Street Journal*. Jan 13, 2015.

<sup>227</sup> Based on an analysis of the Tokyo Stock Exchange’s “List of Delisted Companies” available online at [www.jpx.co.jp](http://www.jpx.co.jp). The company in question was delisted due to a failure to submit their quarterly report in time and they were delisted in 2014.

<sup>228</sup> Japan’s Corporate Governance Code [Final Proposal]. March 5, 2015. Online Available: <http://www.fsa.go.jp/en/refer/councils/corporategovernance/20150306-1/01.pdf>

supervision.<sup>229</sup> The prevailing idea behind this structure is that individuals who have worked and been promoted within a company are also the most suited to understand and run the same company with the stakeholder priorities in mind. Furthermore, the Keidanren<sup>230</sup> has been staunchly against such reforms for many years. In fact, prior calls for independent directors were used by senior managers and the Keidanren, “as a justification to reduce board size... which further strengthened the hand of senior employee-managers rather than making them accountable to shareholders.”<sup>231</sup> And even for those companies which do have independent directors, “it is often unclear whether many of them are genuinely independent.”<sup>232</sup>

Yet, there are signs that signal that corporations that have been reluctant to change in the past may be willing to reconsider. The strategy of promoting only internal employees to board member positions is criticized as poor corporate governance by the West because “information takes too long to flow through the company since employees don’t want to tell their bosses what he doesn’t want to hear.”<sup>233</sup> And left unaddressed in Japanese corporate culture, these kinds of issues have manifested as larger scandals--such as the one involving Olympus’s unreported losses of \$1.7 billion dollars since the 1990s, which was only discovered when a foreign executive took control of the company for a brief period in 2011,<sup>234</sup> or the time when executives from Nomura Holdings were found to be involved in insider-trading.<sup>235</sup> If there has been any cultural change in Japan over the past decade that could be used to promote changes in corporate governance, it has been “gradual, and it has been generated by a public broadly unhappy with managerial incompetence and examples of fraud.”<sup>236</sup>

Adding onto this pressure for corporations to change, the Abe administration has further incentivized following Western corporate governance with two complimentary internal investment changes. First the newly created Nikkei 400 stock index only includes companies that have good fundamental corporate governance as measured by profitability and adherence to certain governance and fiscal transparency standards.<sup>237</sup> If this was not enough, last year the

---

<sup>229</sup> Buchanan, John. "Japanese Corporate Governance and The Principle Of "Internalism".  
Corporate Governance: An International Review 15.1 (2007): 27-35.

<sup>230</sup> The Japanese Business Federation which represents the interests of many conglomerate corporations in Japan.

<sup>231</sup> Gourevitch, Peter A. and James Shinn. *Political Power & Corporate Control: The New Global Politics of Corporate Governance*. 2005: Princeton University Press. p173-4.

<sup>232</sup> Buchanan, John. "Japanese Corporate Governance and The Principle Of "Internalism".  
Corporate Governance: An International Review 15.1 (2007): 27-35.

<sup>233</sup> Chegwedden, Y. (2012). Olympus Fraud Renews Focus on Corp. Governance. *Compliance Week*, 9(98), 56-57.

<sup>234</sup> *ibid*

<sup>235</sup> Tabuchi, Hiroko. "Nomura Chief Resigns Over Insider Trading Scandal." *New York Times*. July 26, 2012.

<sup>236</sup> Gourevitch, Peter A. and James Shinn. *Political Power & Corporate Control: The New Global Politics of Corporate Governance*. 2005: Princeton University Press. p173.

<sup>237</sup> JPX and Nikkei. "Press Release: Outline of New Jointly Developed Index." July 30, 2013.

Japanese Government Pension Investment Fund (which controls nearly 130 trillion yen worth of investment capital) diversified its stock portfolio to include the new index as part of its active investment strategy.<sup>238</sup> With the combination of public pressure concerning managerial fraud and new investment incentives by the Abe administration, publicly listed corporations may finally be willing to change their tune.

### **Comply or Explain Really Means “Comply”**

Although there are many potential reasons that have been covered as to why Japanese companies might be tempted to explain their deviation from the new corporate governance codes rather than go through the effort to make the requested changes, there was near universal agreement among interviewed businessmen, politicians, academics, and researchers that companies would undertake the necessary steps to comply with the new corporate governance code this year.<sup>239</sup> How the companies will choose to comply and the expectations as to the success of these changes differed depending on the interviewee, but it was clear that a “comply or explain” approach simply doesn’t have the same meaning in Japan as it does in the United States or Britain.

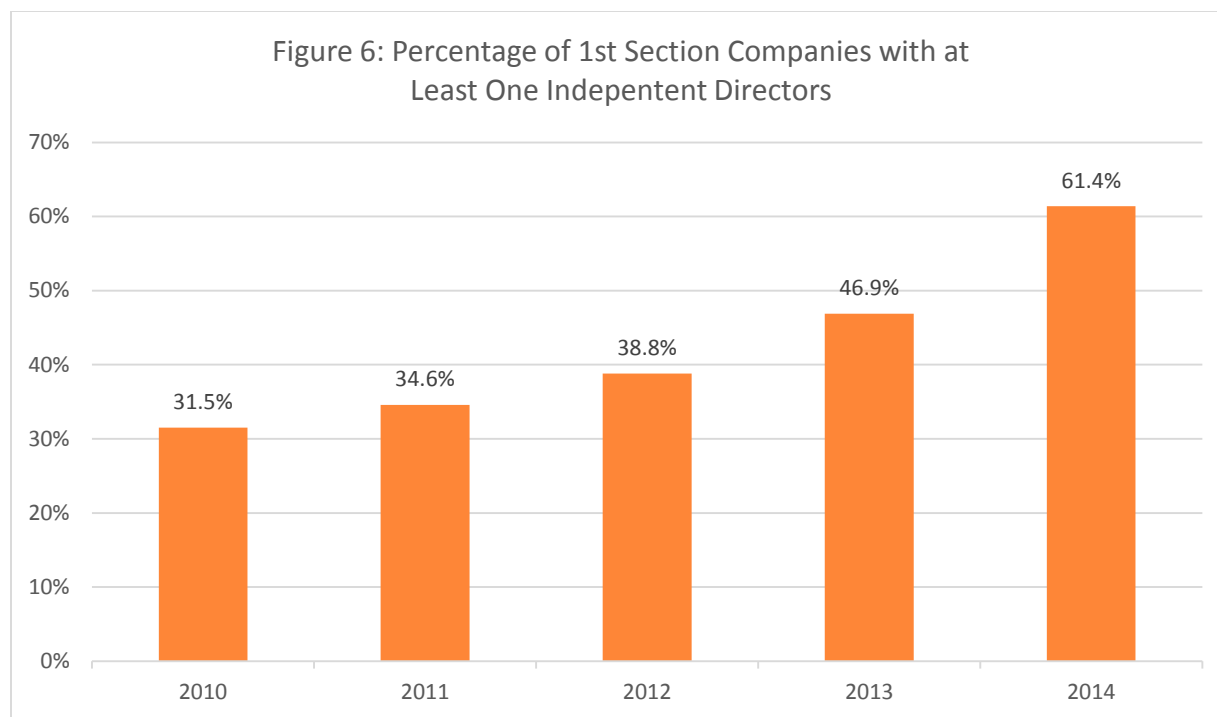
Interviewees working at economic think tanks and specialists researching corporate governance clarified that corporations in Japan would find the concept of explaining a deviation from the larger group an ignominious task to be avoided and that essentially made compliance with new corporate governance code mandatory. In corroboration with this view, interviewees currently working at the top of several businesses weren’t even aware that the new code changes were optional. From their perspective, companies were being “forced” to hire at least two independent directors and that this would be burdensome to small and medium enterprises in particular. However, it was also noted by one interviewee that a fair number of large Japanese companies already have at least one independent director and that increasing the number of independent directors was a natural continuation of corporate trends and not something being forced upon companies against their will (see Figure 6).<sup>240</sup>

---

<sup>238</sup> Nohara, Yoshiaki and Shigeki Nozawa. “GPIF Adds JPX-Nikkei 400, Smart Beta in Equities Revamp.” Bloomberg. April 4, 2014

<sup>239</sup> Interviews were conducted by the author in Japan between March 23 and March 27.

<sup>240</sup> Tokyo Stock Exchange. “Appointment of Outside Directors by TSE-Listed Companies.” July 25, 2014.



### **Speculation on the Impacts of the New Corporate Governance Changes**

On the subject of the impact of hiring independent directors and if such changes would actually benefit shareholders, interview responses were far more diverse. A partner at a top management-strategy consultancy considered the new code to be a “knee-jerk reaction” to the economic challenges that Japanese corporations have faced in the past several years. He took the view that in large corporations, the low shareholder returns and the lack of transparency are an artifact of Japanese management culture and would not be fixed with the addition of outsiders who would likely be given little influence in corporate decision-making. His views were echoed by a professor who teaches at Tokyo’s Temple University who reflected that “intellectually, Japanese businesses may want to change, but it’s hard to change cultural traditions” and outsiders in Japanese corporations were unlikely to bring about the significant governance reforms that the Abe administration may be hoping for. After all, even considering that recent reforms may have “weakened the employee characteristics of managers somewhat,” just as in the past, today’s Japanese executives are not thrilled about playing “the role of the agent of shareholders.”<sup>241</sup>

In contrast to the businessmen and academics, think tank fellows and researchers were generally optimistic and considered the changes to be good for both small and large businesses alike. However, their optimism stemmed not from the idea that hiring independent directors would have a direct positive impact on corporate governance, but rather due to the indirect signals that

<sup>241</sup> Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press, Cambridge.

the hiring of said persons would send to the market. An economic think tank senior fellow explained that the addition of independent directors could encourage additional foreign investment and this outside holding of equity would in turn bring the necessary pressure to make additional changes.

### **The Uneasy Road to Change**

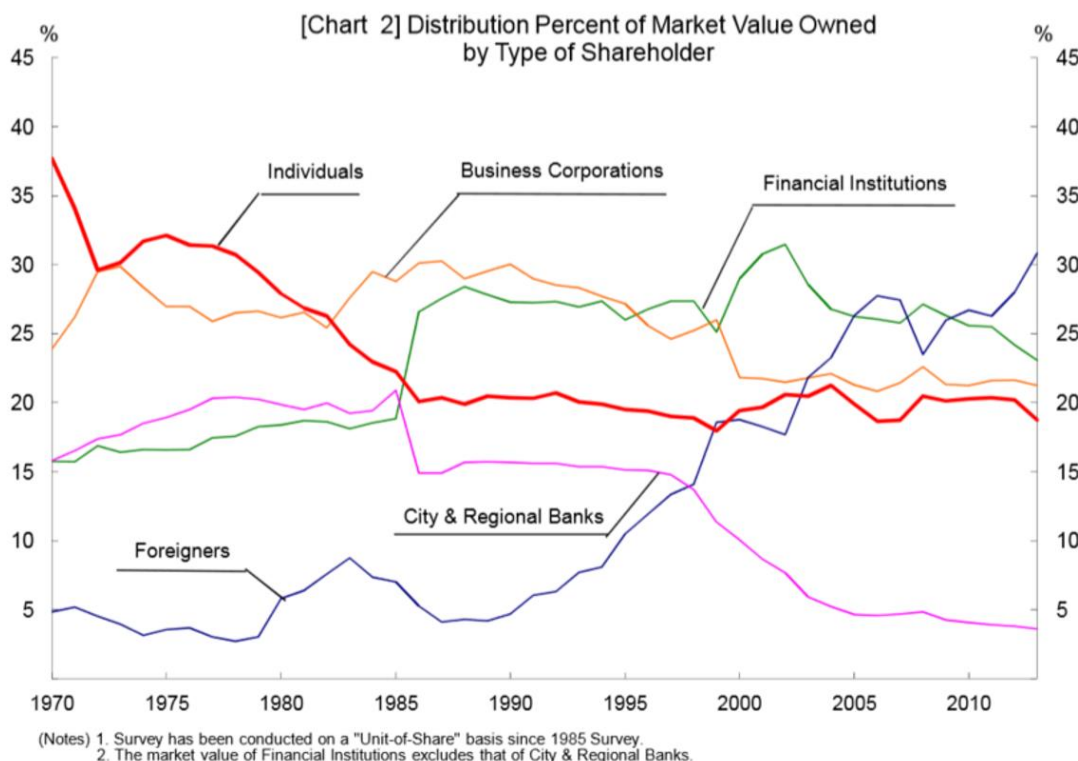
While there has been a marked increase in foreign holdings of Japanese stock over the past several years (see Figure 7), there has not necessarily been a similar increase in foreign shareholder influence over Japanese corporate decision making. One of the most prominent recent examples of this phenomenon is the way in which Sony's management was able to ignore public pressure from Third Point hedge fund manager and billionaire Dan Loeb who had invested over \$1 billion in Sony swaps and convertible bonds. And according to a fund manager for Shinkin Asset Management, with the sale of Third Point's investment "there will be less pressure on the management... however, [he thinks] the general strategy of Sony [wouldn't] change with or without Third Point's suggestions."<sup>242</sup> After all, Third Point was an outsider and not part of the corporate firm, which can be often be viewed in Japan as family.<sup>243</sup>

Figure 7: Changes in Japanese Company Ownership over Time

---

<sup>242</sup> Sakoui, Anousha. "Loeb Exit Leaves Sony's Hirai with Bigger Challenges." BloombergBusiness. Oct. 21, 2014.

<sup>243</sup> Crabb, Kelly Charles. "The Reality of Extralegal Barriers of Mergers and Acquisitions in Japan." The International Lawyer. 1987:21(1):97-128.



Despite the failure of certain foreign investments to successfully change Japanese corporate governance from the outside, there have been incremental signs showing real potential for change from within established Japanese companies. For example, Nissan now has three non-Japanese members on its twelve-member corporate board; Toyota is quite open as far as Japanese corporations go and includes independent directors on its own governance committee; and even Canon, “historically an opponent of independent directors, conceded ground in January 2014 when it announced a plan to appoint two external directors.”<sup>244</sup> And while there have been concerns that appropriately skilled outside directors may be in short supply, it would seem that is no shortage of qualified candidates in Japan.<sup>245</sup> Additionally, one can find successful, less traditional company examples like Japan’s Fast Retailing, which is an unusual company in which the CEO, Tadashi Yanai, sits alongside an entire board of external directors; adheres to a Western-style of corporate governance; and has enjoyed profit margins above 10% on average over the last 5 fiscal years.<sup>246</sup>

<sup>244</sup> Sampei, Hiroki. “Abenomics: A roadmap to corporate reform.” Fidelity Worldwide Investment Report. September 2014.

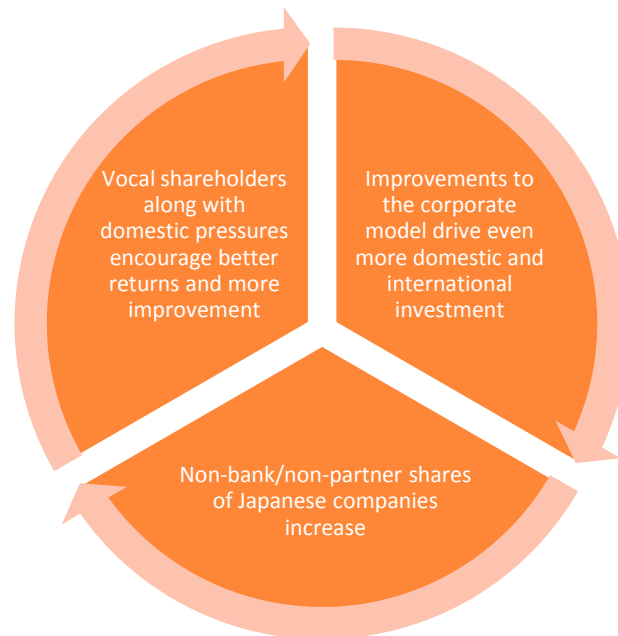
<sup>245</sup> Nagata, Kazuaki. “New rules are pushing Japanese corporations to tap more outside directors.” Japan Times. April 25, 2015.

<sup>246</sup> Fast Retailing Consolidated Business Results. Online Available: [http://www.fastretailing.com/eng/ir/financial/past\\_5yrs.html](http://www.fastretailing.com/eng/ir/financial/past_5yrs.html)

## Still a Long Way to Go

Though the individual examples of successful corporate governance change are currently the exception to the rules in the Japanese corporate governance sphere, there are now more signs than ever that Japan has real potential to change. However, this change cannot come from shareholders, social pressure, or the competitive threat of globalization alone. Rather, a virtuous growth cycle (see Figure 8) is most likely to spring from a combination of these factors along with continued, integrated policy reforms such as those currently being pursued by the Abe administration. As an interviewed senior official for the LDP exclaimed, “it is now the trend of the time for Japan to adopt international standards” and the government of Japan is putting its full backing behind the new reforms. Though Prime Minister Abe, having survived his 2014 election trials with a new LDP majority, is confident that his efforts have made corporate governance in Japan “fully in line with global standards,”<sup>247</sup> there’s still a long hard road for Japanese companies to travel if they chose to eschew their current pluralistic model of corporate governance for a Western alternative.

Figure 8: A Potential Virtuous Cycle for Japanese Corporate Growth



<sup>247</sup> Nikkei Asian Review. “Full text of Abe’s speech in US Congress.” April 30, 2015. Online available: <http://asia.nikkei.com/Politics-Economy/International-Relations/Abe-speech>

## References

- Bank of Japan. "Results of the 59th Opinion Survey on the General Public's Views and Behavior." October 9, 2014.
- Buchanan, John. "Japanese Corporate Governance and The Principle Of "Internalism"." *Corporate Governance: An International Review* 15.1 (2007): 27-35.
- Buchanan, John, Dominic Hessang Chai, and Simon Deakin. *Hedge Fund Activism in Japan: The Limits of Shareholder Primacy*. 2012: Cambridge University Press.
- Chegwedden, Y. (2012). Olympus Fraud Renews Focus on Corp. Governance. *Compliance Week*, 9(98), 56-57.
- Coates, J. and S. Srinivasan. "SOX after Ten Years: A Multidisciplinary Review." *Accounting Horizons*. Sept. 2014: 28(3):627-671.
- Crabb, Kelly Charles. "The Reality of Extralegal Barriers of Mergers and Acquisitions in Japan." *The International Lawyer*. 1987:21(1):97-128.
- Crawcour, Sydney. "The Japanese Employment System." *Journal of Japanese Studies*. 1978:4(2):225-245.
- Davis, Andrew. "Abe's Support Dips Below 50% in Fallout Over Easing Pacifism." *BloombergBusiness*. July 28, 2014. Online Available: <http://www.bloomberg.com/news/articles/2014-07-28/abe-s-support-drops-below-50-in-fallout-over-easing-pacifism>
- Fast Retailing Consolidated Business Results. Online Available: [http://www.fastretailing.com/eng/ir/financial/past\\_5yrs.html](http://www.fastretailing.com/eng/ir/financial/past_5yrs.html)
- Fisher, Seth. "Japan's Return-on-Equity Revolution." *Wall Street Journal*. Jan 13, 2015.
- Gerlach, Michael L. *Alliance Capitalism: The Social Organization of Japanese Business*. 1992: University of California Press.
- Gourevitch, Peter A. and James Shinn. *Political Power & Corporate Control: The New Global Politics of Corporate Governance*. 2005: Princeton University Press.
- Inagami, Takeshi and Hugh Wittaker. *The New Community Firm: Employment, Governance and Management Reform in Japan*. 2005: Cambridge University Press.
- Ito, Masaharu. "Kaisho ni Mukauno ka Nihon Kigyo no Kabushiki Mochiai? (Will Cross-shareholdings in Japan be Unwound?)" Daiwa Institute. 2009.
- Japan's Corporate Governance Code [Final Proposal]. March 5, 2015. Online Available: <http://www.fsa.go.jp/en/refer/councils/corporategovernance/20150306-1/01.pdf>
- JPX and Nikkei. "Press Release: Outline of New Jointly Developed Index." July 30, 2013.
- Katz, Richard. "Voodoo Abenomics: Japan's Failed Comeback Plan." *Foreign Affairs*. July/August 2014.
- Kobayashi, Keiichiro. "Moving the ROE 'Mountain:' A Framework for Capital Market Reform." *The Tokyo Foundation*. May 27, 2014. Online Available: <http://www.tokyofoundation.org/en/articles/2014/moving-roe-mountain>

Maleske, Melissa. "8 ways SOX changed corporate governance." InsideCounsel Magazine. Jan. 1, 2012. Online Available: <http://www.insidecounsel.com/2012/01/01/8-ways-sox-changed-corporate-governance>

METI. "Ito Review of Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors: Final Report." August, 2014.

Nagata, Kazuaki. "New rules are pushing Japanese corporations to tap more outside directors." Japan Times. April 25, 2015.

Nikkei Asian Review. "Full text of Abe's speech in US Congress." April 30, 2015. Online available: <http://asia.nikkei.com/Politics-Economy/International-Relations/Abe-speech>

Nohara, Yoshiaki and Shigeki Nozawa. "GPIF Adds JPX-Nikkei 400, Smart Beta in Equities Revamp." Bloomberg. April 4, 2014

Park, Yung Chul and Hugh Patrick. *How Finance is Shaping the Economies of China, Japan, and Korea*. 2013.

Sakoui, Anousha. "Loeb Exit Leaves Sony's Hirai with Bigger Challenges." BloombergBusiness. Oct. 21, 2014.

Sampei, Hiroki. "Abenomics: A roadmap to corporate reform." Fidelity Worldwide Investment Report. September 2014.

Tabuchi, Hiroko. "Nomura Chief Resigns Over Insider Trading Scandal." New York Times. July 26, 2012.

Tokyo Stock Exchange. "Appointment of Outside Directors by TSE-Listed Companies." July 25, 2014.

Whittaker, D. Hugh and Simon Deakin. *Corporate Governance and Managerial Reform in Japan*. 2010: Oxford University Press.

Wiltgen, Nick. "17 Dead, Thousands Hospitalized in Japan's Historic Heat Wave." Weather.com. August 14, 2013. Online Available: <http://www.weather.com/news/news/japan-sizzles-all-time-national-record-high-20130812>

## **Building Japan's Entrepreneurial Ecosystem**

By Jeff Bond

### **Introduction**

Over the past few decades, an ecosystem of startup companies funded by venture capitalists has turned into a major source of economic strength for the United States. Despite having an advanced economy historically renowned for innovation and technological competitiveness, Japan has not kept pace in the entrepreneurship race and now performs abysmally by most measures of entrepreneurship and venture-capital investment. The reasons are as diverse as they are numerous, but on closer inspection the outlook is not nearly as grim as current surface-level numbers might suggest. In fact, almost all of the pieces are in place for Japan's entrepreneurial ecosystem to take off, and the Abe administration appears poised to hasten the day that it does so.

That said, a few key barriers in the labor market still stand in the way. Policies to loosen the labor market further and improve social safety nets appear absolutely crucial at this point yet still sadly neglected. An important secondary area for improvement is entrepreneurial education. The potential benefits of policies and reforms that enable such an "entrepreneurial ecosystem" are staggering. If the United States is any sort of indicator, building an entrepreneurial ecosystem could be the economic solution Japan has been seeking for over two decades.

### **The Entrepreneurial Ecosystem: Startups and Venture Capitalists**

The entrepreneurial ecosystem is not a formally defined concept but can be thought of as a community of economic agents that drives production, employment, and innovation principally through the creation and growth of new firms that operate on innovation-based business models. This system is fundamentally different from planned models and corporatist models, which are characterized by the state, large enterprises, and the relations between them. The key entities in the ecosystem model are startup entrepreneurs and venture capitalists.

Though as vaguely defined as the ecosystem model itself, the label "startup" does not apply to any new business. Rather, a startup entails at minimum a transformative intent – a business model based on an innovation and capable of reaching large scale rapidly. A new restaurant, for example, does not count as a startup. Restaurants have a well-established business model with limited scale. (Unless, of course, this hypothetical new restaurant features an innovation that might easily turn it into an enterprise worth hundreds of millions of dollars.) The popular image is of an Internet startup. However, in theory there are no industry restrictions on what qualifies as

a startup. In practice, industries that by nature require very large initial capital expenditures and considerable government regulation feature less startup activity.

Similarly, a venture capitalist (VC) is not just a small-business investor. VCs generally take long equity stakes in early-stage businesses that are too risky for conventional investors but that have the potential to deliver enormous returns. To continue the previous example, an investor in a new restaurant is not really making a VC investment. An additional behavior that has come to typify VCs but that is neither definitional nor exclusive to VCs is a hands-on approach to portfolio companies. VCs generally engage their investments, providing mentorship, consulting services, networks, and industry expertise to improve the company's prospects for success.

Venture capital should not be mistaken for private equity, which though mechanically similar is nonetheless a different approach to investing. Both generate returns by buying equity in private companies and then exiting (ideally at a higher value) through either a sale or an IPO. Private equity, though, more often involves established companies that are under-optimized. Much more rigorous quantitative modeling, leveraged buyouts, and restructuring are also typical in private equity. The types of companies that fall in the domain of venture capital are generally too early-stage or too risky for private equity. They tend to have novel models that are not easily run through the private-equity number-crunching gauntlet. The use of leveraged buyouts is unheard of in VC, and rather than restructuring, the focus is on building the structure to begin with.

Startups and VCs rely on one another, and other variables also figure into their relationship. Absent investors willing to take exceptional risk, startups go unfunded and thus either never are founded in the first place or never overcome barriers to scale. Absent a pool of promising startups, VCs lack investment opportunities and either squander their money on bad VC investments or look elsewhere, in either case ending their careers as venture capitalists. Without risk-taking founders and risk-taking investors, Apple, Google, and Facebook would never exist.

Factors that promote innovative capacity and mitigate risk-aversion also appear to be key. An education system with a strong emphasis on creativity and innovation nurtures more promising entrepreneurs. Flexible labor markets and social safety nets encourage more budding entrepreneurs to take on the considerable risk inherent in starting a new company based on an unproven idea. Given the typical free-market tilt of entrepreneurs, claiming that welfare programs have a positive effect on entrepreneurship might invite skepticism. However, faced with the risk of complete financial ruin, the vast majority of people would understandably not start a company. While Horatio Alger stories abound, the success of an entrepreneurial ecosystem requires far more participation than the pool of extraordinary exceptions can provide. Several studies back up these claims.<sup>248</sup>

---

<sup>248</sup> Frick, Walter (2015), "Welfare Makes America More Entrepreneurial," *The Atlantic*, 25 March 2015, online.

For VCs, an economy flush with capital and short on high-yield investment opportunities increases the attractiveness of riskier assets such as startup equity. A well-developed equity market is also important, as otherwise VC investors lack exit opportunities. These final two features are likely limited to only the most advanced economies, which have exhausted factor and efficiency gains and rely instead on innovation for growth.

The most prominent case of a vibrant entrepreneurial ecosystem is the San Francisco Bay Area. Since the 1970s at latest, the “Bay Area” has been ground zero for startups and venture capitalists, and the entire culture has evolved to reflect it. The historically freethinking culture of the Bay Area was perhaps advantageous in generating original ideas and attracting innovative minds. Stanford University, University of California-Berkeley, and other universities are fountains of talent and have pedagogical and R&D approaches that enable entrepreneurship.

Though the foundations had been laid even earlier, the wave of startup success in the Santa Clara Valley in the 1970s created a generation of wealthy people with interest and experience in innovation – prime candidates for venture capital. The concentration of startups and VCs in the area has attracted more of both groups, as startups seek funding and VCs seek investment opportunities, and has resulted in knowledge spillovers and competition that further drives innovation and growth. As a result, the name Santa Clara Valley has been usurped by its own nickname: Silicon Valley. The industry has long since outgrown the Santa Clara Valley, too, and now envelops most of San Francisco Bay, hence the now more common shorthand “Bay Area.” Sand Hill Road in Menlo Park, CA, is venture capital's symbolic equivalent to Wall Street and home to many of the world's top VC firms, such as Kleiner Perkins, Sequoia, New Enterprise Associates, Greylock, Khosla Ventures, Battery, DFJ, and Andreessen Horowitz. As of December 2014, it was also home to the most expensive real estate in the United States.<sup>249</sup>

### **The Venture-Backed States of America**

The entrepreneurial ecosystem is not just a curiosity limited to the Bay Area. It is a significant driver of output, employment, and innovation for the entire United States. Indeed, similar hotspots of activity have emerged in other American cities, and the impact is clear in national statistics.

The statistics<sup>250</sup> almost do not even require explanation. Between 2008 and 2010, venture-backed companies accounted for 21 percent of American GDP.<sup>251</sup> Startups less than five years old

---

<sup>249</sup> “Venture Capital: Sand Hill Road Rules the Valley,” *Bloomberg*, 4 Dec. 2014, online.

<sup>250</sup> Quantitative analysis of these trends can be difficult, because historical data is lacking due to the relatively recent emergence of these concepts. The ambiguity of what qualifies as a startup and what qualifies as venture capital further complicates the matter. Additionally, lags in collection and publication of data prevent up-to-the-minute analysis in what is a rapidly moving environment. Relevant statistics

created 44 million new jobs over the last three decades and accounted for *all* of the net increase in jobs over that period.<sup>252</sup> Venture-backed firms now account for 11 percent of private employment.<sup>253</sup> VCs funded over 4,800 healthcare companies, over 17,000 IT companies, and over 900 cleantech companies – three industries typically at the forefront of innovation.<sup>254</sup>

#### Selected U.S. venture-backed companies

company	founded	market cap (billion)	annual revenue (billion)
Apple	1976	\$725	\$183
Microsoft	1975	\$385	\$87
Google	1998	\$365	\$66
Facebook	2004	\$220	\$12
Amazon	1994	\$198	\$89
Tesla	2003	\$31	\$3
Starbucks	1971	\$74	\$15
Intel	1968	\$155	\$56
Fedex	1968	\$49	\$45
Home Depot	1978	\$144	\$75
Costco	1983	\$63	\$105

All of these achievements have been made despite a total amount of investment that is small by investment standards. The OECD estimates that \$29.3 billion in VC investments were made in 2013.<sup>255</sup> An estimate for 2014 comes in at around \$48 billion.<sup>256</sup> For comparison, private equity

---

specific to Japan have proven especially difficult to come by and are missing completely even from OECD data.

<sup>251</sup> National Venture Capital Association (2011), “Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy,” 2.

<sup>252</sup> Slack, Megan (2011), “By the Numbers: 44 Million,” *The White House Blog*, 3 Nov. 2011, online.

<sup>253</sup> National Venture Capital Association (2011), 3.

<sup>254</sup> National Venture Capital Association (2011), 6.

<sup>255</sup> OECD (2014), *Entrepreneurship at a Glance 2014*, OECD Publishing, 91.

[http://dx.doi.org/10.1787/entrepreneur\\_aag-2014-en](http://dx.doi.org/10.1787/entrepreneur_aag-2014-en)

<sup>256</sup> Friend, Tad (2015), “Tomorrow's Advance Man,” *The New Yorker*, 18 May 2015.

deals totaled \$274 billion in 2013.<sup>257</sup> In 2014, the American venture capital industry as a whole recorded a phenomenal 25.9 percent internal rate of return.<sup>258</sup> The companies and investors may be small, but their collective impact is anything but small.

American venture-back companies include some of the largest, best known, and most innovative companies in the world, such as Apple, Microsoft, Google, Facebook, Amazon, Tesla, Starbucks, Intel, FedEx, Home Depot, and Costco.<sup>259</sup> The combined annual revenues of these 11 companies alone total \$736 billion, over 4 percent of U.S. GDP and about 15 percent of Japan's GDP. Their market capitalizations add up to \$2.4 trillion, almost half of Japan's GDP. The oldest of these companies, Intel and FedEx, were founded as recently as 1968. By market capitalization, Apple, Microsoft, and Google are the first, third, and fourth biggest companies in the world (market valuations subject to change).<sup>260</sup> The youngest company in the list, Facebook, was founded as recently as 2004, barely a decade ago, and already has a market cap of \$220 billion,<sup>261</sup> about the same as the GDP of Portugal. This list also excludes unlisted companies, such as Uber, which has a private-equity valuation of over \$40 billion USD.<sup>262</sup> As of May 2015, the United States had 61 venture-backed private companies valued at \$1 billion USD or more.<sup>263</sup>

The Bay Area is still the global epicenter of venture capital, but its model has also taken hold in New York, Boston, Los Angeles, and just about every other American city of note. Even the Provo-Orem metro area of Utah saw VC deals worth over \$450 million in 2014.<sup>264</sup> The moral of this story, of course, is that the VC-startup model is not *sui generis* to the Bay Area. Most of the action may occur there, but it is hardly the only place that can reap the rewards of an ecosystem of startups and VCs.

#### Top 10 U.S. Cities by Total VC Investment in 2014

San Francisco*	\$15,741
San Jose*	\$6,883
Boston	\$4,443
New York	\$4,218
Los Angeles	\$2,054
Seattle	\$1,205
Oakland*	\$1,186
Chicago	\$1,065
Washington, DC	\$857
San Diego	\$805

\* indicates Bay Area city

<sup>257</sup> Prequin, "2013 Sees Highest Aggregate Value of Private Equity-Backed Buyout Deals Since the Buyout Boom Era," Press Release, 3 Jan. 2014, online. [www.prequin.com](http://www.prequin.com)

<sup>258</sup> Alden, William (2015), "Venture Capital Outpaces Buyouts in Investment Returns," *New York Times*, 21 January 2015.

<sup>259</sup> National Venture Capital Association (2011), 10.

<sup>260</sup> Dullforce, Annebriitt (2014), "FT 500 2014," *Financial Times*, 27 June 2014, online.

<sup>261</sup> Google Finance (12 May 2015), <https://www.google.com/finance?q=NASDAQ:FB>

<sup>262</sup> Austin, Scott, Chris Canipe, and Sarah Slobin (2015), "The Billion Dollar Startup Club," *Wall Street Journal*, 18 Feb. 2015, online. <http://graphics.wsj.com/billion-dollar-club/>

<sup>263</sup> Austin (2015).

<sup>264</sup> Associated Press (2014), "Top 20 US Cities for Tech Startup Funding," *Inc*, online. <http://www.inc.com/associated-press/top-20-cities-for-tech-startup-funding.html>

## Startup Planet

Nor is the model limited to the United States. Virtually every country in the world has seen its own startup scene emerge. Many of the top locations are usual suspects in global business, such as London and Singapore.<sup>265</sup> Others, such as Tel Aviv and Bangalore,<sup>266</sup> are testament to the fact that a city need not be an existing world economic powerhouse (no offense to Tel Aviv and Bangalore) to become an attractive destination for startup entrepreneurs and venture capitalists. A look through a startup database like Techlist shows that even less developed countries like Vietnam and the Philippines have startup scenes.<sup>267</sup>

Furthermore, the Bay Area has become a victim of its own success and is beginning to make other markets look more attractive. The cost of living and doing business in the Bay Area has ballooned: for a million dollars, a team of five can work for a year.<sup>268</sup> American immigration policy has become such a barrier for attracting talent that startup billionaires Mark Zuckerberg and Bill Gates founded a lobbying group, FWD.us, to lobby for more open immigration.<sup>269</sup> Fierce competition, though perhaps good for innovation and markets, is less appealing to job seekers, employers, and profit-seeking businesses.

### Japan in Comparison

Despite its status as one of the largest and most advanced economies in the world, despite its multitude of companies that made their names as leading innovators, Japan is conspicuously absent from the world of startups and venture capital. Not a single Japanese city, not even Tokyo, made it into the Startup Genome Project's list of the top 25 startup ecosystems.<sup>270</sup>

---

<sup>265</sup> Davis, Kathleen (2013), "The World's 20 Hottest Startup Scenes," *Entrepreneur*, 14 Aug. 2013, online. <http://www.entrepreneur.com/article/227832>

<sup>266</sup> Davis (2013).

<sup>267</sup> Techlist, online database, accessed 9 May 2015. [www.techlist.asia/](http://www.techlist.asia/)

<sup>268</sup> Tamkivi, Sten (2015), "Foreign Founders Should Look Beyond Silicon Valley," *TechCrunch*, 18 Jan. 2015, online.

<sup>269</sup> Constine, John (2013), "Zuckerberg and a Team of Tech All-Stars Launch Political Advocacy Group [FWD.us](http://www.fwd.us)," *TechCrunch*, 11 Apr. 2013, online.

<sup>270</sup> Marmer, Max, Bjoern Lasse Herrmann, Ertan Dogrultan, Ron Berman (2012), "Startup Genome Report," online. <http://blog.startupcompass.co/pages/entrepreneurship-ecosystem-report>

Before making comparisons, though, it must be admitted that Japan's performance is not that bad. Japan has the second or third largest venture-capital market in the world, with VC investments totaling \$1.3 billion in 2012.<sup>271</sup> However, looking at the Japanese entrepreneurial ecosystem next to that of the United States and other countries starkly illustrates just how much potential Japan might not be fulfilling.

Given the size and advanced state of its economy, Japan is a serious under-performer. Canada, for example, with just a quarter of Japan's population and just a third of Japan's GDP, vies with Japan for second place in terms of venture-capital market size. In the United States, VC investments accounted for 17 percent of GDP in 2012.<sup>272</sup> In Japan, they only accounted for 2.6 percent of GDP, ranking Japan 17th among OECD countries and partners, behind Portugal and only slightly ahead of South Africa.<sup>273</sup> Japan could increase its amount of VC investment six fold and still be behind the United States in relative terms.

#### Annual venture-capital investments (2013)

	% of GDP	Total (million)
<b>United States</b>	17%	\$29,365
<b>Japan</b>	2.6%	\$1,285
<b>OECD average</b>	4.1%	\$315 (US excluded)

Whereas the list of world-renowned American companies that were venture-backed could go on for pages, finding a single large venture-backed company from Japan is a challenge. Such a comparison is stylized but not without merit. In 2014, the revenue of Apple – a company founded in 1976 – was equal to 3.7 percent of Japan's GDP. Its current market value is larger than the combined market value of twelve of Japan's largest companies: Mitsubishi UFJ Financial, Toyota Motor, NTT, Sumitomo Mitsui Financial, Mizuho Financial, Nissan Motor, Honda Motor, Mitsubishi Corp, Hitachi, Mitsui & Co, Softbank, Itochu, and Canon.<sup>274</sup> (Remarkably, these companies on average were founded in the 19th Century. Only one, Softbank, which was founded in 1981, is younger than Apple.)

<sup>271</sup> OECD (2014), 91.

<sup>272</sup> OECD (2014), 91.

<sup>273</sup> OECD (2014), 91.

<sup>274</sup> "Forbes Global 2000: Japan's Largest Companies," *Economy Watch*, 3 July 2013, online. <http://www.economywatch.com/companies/forbes-list/japan.html>

## Ghosts of Policies Past

Japan's relative under-performance did not occur in a vacuum. Past policies, as much as anything, have created an environment in which both startup entrepreneurs and venture capitalists are lacking in quantity and quality.

In interviews conducted earlier this year, Japanese entrepreneurs, investors, investment lawyers, and economic experts all told the same story: regulatory barriers are not to blame, and a scarcity of capital is not to blame. Rather, they said Japan lacks good startups to attract investment and lacks investors willing to risk money on startup opportunities.

The dismissal of regulatory barriers by market participants comes as somewhat of a surprise given Japan's relatively weak performance in the Doing Business report.<sup>275</sup> While Japan's overall rank is a respectable 29th and its index score behind the OECD average by less than 2 points (out of 100), in the subcategory of Starting a Business, Japan falls to 83rd (the United States ranks only 46th). In the subcategory of Getting Credit – a very rough approximation of how difficult it might be for a startup to receive funding – Japan ranks 71st, compared to the United States in 2nd. However, a closer look at the process of starting a business in Japan demonstrates that in reality it is not so onerous that it would significantly distort behavior. Starting a new company in Japan requires only 8 procedures and takes only 11 days.<sup>276</sup> Related costs are in the hundreds of dollars,<sup>277</sup> which is high by OECD standards, but given the tendency for startups to operate informally during their early stages, the costs of formal registration can perhaps be dismissed.

More importantly, the direct experiences of interviewees suggest that regulatory barriers do not even figure into the entrepreneur's calculus at the crucial early stage. From a regulatory standpoint, it is for all intents and purposes every bit as easy for a budding entrepreneur to start a new

Doing Business (out of 189 countries)

	United States	Japan	OECD
Doing Business Rank	7th	29th	—
Starting a business	46th	83rd	—
<i>days</i>	4	11	9.2
<i>procedures</i>	6	8	4.8
<i>cost (% inc/cap)</i>	1.4%	7.5%	3.4%
Getting Credit	2nd	71st	—

<sup>275</sup> World Bank (2014). *Doing Business 2015: Going Beyond Efficiency*. Washington, DC: World Bank Group.

<sup>276</sup> World Bank (2014).

<sup>277</sup> World Bank (2014).

company and raise funds in Japan as it is in other advanced economies. Likewise, little prevents budding investors from creating a fund and investing in startups. There may be an element of survivor bias at play – those discouraged from becoming entrepreneurs by regulations were not exactly available for interviews – but evidence weighs against it as a significant factor. Regulations may constrain more mature companies, but mature companies also have more resources to comply with regulations.

Statistical evidence strongly backs the assertion that Japan has a scarcity of quality entrepreneurs. Japan is in last place out of 24 developed countries for levels of entrepreneurial activity.<sup>278</sup> Only 2.5 percent of Japanese have entrepreneurial intentions, an order of magnitude lower than the Asian regional average of 20.5 percent and by far the lowest rate out of 70 countries surveyed.<sup>279</sup>

**Measures of Entrepreneurship Compared**

	<b>Early-stage entrepreneurial activity</b>	<b>Entrepreneurial Intentions</b>	<b>Perceived Capabilities</b>	<b>Fear of Failure</b>
<b>United States</b>	13.8%	12.1%	53.3%	29.7%
<b>Japan</b>	3.8%	2.5%	12.2%	54.5%
<b>Asia average</b>	13%	20.5%	44.6%	37.5%

All data drawn from Global Entrepreneurship Monitor 2014 Global Report. Entrepreneurial intentions is % of survey respondents who expect to start a business in the next 3 years. Perceived capabilities is % who believe they have the skills, knowledge, and experience to start a new venture. Fear of failure is % of respondents who claimed fear of failure would discourage them from starting a venture.

The scarcity of Japanese entrepreneurs seems heavily driven by a general risk aversion, which I attribute to inflexible labor policies and insufficient welfare programs more than to culture.

Lifelong employment and seniority-based pay discourage workers from venturing out on their own. During the boom years of the Japanese development era, Japanese corporations could afford to cooperate in the lifetime employment system. However, leaner times mean that corporations are no longer willing participants. Unfortunately, labor laws remain strict and are not congruent with corporate practices, a misalignment that creates perverse situations such as

<sup>278</sup> Singer, Slavica, José Ernesto Amorós, and Daniel Moska Arreola (2015), “Global Entrepreneurship Monitor 2014 Global Report,” Global Entrepreneurship Research Association, 32.

<sup>279</sup> Singer, et al, (2015), 32.

companies sending staff to “boredom rooms” to encourage them to resign voluntarily.<sup>280</sup> The effect on the labor market becomes self-reinforcing: companies are less willing to hire full-time, permanent employees, because a bad hire is difficult to fire, and workers are less willing to leave stable employment, because finding a new job is too difficult. Consequently, 38 percent of Japanese employees are low-paid temps or part-time employees,<sup>281</sup> far from the intended outcome of labor policies ostensibly based on egalitarian ideals.

On the one hand, young employees can no longer count on late-career rewards as compensation for early-career sacrifice. This new reality would suggest that the door is open for entrepreneurship. However, failure – celebrated with almost cult-like enthusiasm in Silicon Valley – is still a social black mark in Japan. 54.5 percent of Japanese report that fear of failure would prevent them from setting up a business, well above the Asian regional average of 37.5 percent and the American rate of 29.7 percent.<sup>282</sup> This fear of failure does not exist because Japanese are inherently fearful. Rather, it is another effect of the lingering lifetime employment policy. When the lifetime employment system functioned, workers did not need social safety nets, and so Japan implemented few. Those safeguards that it did implement were not designed for a labor force of temps and part-timers. Thus Japanese fears are not unjustified: failure means falling into the trap of temping.

Common sense may say that demographic decline discourages the risk-taking inherent in entrepreneurship. However, research in the United States suggests that common sense would be wrong in this case. A 2008 study of successful startups, defined as those that were generating over \$1 million in revenue, revealed that founders were typically 39 years old and that twice as many were over 50 as under 25.<sup>283</sup> While the risks of entrepreneurship may be higher for older people, this finding suggests that experience matters, and furthermore it reinforces the argument for mitigating risks through safety nets to encourage more older people to apply their experiences as entrepreneurs. A more convincing take on demographic decline is that entrepreneurs will suffer from a shrinking consumer base. However, Japan's aging population seems finally willing to consume their tightly held savings, and nothing prevents entrepreneurs from innovating around geriatric goods and services.

Lastly, several interviewees claimed that Japanese are less motivated by the idea of ownership and the prospect of financial rewards through entrepreneurship, and several features of Japanese venture capital might support this statement and suggest that a stronger culture of egalitarianism is a significant factor. The well-known Japanese concept of *wa* (harmony) naturally comes to

---

<sup>280</sup> Tabuchi, Hiroko (2013), “Layoffs Taboo, Japan Workers Are Sent to the Boredom Room,” *New York Times*, 16 Aug. 2013.

<sup>281</sup> Katz, Richard (2014), “Voodoo Abenomics,” *Foreign Affairs*, July/August 2014.

<sup>282</sup> Singer, et al, (2015), 32.

<sup>283</sup> Wadhwa, Vivek, Richard B. Freeman, and Ben A. Rissing (2008), “Education and Tech Entrepreneurship,” 1 May 2008, available at SSRN: <http://ssrn.com/abstract=1127248>

mind. For example, one interviewee said that Japanese VC firms have compensation structures that favor steady salaries with minimal performance bonuses rather than the bonus-heavy compensation schemes that characterize American venture capital (and indeed American finance as a whole). However, such practices do not necessarily represent hard cultural traits that cannot be explained better by institutions, regulations, and policies. The Japanese boom of the 1980s showed that Japanese are every bit as susceptible to greed and hubris as the rest of the world.

The continuing popularity of Takafumi Horie, a colorful startup entrepreneur who was imprisoned for fraud, suggests that the Japanese public's tolerance for failure and redemption may be higher than commonly thought. Rather, the preference for stable salaries is more reflective of the influence of lifetime employment practices and the aforementioned fear of failure. Unfortunately, in the world of venture capital, an unwillingness to take risk is a virtual guarantee of failure.

Furthermore, self-interest – particularly financial self-interest – is a sometimes necessary motivation, but by itself it may not be a sufficient motivation for entrepreneurs. Even in the United States, there are surer ways to make a fortune than by starting a company. Startup entrepreneurs do not just have dollar signs in their eyes. Rather, they have an idea, problem, or

**Social Attitudes Towards Entrepreneurship**

	<b>Entrepreneurship as good career choice</b>	<b>High status to successful entrepreneurs</b>	<b>Media attention for entrepreneurship</b>
<b>United States</b>	64.7%	76.9%	75.8%
<b>Japan</b>	31%	55.8%	58.7%
<b>Asia average</b>	63.4%	69.8%	74.4%

need that cannot be fulfilled or solved through existing channels; or alternatively, they are compulsive innovators, the proverbial serial entrepreneur who keeps going back to the drawing board even after several fortunes have been made. Furthermore, even egalitarian Japan would respond positively to better financial incentives in the VC/startup ecosystem. And absent that, an egalitarian society is not fundamentally incompatible with the traits that drive serial innovators and entrepreneurs. In fact, Silicon Valley could probably use a little more egalitarianism given its skyrocketing costs that are driving activity to other markets.

That said, independently of why, survey data do suggest that Japanese attitudes towards entrepreneurship are far from sanguine. Only 31 percent of Japanese consider entrepreneurship a

good career choice,<sup>284</sup> unsurprising given how poor the overall environment has been for entrepreneurs for so long. More disconcerting (for aspiring entrepreneurs, at least), only 55.8 percent of Japanese believe that starting a new business earns social status and respect.<sup>285</sup> While that figure may not sound terrible, Japan is far behind its neighbors and peers by this measure. Likewise, relatively few Japanese see the media as contributing to developing an entrepreneurial culture.<sup>286</sup> While all of these statistics are cause for concern, these attitudes could very well be the product of a system that disadvantages entrepreneurship rather than of a society that is innately opposed to it. Were even a few success stories to occur, attitudes might rapidly change.

As with the low quantity of Japanese entrepreneurs, the poor quality of Japanese entrepreneurs seems driven primarily by structural factors, not culture. Historically, Japanese businesspeople learned more on the job than they did in school. This system made sense under the lifetime employment system, and employers understandably had little incentive to teach their employees how to found their own successful businesses. In a labor market where a worker changes employers many times over the course of his career, though, employers have less incentive to invest in workers, and the need for educational opportunities outside the workplace increase. Unfortunately, the Japanese education system is not geared towards business and entrepreneurial training. Consequently, recent graduates and young professionals – the very people most likely to pursue risky ventures – are ill equipped to do so successfully. Only 12.2 percent of Japanese see themselves as capable of being entrepreneurs, by far the lowest rate in Asia, where the average is 44.6 percent and the next lowest is 21.4 percent.<sup>287</sup> In the United States, the rate is 53.3 percent.<sup>288</sup> To make matters worse, Japanese corporations have a reputation for holding formal business education in little regard, especially if the education was received abroad.<sup>289</sup> Such outlooks could prove a costly trap and hardly need to be spelled out. Entrepreneurial or not, an advanced, 21st-Century economy cannot expect to thrive if its workforce is undereducated, underexposed to new and foreign ideas, and discouraged from addressing either weakness.

Another impediment to the improvement of entrepreneurial ability is that venture capitalists in Japan are reportedly very ‘hands off’ with their portfolio companies and do not provide the type of training and capacity building that could substitute for traditional experience and education. In American venture capital, such behavior is seen as instrumental to the process. The entrepreneurs focus on innovation, and their VC partners provide business guidance using their broader exposure.

---

<sup>284</sup> Singer, et al, (2015), 29.

<sup>285</sup> Singer, et al, (2015), 29.

<sup>286</sup> Singer, et al, (2015), 29.

<sup>287</sup> Singer, et al, (2015), 32.

<sup>288</sup> Singer, et al, (2015), 33.

<sup>289</sup> Tanikawa, Miki (2010), “M.B.A.’s in Japan Struggle for Respect,” *New York Times*, 24 Nov. 2010, online.

Japan's insularity hampers entrepreneurship as well. Of the Japanese sources interviewed for this paper, one previously worked for a VC firm based in San Francisco, and one went to school in the Bay Area. All interviewees had spent considerable time abroad. No doubt the small (and contrary to most of the world, declining) portion of young Japanese who live, work, and study abroad<sup>290</sup> limits Japanese exposure to the kind of ideas that spur entrepreneurship. Meanwhile, in the United States, some of the most successful startup entrepreneurs in the world (who also happen to be some of the richest people in the world) recognized the need for foreign talent and launched the aforementioned FWD.us\_lobbying group. Not coincidentally, Japan's most successful companies were conceived through foreign exposure and have thrived through global integration. Toyota now makes automobiles instead of looms because Kiichiro Toyoda traveled to the United States to learn about the automotive industry. Hiroshi Mikitani worked and studied overseas for years before founding Rakuten.

Not only are Japanese not looking abroad, but also few foreigners are entering the Japanese market despite all signs pointing towards a market that would attract foreign entry. Capital supply is plentiful, local competition is weak, and regulatory barriers are few. Nonetheless, there are scant foreign participants. I went to a VC/startup networking event and was the only foreigner in attendance. Only a handful of attendees could speak even rudimentary English.

Across the board, interviewees said the market is not lacking capital and that investors have plenty of money to invest. Given the gargantuan expansionary policies that the Japanese government has enacted in recent years in an attempt to boost the economy from its decades-long slump, there is little reason to doubt their statements. Japanese interest rates are extremely low, at times negative in real terms. This factor in theory not only makes investment cheaper but also encourages the use of riskier vehicles such as venture capital since conventional assets yield low returns in a low-interest rate environment.

Their criticisms of investors instead center on many of the same factors that underlie criticisms of entrepreneurs. First, VC investors are too risk averse, which appears to be a legacy of Japan's bank-dominated financial system. Many of Japan's VC firms are in fact extensions of banks, and consequently they operate more like banks than VC firms. They expect immediate profits and proven business models in a class of investment almost defined by going long and risky. Because most ventures fail, VCs must make up for those losses with outsized wins. To make a baseball analogy, they are swinging for base hits in what is a home run derby. Interviewees said that Japanese VC firms also have a preference for late-stage companies that are destined to IPO – once again indicative of a short-maturity, low-risk approach and hardly a surprise amidst Japan's recent IPO renaissance. Unfortunately, late-stage companies eligible for IPOs do not appear from thin air. They require seed-stage and early-stage investment and development. Lastly, as

---

<sup>290</sup> Tanikawa, Miki (2011), "Fewer Japanese Students Studying Abroad," *New York Times*, 20 Feb. 2011, online.

previously mentioned, Japanese VC firms pay employees' salaries and give only meager performance bonuses instead of following a partner model. This final fact not only discourages risk taking but likely discourages potential VC professionals from entering the field at all.

Risk aversion is part and parcel of the other broad criticism of Japanese VC investors: they lack experience and skills. In particular, Japanese VCs, still operating like bankers or private-equity investors, do not focus on scale and do not practice portfolio engagement, two best practices of VC that have become almost definitional. American VCs look for innovative models that can rapidly scale. They then provide industry expertise to guide the startup team and perfect the model, and if necessary they provide more capital to overcome financial barriers. In the United States, the funding side of venture capital is arguably secondary to portfolio engagement, especially in a cash-rich market in which entrepreneurs know they can be picky with whom they partner. The dearth of portfolio engagement in Japan also perpetuates the poor quality of entrepreneurs. In a well-functioning entrepreneurial ecosystem, good entrepreneurs become good venture capitalists. Good venture capitalists then help make more entrepreneurs, and the cycle continues.

As with its entrepreneurs, Japan's relative insularity is a nontrivial reason for VC professionals' deficiencies. Without experience in more mature markets, Japanese VCs cannot learn best practices. That said, the legacies of the main banking system seem the bigger problem. Japan's financial system is still dominated by banks, and it's no surprise that VC investors would see finance overwhelmingly through the lens of banking.

Japan's corporate-skunkworks approach to innovation also represses its entrepreneurial ecosystem. Under the skunk works approach, large companies fund their own in-house R&D. This system is not unique to Japan. Indeed, the American company Lockheed coined the term "skunk works." Nor is the system necessarily bad. Japanese firms still rank among the most innovative in the world in certain industries, such as robotics and precision instruments, and historically American corporate skunk works were behind some of the biggest innovations of the 20th Century. However, the system does require careful protection in order to function as a source of innovation. Corporations are legally beholden to shareholders' interests and thus have incentives to devote resources to short-term goals that drive market valuation, not to risky projects that may not add value even if they do pan out. Large corporations also tend towards highly hierarchical management structures. While important for efficient control of thousands of people, strict hierarchy stifles disruptive thinking. Successful skunk works thus need a substantial degree of autonomy and support to allow them to take risks and see projects from start to finish. In a sense, they need to do startups.

Xerox PARC at one time did have the autonomy and resources to function as a skunk works, and it consequently created many of the technologies that birthed Silicon Valley. However, Xerox

PARC also illustrates one of the shortcomings of the skunk works model: the inventors of a new technology are not always the same people who successfully apply it in a commercial capacity.

In contrast, under the VC approach, startups are as much new innovations as they are new companies. In the competitive startup environment, the best innovations are identified, developed, and either become full-blown companies or are bought by existing companies in lieu of in-house R&D. Lesser startups fail, learn their lessons, and re-enter the market (or move back to Mississippi). The entire system is market driven, and all of its agents are heavily incentivized to innovate.

Regardless of which system better drives innovation, Japanese policy without a doubt gives preference to corporate R&D. 92 percent of government-financed R&D goes to large firms, the largest share of any OECD country.<sup>291</sup>

The role of universities in R&D, long an important factor in the American entrepreneurial ecosystem, not to mention in American innovation in general, has until recently been limited by structural peculiarities. Historically, the government-industry R&D relationship was segregated from the government-university R&D relationship, and industry and universities were kept far apart. Ministry of International Trade and Industry (MITI) served industry. The Ministry of Education served universities. National university faculty could not accept industry funding, and research collaboration between the academy and industry was nonexistent. Consequently, university R&D was limited to public funding, which was typically low in Japan, and produced less R&D that was of interest to industry.<sup>292</sup> Technology transfers to industry that did occur took the form of informal handoffs from faculty. In 1998, technology transfer departments were legalized, and in 2004, intellectual property law reforms enabled faculty to start companies.<sup>293</sup>

These reforms in effect made university research available to industry, industry funding available to researchers, and entrepreneurship an option for researchers. In practice, exclusivity agreements with large corporations has limited the possibility of researchers venturing out on their own, but the foundations have at least in principle been laid for a more dynamic role for universities in the entrepreneurial ecosystem.

The Abe Effect

Intentionally or not, the Abe administration is poised to improve the prospects for entrepreneurship in Japan. The “Three Arrows” of Abenomics will likely create a more favorable overall business environment. The Third Arrow, structural reform, holds the most potential for

---

<sup>291</sup> OECD (2014), 83.

<sup>292</sup> Heaton, George R., Jr. (1997), “Engaging an Independent Japan,” *Issues in Science & Technology*, Summer 1997, Volume XIII, Issue 4.

<sup>293</sup> Tachibana, Chris (2012), “Innovation in Japan Results from Reforms,” *Science*, 13 April 2012.

the entrepreneurial ecosystem. Independently of his eponymous grand policies, Abe also has personal inclinations that bode well for future policies relevant to entrepreneurship.

The first two arrows of Abenomics, monetary and fiscal expansion, are too macroeconomic in nature to directly link to venture capital and startups. However, they will have effects. A third of the fiscal stimulus package was earmarked for private investment, some of which could find its way to venture capital funds and startups. In general, more money in the market allows investors to fund riskier projects. A weaker yen may attract foreign investment as well.

Structural reform will have more first-order effects on entrepreneurship. Too many industries in Japan live existences that are far too cushy. They enjoy protection from foreign competition, industry-specific regulations tantamount to domestic protection, and in some cases exemptions from antimonopoly laws. The effects are easily seen in comparing Japan's open and globally competitive auto industry with its closed and moribund agricultural sector. While agriculture is not the traditional realm of startups, other struggling industries are. For example, a listing of the top 20 electronics hardware firms in Japan has not included a new company since 1946.<sup>294</sup> The Schumpeterian notion of creative destruction, a force that underpins the entrepreneurial ecosystem, has been repressed for too long. Corporate subsidiaries that should be spun off are instead kept inside conglomerates that are willing to take low returns and even losses. On their own, weak subsidiaries would either have to improve or fail in the face of competition, some of which might come from startups. Structural reform will introduce more of this somewhat Darwinian element to the economy.

Shinzo Abe seems to have a personal outlook that lines up well with entrepreneurs, too. Having failed once as prime minister but later made a triumphant return, he is a "comeback kid" in a country where failure still has the stigma of a scarlet letter. *The Economist* recounts how Abe told guests at his home how Walt Disney failed five times before succeeding.<sup>295</sup> Among Abe's advisors are William Saito and Hiroshi Mikitani, two popular figures closely linked to the world of entrepreneurship. Saito, a Japanese-American entrepreneur who founded a company later acquired by Microsoft, plays an almost evangelical role in promoting entrepreneurship in Japan. Mikitani founded Rakuten, probably the most successful new company to emerge in Japan in the last few decades.

### **But key barriers persist**

For all the positive progress, and even if Abe's reforms go through and are successful, considerable obstacles still stand in the way of a thriving startup ecosystem.

---

<sup>294</sup> Katz (2014).

<sup>295</sup> *The Economist* (2013), "Time to get started," 31 August, online.

Firm turnover, which structural reform should improve, is an important element of entrepreneurship. Equally important is employee turnover. Unfortunately, labor market reform has not been a centerpiece of reform plans despite labor market rigidity being arguably the biggest impediment to entrepreneurship in Japan. The cascading effects of a rigid labor market have been touched upon throughout this paper, testament to their pervasiveness, but they warrant further analysis. Corporations cannot easily terminate employees. Workers thus have less incentive to work hard, and unproductive employees accumulate on companies' books. At the same time, companies are more reluctant to hire and invest in new employees. Jobseekers thus resort to temping and part-time work, which limits their access to already lacking welfare programs, makes them less liable to receive human capital investment, and masks employment problems. Employers, understandably, have little reason to invest in temps and part-time workers. For potential entrepreneurs, Japan's labor market amplifies the risks of starting a company. Entrepreneurship is hard enough in an environment where the incumbents have artificial advantages.

Social safety nets go hand-in-hand with labor market rigidity. In the past, safety nets were not important because firms almost never failed and employees rarely lost their jobs. As the increase in underemployment shows, Japan now has a real need for better safety nets. Contrary to popular belief, safety nets, when properly implemented, do not create moral hazard, free riding, and other economic perversities. Rather, they have been shown to boost entrepreneurship.<sup>296</sup> Welfare and training programs make unemployment less financially ruinous and reduce the likelihood of productivity stagnation. There will always be uber-entrepreneurs whose tolerance for risk knows no bounds. However, no economy can count on a smattering of exceptional individuals. For the entrepreneurial ecosystem to have significance, the risks of entrepreneurship need to be reduced enough to attract a sufficient supply of entrepreneurs.

Japan's educational system also suffers due to the labor market's influence. When the lifetime employment system functioned, companies could be counted on to invest in their employees' skills and education. The formal education system thus did not need to play that role. Now that companies no longer fill that role, the weaknesses of the education system have been revealed. A few outliers will always pull themselves up by the straps of their own boots and achieve fame and fortune with minimal education. However, as with safety nets, outliers do not drive economies. Education, conversely, can improve entrepreneurial skills on a mass scale and reduce the sad rate of Japanese who do not even feel capable of starting a successful business. For all the talk in Silicon Valley of school being overrated, Stanford and Berkeley have long played key roles in attracting and churning out highly educated entrepreneurs and employees, not to mention innovations and research of their own.

---

<sup>296</sup> Frick, Walter (2015), "Welfare Makes America More Entrepreneurial," *The Atlantic*, 25 March 2015, online.

Education also must focus more on improving English levels in Japan. All subjectivity aside, English is the world's business language, and Japan's low levels of English ability are frequently identified as a barrier for foreign entry. Poor English skills no doubt also contribute to the scarcity of Japanese studying or working abroad. Rakuten founder and CEO Hiroshi Mikitani, who also happens to be one of the more forward-looking business leaders in Japan, caused controversy when he began phasing in English as the operating language of his company. It is probably no coincidence that Rakuten has subsequently gone on an overseas expansion spree.

Micro improvements can and will eventually have to be made, too, especially if Japan hopes to compete with other countries that are rolling out red carpets for entrepreneurs. For example, Japan's Copyright Law contains no Fair Use provision. The criticism seems esoteric, but it means that copyrighted works cannot legally be used even for research purposes. Loosening university IP controls and reducing the number of corporate exclusivity agreements with universities will enable more researchers to commercialize their works through ventures. However, Japan still has so many big-ticket barriers that focusing on micro reforms will have little effect.

### **A Promising Outlook**

That said, for all Japan's deficiencies and challenges, the future seems bright for the Japanese entrepreneurial ecosystem. Many of the necessary conditions are already met but have not taken effect yet. Others are moving in the right direction or are expected to do so under the Abe administration's reforms. Major obstacles remain but do not seem out of line with current policy trends. And in some ways, Japanese entrepreneurship has nowhere to go but up. Startups are already disrupting Tokyo's famous Tsukiji fish market.<sup>297</sup>

As has been mentioned already, the entrepreneurial ecosystem has a cycle in which startups beget startups. Successful entrepreneurs grow up to become wealthy and experienced venture capitalists that know how to spot (and have the money to fund) promising future entrepreneurs.

In the United States, the cycle can almost be traced back to one man: William Shockley. While working at Bell Labs, he helped invent the transistor and then moved to Palo Alto, California, where he founded his own company, Shockley Semiconductor. He chose Palo Alto only because he had grown up there, and the weather is nice.<sup>298</sup> Employees of his company went on to found Fairchild Semiconductor, and then Intel and Kleiner Perkins, a VC firm that later funded Google. The lead on that Google deal was John Doerr, who had originally moved to Silicon Valley to

---

<sup>297</sup> Warnock, Eleanor (2015), "Startups Upend Japan's Famous—And Famously Old-Fashioned—Fish Market," *Wall Street Journal*, 15 May 2015.

<sup>298</sup> Graham, Paul (2006), "How to Be Silicon Valley," *Paul Graham Essays*, online. [www.paulgraham.com/](http://www.paulgraham.com/)

work for Intel,<sup>299</sup> which holds the unofficial distinction of being the venture investment that really launched the VC craze in Silicon Valley. (If it has not already been made obvious, the criss-crossing historical relationships of Silicon Valley give Japan's byzantine subsidiaries, mergers, and spinoffs a run for their money.)

In Japan, this cycle has only recently started. Interviewees all pointed to the late 1990s and early 2000s as the inception of venture capital in Japan, when the Shibuya district of Tokyo offered "Bit Valley" as its answer to Silicon Valley. While those dates are ancient history by the standards of current startups, not enough time has passed for the industry to mature. Some of the inexperience and lack of depth in the market undoubtedly belongs to the fact that it is such a young industry in Japan. Despite the pitiful statistics, the young entrepreneurs I met in Tokyo were brimming with enthusiasm. For all the talk of cultural impediments, the Japanese do not appear to be immune to Silicon Valley Fever.

To speed up the process, Japan has a lot of options in addition to the structural policy changes already identified as crucial. Indeed, to truly compete as a global entrepreneurial hub Japan will need to do much more than just create the right conditions. At the firm level, in addition to the simple adoption of best practices, VCs firms could make a deliberate effort to recruit more experienced foreign talent. They could also create portfolio-engagement units to improve startup knowhow and performance. More incubators, accelerators, and education alternatives (e.g., skills boot camps) can improve entrepreneurial education while formal, traditional outlets adjust to the new economic structure. In fact, they would all make excellent startups. At the policy level, a more outward orientation – not just creating conditions to invite foreigners – would go towards mitigating cultural barriers and exposing young Japanese to a literal world of fresh ideas. Policies that further divorce Japan from the historical main banking system will also help nurture the type of diversified, sophisticated, efficient financing necessary to sustain innovation in a modern economy.

A VC firm operating in Japan named World Innovation Lab (WiL) provides an interesting case study and hints at how the ecosystem is developing. WiL was founded in 2013 by Japanese venture capitalists with considerable VC experience in Silicon Valley. It has a strategic, cross-border design, operating both in Tokyo and the Bay Area. In the United States, WiL targets startups with a link to Japan. In Japan, WiL also promotes entrepreneurial education programs. These unorthodox features reinforce some previous assertions and imply positive progress in some of the areas previously explored. First, WiL's very creation hints at the potential in Japan; the founders could have just stayed in Silicon Valley. The founders' Bay Area backgrounds demonstrate the importance of foreign exposure and the role that learning from abroad can play. Its cross-border operations further leverage the potential for the Japanese market to learn from

---

<sup>299</sup> Graham, Paul (2006), "How to Be Silicon Valley," *Paul Graham Essays*, online. [www.paulgraham.com/](http://www.paulgraham.com/)

the Bay Area. WiL's greater involvement in industry engagement in Japan reveals the firm's own recognition of Japan's lacking entrepreneurial environment as a barrier for the whole industry. WiL's branching out to Japan also reflects the need to differentiate itself as an investor in the saturated Bay Area market.

## **Conclusion**

Japan has built innovative, world-class companies before, and indeed many of them still fit that description. There is no reason that Japan cannot do so again. However, the next Toyota is not likely to emerge in Japan's current economic environment. Entrepreneurs and investors alike are too restricted, too discouraged, and too handicapped – and consequently, too scared. Across the Pacific Ocean, though, an alternative model of firm creation and innovation has emerged in the Bay Area and has quickly spread around the world. In the United States, this entrepreneurial ecosystem model, though not without problems of its own, has in a matter of decades become an enormous source of output, employment, and innovation. The potential for Japan, a country long seeking solutions to its economic problems, is enormous. In some respects, Japan is gravitating towards this model naturally. The Abe administration seems keen to move even closer towards it. However, policies of eras long gone continue to negatively influence and obstruct the emergence of a modern entrepreneurial ecosystem in Japan. Based on my interviews and research, however, I remain optimistic. If a sleepy town in northern California can do it, so can Japan.

## Works Cited

- Alden, William (2015), "Venture Capital Outpaces Buyouts in Investment Returns," *New York Times*, 21 January 2015.
- Associated Press (2014), "Top 20 US Cities for Tech Startup Funding," *Inc.*, online. <http://www.inc.com/associated-press/top-20-cities-for-tech-startup-funding.html>
- Austin, Scott, Chris Canipe, and Sarah Slobin (2015), "The Billion Dollar Startup Club," *Wall Street Journal*, 18 Feb. 2015, online. <http://graphics.wsj.com/billion-dollar-club/>
- Constine, John (2013), "Zuckerberg and a Team of Tech All-Stars Launch Political Advocacy Group [FWD.us](http://www.fwd.us)," *TechCrunch*, 11 Apr. 2013, online.
- Davis, Kathleen (2013), "The World's 20 Hottest Startup Scenes," *Entrepreneur*, 14 Aug. 2013, online. <http://www.entrepreneur.com/article/227832>
- Dullforce, Annebriitt (2014), "FT 500 2014," *Financial Times*, 27 June 2014, online.
- The Economist* (2013), "Time to get started," 31 August, online.
- "Forbes Global 2000: Japan's Largest Companies," *Economy Watch*, 3 July 2013, online. <http://www.economywatch.com/companies/forbes-list/japan.html>
- Frick, Walter (2015), "Welfare Makes America More Entrepreneurial," *The Atlantic*, 25 March 2015, online.
- Friend, Tad (2015), "Tomorrow's Advance Man," *The New Yorker*, 18 May 2015.
- Graham, Paul (2006), "How to Be Silicon Valley," *Paul Graham Essays*, online. [www.paulgraham.com/](http://www.paulgraham.com/)
- Google Finance (12 May 2015), <https://www.google.com/finance?q=NASDAQ:FB>
- Heaton, George R., Jr. (1997), "Engaging an Independent Japan," *Issues in Science & Technology*, Summer 1997, Volume XIII, Issue 4.
- Katz, Richard (2014), "Voodoo Abenomics," *Foreign Affairs*, July/August 2014.
- Marmer, Max, Bjoern Lasse Herrmann, Ertan Dogrultan, Ron Berman (2012), "Startup Genome Report," online. <http://blog.startupcompass.co/pages/entrepreneurship-ecosystem-report>
- National Venture Capital Association (2011), "Venture Impact: The Economic Importance of Venture Capital-Backed Companies to the U.S. Economy."
- OECD (2014), *Entrepreneurship at a Glance 2014*, OECD Publishing. [http://dx.doi.org/10.1787/entrepreneur\\_aag-2014-en](http://dx.doi.org/10.1787/entrepreneur_aag-2014-en)
- Preqin, "2013 Sees Highest Aggregate Value of Private Equity-Backed Buyout Deals Since the Buyout Boom Era," Press Release, 3 Jan. 2014, online. [www.preqin.com](http://www.preqin.com)
- "Venture Capital: Sand Hill Road Rules the Valley," *Bloomberg*, 4 Dec. 2014, online.
- Singer, Slavica, José Ernesto Amorós, and Daniel Moska Arreola (2015), "Global Entrepreneurship Monitor 2014 Global Report," Global Entrepreneurship Research Association, 32.
- Slack, Megan (2011), "By the Numbers: 44 Million," *The White House Blog*, 3 Nov. 2011, online.

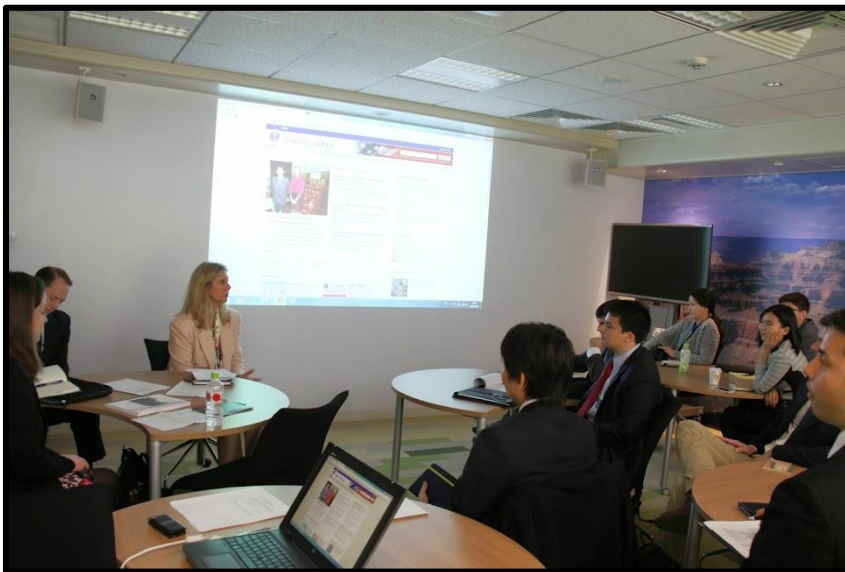
- Tabuchi, Hiroko (2013), “Layoffs Taboo, Japan Workers Are Sent to the Boredom Room,” *New York Times*, 16 Aug. 2013.
- Tachibana, Chris (2012), “Innovation in Japan Results from Reforms,” *Science*, 13 April 2012.
- Tamkivi, Sten (2015), “Foreign Founders Should Look Beyond Silicon Valley,” *TechCrunch*, 18 Jan. 2015, online.
- Tanikawa, Miki (2010), “M.B.A.’s in Japan Struggle for Respect,” *New York Times*, 24 Nov. 2010, online.
- Tanikawa, Miki (2011), “Fewer Japanese Students Studying Abroad,” *New York Times*, 20 Feb. 2011, online.
- Techlist, online database, accessed 9 May 2015. [www.techlist.asia/](http://www.techlist.asia/)
- Wadhwa, Vivek, Richard B. Freeman, and Ben A. Rissing (2008), “Education and Tech Entrepreneurship,” 1 May 2008, available at SSRN: <http://ssrn.com/abstract=1127248>
- Warnock, Eleanor (2015), “Startups Upend Japan's Famous—And Famously Old-Fashioned—Fish Market,” *Wall Street Journal*, 15 May 2015.
- World Bank (2014). *Doing Business 2015: Going Beyond Efficiency*. Washington, DC: World Bank Group.



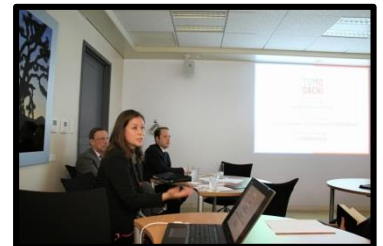
## Class Research Trip to Tokyo, March 2014: Photo Album



*Urasanke Tea Ceremony*



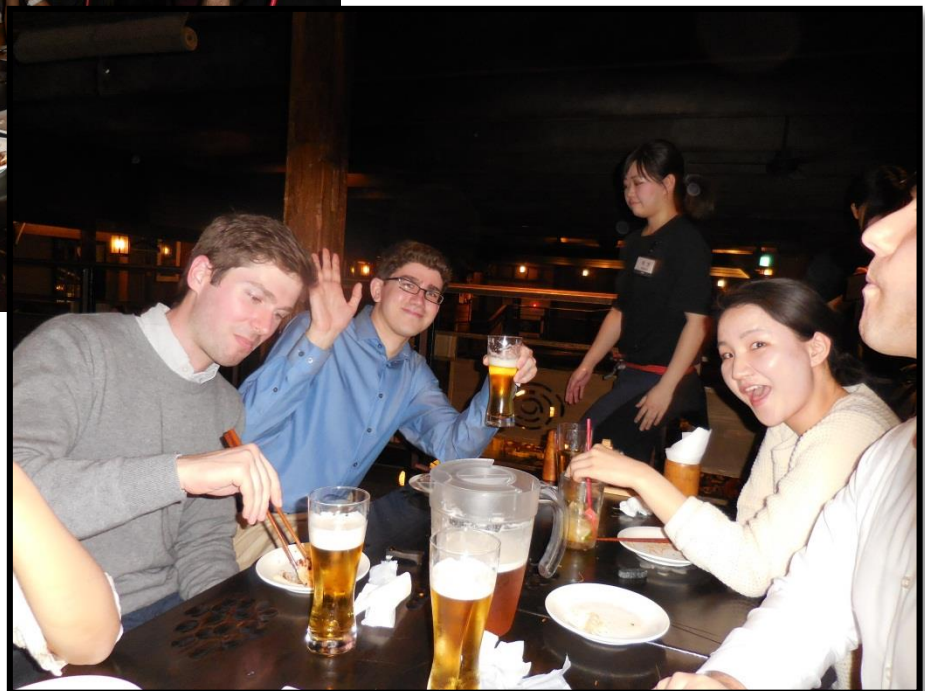
*American  
Embassy  
Briefing*



*Temple University  
Japan Session*

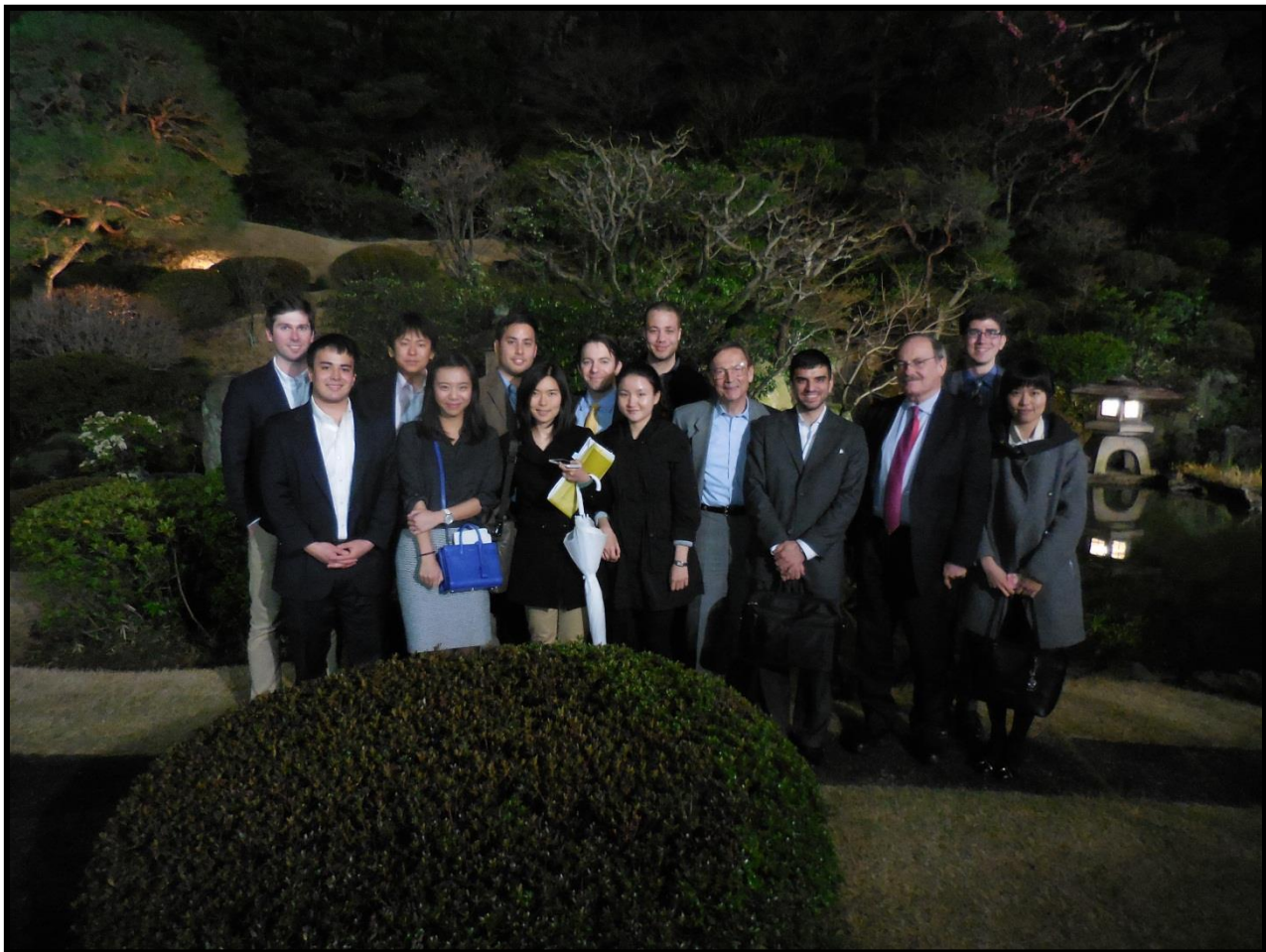


*Dinner at Gompachi*





*International House of Japan*





*Meeting with Diet Member Itsunori Onodera, Former Minister of Defense and SAIS Alum*







