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CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES

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THE UNITED STATES AND JAPAN:
STRATEGIC AND ECONOMIC PARTNERS

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THURSDAY,

MARCH 2, 2000

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The conference was held in Conference Room B-1 at the Center for Strategic and International Studies, 1800 K Street, N.W., Washington, D.C. at 8:20 a.m., William Breer, CSIS Japan Chair, presiding.

PRESENT:

WILLIAM BREER, Chair
CSIS Japan Chair

RICHARD FAIRBANKS, President, CSIS

TONY SMITH, CSIS

HIS EXCELLENCY SHUNJI YANAI
Ambassador Extraordinary and
Plenipotentiary of Japan to the United
States of America

THE HONORABLE JOSEPH I. LIEBERMAN
Member, United States Senate

THE HONORABLE WILLIAM V. ROTH, JR.
Member, United States Senate

BRENT SCOWCROFT, President,
The Forum for International Policy

ARTHUR J. ALEXANDER, President,
Japan Economic Institute of America

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Embassy of Japan

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Summary and Overview

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P-R-O-C-E-E-D-I-N-G-S

(8:29 a.m.)

CHAIRMAN BREER: Good morning, ladies and gentlemen. We're delighted to welcome you to CSIS this morning for our conference on the "United States and Japan: Strategic and Economic Partners." We have kind of a long program today. So we felt even that we ought to get started as soon as possible.

So I will begin by introducing Richard Fairbanks, the President of CSIS, who will say a word of welcome and introduce our speakers. Dick?

AMBASSADOR FAIRBANKS: Well, thank you, Bill.

And, again, welcome on behalf of CSIS. We're particularly delighted to have the opportunity to host this event today because we believe and have for basically the history of this institution that Mike Mansfield was right. There is no more important bilateral relationship in the world than this one.

And we're particularly happy to be able to have an all-day conversation on the relationship and its many dimensions, economic, security, military, views from current government officials on both sides, from prior government officials, and from the private sector because the private sector link, of course, is the key to this bridge across the Pacific that we all talk about.

And I think the agenda that Bill Breer, our Japan Chair, has put together is a particularly meaty one. And I hope that -- that was not a pun about MITI.

I hope you all will be able to stay for the entire day because, as you see, both the morning and the afternoon I think will provide interesting and differing viewpoints. Brent Scowcroft I think at the end of the day will be interesting as well. So we hope you're here for the duration.

This conference could not have taken place without the generous support of the Coca-Cola Company. I'd like to acknowledge that. Senator Lieberman, it's always a pleasure to see you join us. Good morning. Thank you for coming.

We have keynote speakers, of course, from both sides of the Pacific to kick off this conference. We're particularly honored to have Ambassador Yanai as our kickoff speaker this morning. The Ambassador came for a luncheon here to CSIS shortly after he arrived in Washington, and we have a good working relationship with him and the members of his embassy.

Ambassador Yanai, as you know, has a long and distinguished career, went straight from Todai into the Foreign Ministry and has served in the Foreign Ministry in a variety of roles of increasing importance over the years, both in the MOFA itself and in the Imperial Household and the Prime Minister's Office, ending his career there after a service in the United States as Consul General in San Francisco and now Ambassador to the United States of America of Japan.

Ambassador Shunji Yanai.

(Applause.)

AMBASSADOR YANAI: Ambassador Fairbanks, thank you very much for your kind introduction.

Good morning, ladies and gentlemen. This is the third time that I have spoken at CSIS since I arrived just four months ago. When I told my wife that I was coming here again this morning, she said, "You speak to them more than you speak to me."

(Laughter.)

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1 AMBASSADOR YANAI: I said, "Well, they listen."

2 (Laughter.)

3 AMBASSADOR YANAI: I'm delighted to be here again. I was
4 in New Orleans a couple of weeks ago. And it brought back my memories for me.
5 It's all how one's life -- one's life journey sometimes crosses its own path. I want to
6 tell you a personal story that eventually leads to my topic today.

7 When I was six years old, my father was the Ambassador to
8 Colombia. When World War II broke out, Colombia sent us to the United States.
9 We passed through the Panama Canal to New Orleans, which is where I first stepped
10 foot on North American soil.

11 We were taken into custody as enemy citizens and put on the train
12 to Cincinnati, where we lived in a hotel surrounded by MPs. Don't worry. We were
13 treated quite properly.

14 From there, we went to New York City. I remember it seemed
15 like we were on the train for several days. And the scenery never changed. I
16 remember being very impressed with how very modern and large New York was.

17 We were then put on a Swedish boat to Africa. Why did we go to
18 Africa? Because we couldn't cross the Pacific, which was a war theatre between our
19 two countries. So we were to go across the Atlantic.

20 We landed in Mozambique, southeast Africa, where another boat
21 brought American prisoners from Japan. And we were exchanged. In New Orleans,
22 I met an American man who was part of that exchange. That story is how the war
23 years and the great forces of history affected me directly.

24 Those forces also affected our two countries, of course. And
25 today I would like to talk to you about U.S.-Japan relations as we look toward the
26 new millennium.

27 Let me begin with bilateral relations in the field of security and
28 international politics. The war in the Pacific ended with the surrender of Japan. And
29 the San Francisco Peace Treaty of 1951 reconciled the former enemies.

30 Under the security treaty signed in the same year, Japan and the
31 United States became allies. We became allies in the new period of world history
32 called the Cold War. What stands out most in my mind during the Cold War period
33 is serving in Seoul from 1981 to '84.

34 Tensions were very high between North and South Korea.
35 Looking across the DMZ from South to North, you couldn't help but wonder what
36 life was like under the system on the other side. I vividly witnessed the fear and
37 uncertainty of the Cold War in northeast Asia.

38 A decade ago, the Cold War in Europe ended in a dramatic way:
39 the fall of the Berlin Wall. The Soviet Union was dismantled. The Warsaw Pact,
40 NATO's former adversary, disappeared. Germany was reunified. The former
41 communist countries in Europe and the former states of the Soviet Union chose to
42 varying degrees democracy and the market economy.

43 Did the same change take place in northeast Asia? No, ladies and
44 gentlemen. What people forget is that the Cold War is not yet over. The Korean
45 Peninsula is still divided, and tension remains high between Chinese continent and
46 Taiwan.

47 When a general election was held in Taiwan in 1996, the People's
48 Republic of China carried out large-scale military exercises in the Strait of Taiwan,
49 which heightened tensions considerably in the area.

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1 While the Chinese on both sides of the strait at least have channels
2 of dialogue, there are fewer channels between the Republic of Korea and the
3 Democratic People's Republic of Korea.

4 North Korea is a country shrouded in layers of shadow and
5 intrigue. Because of an increasing number of defectors, we know more, of course,
6 than we did ten years ago.

7 In this internet age when information zips around the world, it is
8 amazing how isolated the DPRK and its people remain and how little we truly know
9 of that country's intentions.

10 North Korea's economic situation remains in constant and steep
11 decline. Since the DPRK is not undertaking the reforms necessary for market
12 economy, you don't have to be a Nobel Prize-winning economist to see the grim
13 result of continuing current policies. North Korea will continue to suffer shortages in
14 food, energy, and other necessities.

15 We continue to see indications that it has not mended its
16 destabilizing ways. It does not seem to have abandoned, for example, its policy of
17 infiltration through such means as sending submarines or spy ships to the territorial
18 waters of the ROK or Japan.

19 We, therefore, must remain vigilant and maintain a reliable
20 deterrence, just as NATO did in Europe. Nuclear weapons and long-range missiles
21 today still cloud the future of northeast Asia.

22 In 1994, the international community strongly suspected that the
23 DPRK was developing nuclear weapons. As a result of hard negotiations between
24 the United States and the DPRK, North Korea finally agreed to freeze its own
25 nuclear program in exchange for the provision of heavy oil and two nuclear reactors
26 for power generation.

27 Then North Korea launched its Taepo Dung missile, which flew
28 over Japan in 1998 and deeply affected the Japanese people. Imagine if Cuba
29 launched a missile that flew over Florida and landed in the Gulf of Mexico.

30 North Korea has suspended the launch of Taepo Dung, but the
31 further development, testing, deployment, and export of North Korea's long-range
32 missiles remains an unsettled issue.

33 The reason I have talked about the situation in northeast Asia at
34 some length is to explain to you how different the security environment is compared
35 to Europe and the north Atlantic. Against this background, Japan and the United
36 States work closely together to maintain peace in the region.

37 Together with the Republic of Korea, the U.S. and Japan have
38 sought to engage North Korea and increase dialogue. Japan for its part has lifted the
39 restrictions on chartered flights, which were imposed immediately after the launch of
40 the Taepo Dung missile.

41 We have also held preliminary talks for resuming negotiations with
42 a view to normalizing relations. The ROK has increased contacts with the north
43 mainly by promoting tourism and investment. And the United States, among other
44 actions, has also decided to lift part of its restrictions on trade, remittance, and
45 investment.

46 The United States, Japan, and the ROK coordinate their respective
47 policies towards the DPRK through the Tri-lateral Consultation Group, which
48 consists of high government officials of the three countries. Japan and the United
49 States also cooperate closely, of course, under the bilateral security treaty of 1961.

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1 Japan provides generous host nation support to the U.S. forces. I
2 might add that Japan gives more host nation support than any other U.S. ally. We
3 provide about \$134,000 for every U.S. soldier stationed in Japan.

4 Last year the Diet passed legislation to implement the new
5 guidelines for defense cooperation. As you know, this law enables Japan in the case
6 of regional contingencies to provide U.S. forces with such assistance as rear area
7 support, search and rescue, and noncombatant evacuation.

8 In addition, Japan and the United States have started joint
9 technical research on ballistic missile defense. And Japan has also decided to launch
10 its own intelligence satellites.

11 The Cold War is not yet over in northeast Asia. Yet, political and
12 security cooperation is not limited to that region. We continue to work for the
13 prevention and settlement of regional conflicts. Such cooperation includes the
14 Middle East peace process, peacemaking, humanitarian assistance, and reconstruction
15 in Bosnia-Herzegovina, Kosovo, and East Timor. Our two countries have been
16 working together to support Russian reforms and the stabilization of Central and
17 Latin America.

18 Now let me turn to U.S.-Japan economic relations. The total
19 amount of trade, including the import and export of products between our two
20 countries, reached \$185 billion in 1998. This made the United States the largest trade
21 partner for Japan and Japan the second largest partner for the United States, after
22 Canada. The trade volume was somewhat lower than that of the previous year due to
23 the economic recession in Japan.

24 Regarding the Japanese economy itself, after two quarters of solid
25 growth it contracted in the July-September quarter of 1999, clearly we are going to
26 have a zigzag path to recovery.

27 Private sector demand remains weak. So government spending
28 has been keeping the economy afloat until confidence returns and the benefits of
29 restructuring take hold.

30 In November last year, the Government of Japan adopted a new
31 economic package, amounting to approximately \$170 billion. That amount is nearly
32 as large as the total trade between our two countries. Economic stimulus measures in
33 recent years have been enormous.

34 I saw in the Wall Street Journal the other day that sometime in the
35 first half of this year, Japan will pass the U.S. to become the world's largest debtor
36 nation, but our nation's debt is internal. Fortunately, we have no external debt. We
37 are still a creditor country internationally.

38 The good news is that historic structural reforms are taking place
39 because the Japanese themselves realize our economy must be made more
40 competitive if it is to grow and prosper. One change, in particular, is revealing and in
41 my view most relevant to a bilateral economic future. And that change is how rapidly
42 foreign firms are influencing the Japanese business environment. I am referring to the
43 wave of acquisitions, mergers, and joint ventures that are having deep, far-reaching
44 consequences on my country.

45 These investments are a battering ram for change. Last year
46 foreign investment in Japan was three times the previous year's rate. Things are
47 opening up. I believe the influence of these foreign companies will reshape Japan's
48 economic landscape. I might add these acquisitions have not caused any nationalist
49 backlash, which indicates to me how ready Japanese are for change.

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1 When I was Vice Minister for Foreign Affairs, British Cable and
2 Wireless was preparing to acquire Japan's overseas phone carrier: International
3 Digital Communications. The British government approached me to convey its
4 concern over whether the Japanese public would be opposed to the sale and whether
5 the Japanese government might try to prevent it.

6 The sale went through with no negative reaction from either the
7 Japanese people or the Japanese government. Until about a decade ago, especially
8 during the Japanese bubble economy, the investment flow went mainly from Japan to
9 the United States. But today Japan welcomes investments from the United States.
10 And, as I said earlier, American investment into Japan is rapidly increasing.

11 Unlike trade, where products are just exchanged, investments
12 bring many and varied long-term results. Investments bring capital, new
13 technologies, different business practices, even people and culture. They strengthen
14 our two economies and make them more interdependent.

15 Finally, I would like to talk about the U.S.-Japan common agenda.
16 This is a tremendous bilateral success story that few people truly appreciate. I wish
17 Japanese and Americans understood how remarkable it is for two countries to
18 cooperate so closely on such a range of issues.

19 As you see in the brochure I have distributed, under this agenda,
20 we have been working on global health problems, overpopulation, the environment,
21 and natural disasters. As a result of our joint efforts, polio has been virtually
22 eradicated in the Western Pacific.

23 Recently I visited the Johnson Space Center in Houston and met
24 Japanese astronauts engaged in the international space station project. I was very
25 much impressed by our close cooperation in the field of space. We are working
26 together, not only in the interests of the Japanese and American people, but all
27 humankind.

28 The only serious problem is that our numerous and successful
29 projects are largely unknown to both republics and unreported by our press. As you
30 know, when there is a plane crash, our press reports a lot on the incident, but they
31 never report on millions of safe landings.

32 Ladies and gentlemen, in closing, let me say that, although
33 relations between the United States and Japan are wide and deep, they are not to the
34 level of mutual understanding that exists between the United States and Europe.

35 That should be the goal of the bilateral relations between our two
36 countries, a parity of understanding with Europe and with each other. What a
37 different dynamic that would be. What doors it would open and what new
38 perspectives it would bring to both our nations.

39 Thank you very much.

40 (Applause.)

41 AMBASSADOR FAIRBANKS: Thank you very much,
42 Ambassador Yanai.

43 Our second keynote speaker is someone who also has given
44 graciously of his time to events here at CSIS. He's a graduate both of Yale College
45 and Yale Law School. And he didn't take long to go into politics after that.

46 Three years later, he was a state senator from his home State of
47 Connecticut. Some 10 or 12 years later, he became the Attorney General of
48 Connecticut and then, of course, U.S. senator from Connecticut.

49 In the United States Senate, Joe Lieberman has carved out a role

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1 and a reputation that is, unfortunately, unique. And that is, he is someone who can
2 work across the aisle. He is someone who is effective with Republicans, with
3 Democrats, working with the Executive Branch, and is heavily involved in a wide
4 area of substantive affairs in the United States Senate.

5 For example, he is a ranking member of the Government Affairs
6 Committee. He is on Public Works and Environment, Armed Services, Small
7 Business. And he still finds time to be heavily involved in international affairs.
8 Witness, for example, his co-authorship of the Gulf War resolution.

9 He is also the head and has been for I guess five or six years of the
10 Democratic Leadership Council. And, as I said, he is a man of bipartisan leadership.
11 And you may have seen the talking points he gave to Senator McCain in Tidewater,
12 Virginia just last week.

13 (Laughter.)

14 AMBASSADOR FAIRBANKS: A pleasure to have you with us
15 again, Senator Joe Lieberman.

16 (Applause.)

17 SENATOR LIEBERMAN: Thank you. Thank you very much,
18 Ambassador Fairbanks.

19 As those of you who know John McCain know, he needs no
20 talking points. I thank the Ambassador for his generous introduction, noting without
21 specific reference to his educational background that he never fails to introduce me
22 without a mention of Yale University. It's good to be a fellow alumnus.

23 I thank CSIS for convening this program today. Generally
24 speaking, it could not come at a better time. And, as a senator ranging over the issue
25 and political demands of the landscape, I actually appreciate this opportunity to focus
26 in on the U.S.-Japanese relationship.

27 I thank Ambassador Yanai. It is an honor to be with him in the
28 months that he has been here. This is actually the third occasion on which we have
29 been together: first in my office; second, at the national prayer breakfast; and now
30 here. And I must say on each occasion, unlike his wife, I, too, have listened to him
31 with great appreciation.

32 Your story about your wife reminds me, very briefly, of a time
33 three or four years ago when my wife was with me on an occasion in Connecticut
34 where I was delivering a speech. And I was introduced with an excess of enthusiasm
35 by the chairman of the evening, who went on to describe my record and said that,
36 truly, I was one of the great leaders of America.

37 I happened to be on that night. The crowd was very responsive to
38 my remarks, gave me a very long and enthusiastic round of applause afterward.

39 In the car on the way home, I think I was inhaling all of this a bit.
40 And I said to my wife, "Sweetheart, how many truly great leaders do you think there
41 are in America today?"

42 And she said, "One less than you think."

43 (Laughter.)

44 SENATOR LIEBERMAN: So, you know, our wives play this
45 very sobering and humbling role in our lives.

46 I greatly appreciated your remarks. And perhaps when you hear
47 mine or everyone here hears mine, they will think that our staffs have cooperated in
48 the preparation of our two remarks. But that's all to the good.

49 Starting with Japan's rise to super economy status in the 1980s,

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1 Asia has been the scene of some of the world's most dramatic economic and political
2 changes in the late Twentieth Century.

3 From war-torn economies to economic miracles, Asia has truly
4 transformed itself into one of the most vibrant and dynamic regions of the world. It
5 also, of course, contains some of the most dangerous flash points in the world today.

6 The release of China's very aggressive white paper last week
7 following earlier and ongoing difficulties in the Taiwan Straits, India's and Pakistan's
8 nuclear arm jousting and North Korea's launch of a Taepo Dung missile over Japan
9 all have served I think as sobering reminders that the Asian present is, unfortunately,
10 as much about guns as it is about butter.

11 Standing strong, it seems to me, at the center of Asia's dynamism
12 and also its dangers is Japan. As the first Asian country to modernize economically
13 and politically, it has served and should continue to serve as a model for the rest of
14 the region. Japan today is a great democracy and, therefore, America's natural ally as
15 a matter of principle.

16 Although, of course, grim memories of the war have tempered
17 Japan's relationship with some of its neighbors, its reach really is profound and I think
18 very productive.

19 It seems to me axiomatic, really, that the ability of the United
20 States to influence economic and strategic developments in the region and to maintain
21 a kind of balance of power there will be greatly assisted by our relationship with
22 Japan. In fact, it will not appropriately occur without a strong U.S.-Japanese
23 relationship.

24 As an indispensable ally during the Cold War and as Ambassador
25 Yanai has described, still, of course, one of our great trade partners and destinations,
26 Japan today is our most natural partner in managing Asia's growing presence in global
27 affairs and maintaining the region's stability and prosperity.

28 Unfortunately, in recent years, it seems to me the United States
29 has lost its focus on Japan, at least publicly. Instead, most of our attention in Asia has
30 been riveted on China's explosive economic rise and the challenges of integrating
31 China into the international order.

32 In Congress, Japan bashing has given way to China bashing.
33 Rallies on the steps of the Capitol are no longer about our trade deficit with Japan but
34 about labor, environmental, and human rights conditions in China.

35 A summit meeting between the President of China and the
36 President of the United States is front page news here in Washington while a summit
37 meeting with the Prime Minister of Japan can end up, as happened a while ago, being
38 reported on Page 2 of the "Business" section.

39 Now, I suppose if my mother were commenting here, she would
40 say, "You know, sometimes it's not so bad not to get so much attention," but what I
41 want to suggest to you is that inattention can sometimes be as corrosive as negative
42 attention.

43 The fact is that the future stability and prosperity of Asia is
44 extricably linked to America's relations with Japan, particularly with regard to the
45 People's Republic of China.

46 We in the U.S. would be foolish to imagine a landscape of our
47 future relationship with China without Japan prominently in the picture. So it seems
48 to me that a priority goal of America's foreign economic, diplomatic, and strategic
49 policy today should, therefore, be to transform the U.S.-Japanese relationship into an

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1 even closer and more effective alliance that will help both countries meet the
2 challenges of the Twenty-First Century.

3 In some senses, as Ambassador Yanai has said, this is a question
4 of, if you will, taking our relationship out of the closet and giving the ongoing strong
5 ties that exist more exposure.

6 In other senses, it is a matter of finding ways to upgrade and
7 invigorate the alliance. Doing so I think will set the stage for long-term economic
8 growth in the region and throughout the world. It will provide for a stable strategic
9 environment and again play a key role in the important process of integrating China
10 into the regional and world economies.

11 Let me now briefly elaborate on these three policy areas of
12 opportunity, strategic, economic, and diplomatic, and, thereby, to try to illustrate
13 what I see as the significance of Japan to America's ability to effect long-term stability
14 and prosperity in the Asian Pacific region, which is so clearly in our interest.

15 First, the strategic. And here I am privileged to speak as a
16 member of the Senate Armed Services Committee. For the last several years, China's
17 increase in military capacity has dominated, if you will, our strategic thoughts about
18 Asia, certainly the public discussion of them.

19 What we have missed -- and here I am indebted to an expert that
20 you will hear this afternoon, Michael Green, who makes the point that there has been
21 another aspiring and rising military power in Asia. And that is our ally: Japan.

22 There are many reasons for this. Some are an understandable
23 reaction to the strategic instability in the region that Ambassador Yanai has described
24 very well this morning. Some may, in fact, today be a reaction to Japan's prolonged
25 economic downturn, which may in some senses have shaken the nation's confidence
26 and encouraged it to search for a new identity that appropriately blends its economic
27 and strategic interests.

28 Partly in response to Japan's interest in having a larger strategic
29 role and partly due to our own insistence on a more equal strategic partnership, the
30 U.S. and Japan have taken several important steps to conform our military
31 relationship to the present and future strategic realities of the Asian Pacific region.

32 The value of the U.S.-Japan alliance was reaffirmed, as you know,
33 by President Clinton and Prime Minister Hashimoto in April 1996 joint security
34 declaration. And Japan's adoption of the U.S.-Japan defense guidelines agreed to in
35 1997 further cemented and expressed our mutual strategic commitment.

36 While there has been significant bilateral progress in the security
37 arrangement, there are additional steps that I hope Japan will consider taking to
38 elevate its strategic capacities. It does seem to me that it is in America's interest that
39 Japan clarify further its defense posture and come to terms more explicitly with its
40 own regional security role.

41 Just within the last several weeks, in the Japanese Diet, as many of
42 you I'm sure know, the Commission on Constitutional Reform opened deliberations
43 on the revision of the peace constitution, most notably Article IX concerning the
44 renunciation of war and the possession of military forces.

45 Of course, I understand the fears that a revamped Article IX could
46 generate resurgent militarism, but consideration of constitutional revision I think
47 would, nonetheless, be a positive development from America's perspective and a
48 realistic one for Japan's.

49 It may well be -- let me go one step further; it probably is so -- that

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there is much less anxiety in the U.S. about Japanese alteration of the Constitution than there is anxiety within Japan or uncertainty within Japan.

Some of this I gather from speaking to friends who follow this closely is understandably divided on age lines. Someone told me recently that over 90 percent of the Diet members under 50 years of age favor some kind of revision in the constitution.

I think by taking the ambiguity out of the Japanese interpretation of the word "defense" and articulating rules and regulations in constitutional law, the Japanese people as well as those in surrounding countries, not to mention others around the world, including ourselves, will have a better idea of Japan's sense of its own responsibilities and its willingness in this new century to assume a growing role in maintaining its own and regional security.

Some parts of the military relationship, needless to say, involve disagreements or controversies. For instance, the beginning or ongoing controversy in the Diet over lowering funding for host nation support is troubling to us here in the United States, though as a member of Congress, I can understand the debate. But it comes at a time when not only is Japan facing economic difficulties but the American defense budget is under stress because of the increased operating tempo of our military around the world so that the call to reduce the Japanese commitment here for host nation support, which is the largest of any of our allies around the world, nonetheless, comes at a difficult time. And I certainly hope that the Japanese government will do all it can to ensure that host nation support for our troops continues at currently funded levels.

This and ongoing discussions about Okinawa honestly are of minimal weight compared to the immense common strategic interests and ongoing military to military cooperation that exists between the United States and Japan.

The truth is that in all areas of the security relationship, there are signs of progress. And I think the question is: How can we together take further steps to ensure that this great alliance is prepared for the varied challenges, strategic challenges, of the new century in the Asian Pacific region?

Second, let me speak a bit about our economic relationship. While the current administration I think has taken some important steps, as Ambassador Yanai and I have both mentioned, to upgrade our security relationship, as I look at recent years, there does not seem to have been similar progress in our bilateral economic relationships.

Several contentious market access disputes, including flat glass and insurance, remain. And a little headway has been made in lowering some of the structural barriers to trade. And, of course, the stagnating performance of Japan's economy in recent years has further heightened the points of tension economically between us.

Although the larger picture may appear to be bleak, there are very encouraging signs that change is underway. Hard times have forced changes in Japanese employment practices, similar to ones that we have gone through in our own country over the last decade and I think given way to other general economic reforms.

Most notably, the deregulation of Japan's financial sector has streamlined capital allocation in the economy and invited a wave of foreign investment in Japan. And most of that foreign investment has been in Japan's fast-growing technology sector and in the financial services industry.

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American money, for instance, is moving to Japan now because the rate of return on investments in Japan has been enormously high. Take a look at the performance of some of the funds, the American funds, that have focused exclusively on Japanese investments last year. They are right at the top in terms of performance.

This is very encouraging, and I think it will help stabilize our economic relationship, the bilateral economic relationship, and create opportunities for deepening regional economic integration.

After years of highly regulated government-directed economy, the marketplace in Japan is itself now determining some winners and losers. As you know, for the first time the private sector is playing a role in setting the direction of the economy. I think we have an opportunity to create an economic relationship here that rewards higher levels of foreign investment and greater risk-taking.

Instead of making incremental progress through sector-specific negotiations or trying in the traditional ways to get Japan to make broader structural reforms, I want to suggest this morning that it's time to go back to the shelf and dust off one of the proposals that has previously been made to strengthen our economic relationship. And that is to create a free trade agreement between Japan and the United States.

I know that there has been much study of the implication of free trade agreements. Some argue that such an agreement would hinder the development of regional trade ties and nullify some of the progress that has been achieved in the region.

Others say that free trade agreements do not address problem areas, such as regulations or capital flows or services that have taken center stage in economic negotiations. But the benefits of technological transfer and the mobility of capital could very well outweigh the negative connotations that have been associated with a free trade agreement.

So my objective here in raising this is not so much to skip over the arguments against a U.S.-Japan free trade agreement but in some measure to try to revive and respond to them to stimulate new thinking on how to overcome the obstacles that have complicated the economic relationship between the world's two greatest economic powers.

Interestingly, as I'm sure many of you know, Japan for its part has already started discussing the possibility of free trade agreements with Mexico, South Korea, and the European Union; if I may say so, entities that are far less suited free trade agreement partners than the United States of America.

A free trade agreement I think would be a means also toward a greater end because I worry that if we fail to resolve the festering issues that have slowed our economic integration with Japan, the stress on our economic ties may increase and may lead to stress in our overall relationship.

Making it easier for American and Japanese entrepreneurs to come together and create economic growth will help us improve economic prosperity for our two countries and for the rest of Asia and will draw us generally and constructively closer together.

Finally, on the diplomatic front, with the rise of Asia's economic and strategic importance, it just again seems to me to be axiomatic for the United States to work closely with Japan on a number of multilateral diplomatic matters and to have our ally, Japan, take the lead on problems that may require more regional

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1 sensitivity.

2 Here the United States has the opportunity, if you will, to take
3 advantage of Japan's reach into Asia and to find ways to promote our interests in
4 concert with Japan. I know that there is unfinished business in the region regarding
5 Japan, including particularly some of the historic wounds that remain between Japan
6 and its neighbors.

7 But hereto, encouragingly, there has been, as you know, progress.
8 For example, the Obuchi-Kim Summit represented such progress, during which
9 Japan acknowledged that it had caused, and I quote, "damage and suffering to the
10 people of the Republic of Korea."

11 In terms of economic diplomacy, Japanese government has made
12 recently very constructive and concerted efforts to engage Asian nations in
13 multilateral forums, such as APEC and ASEAN, and through visits by Japanese
14 leaders to individual countries.

15 The Miazawa initiatives, for instance, signify Japan's commitment
16 to supporting the development and prosperity of the ASEAN nations. Recent visits
17 in Southeast Asian countries I assume were organized to hear the concerns of those
18 nations in preparation for the Okinawa summit and to assure Japan's neighbors that
19 while the G-8 must take the global perspective, Asian interests will not be
20 overlooked.

21 The United States has an interest in encouraging this kind of
22 Japanese leadership and can certainly help in Japan's rising international role by
23 helping to promote the place of Japanese nationals in leadership positions in
24 international organizations.

25 Ambassador Yanai mentioned a few other areas, which I will just
26 touch on very briefly, where Japan has been a most important partner of the United
27 States, one is in regional trouble spots around the world, including the Middle East.
28 And the second is in international efforts to control environmental pollution.

29 I was at the global climate change conference in Kyoto a few years
30 ago. There and since in our bilateral relationship, I must say I was extremely
31 impressed by the leadership position that Japan has taken, one really which should set
32 a standard for us and, if I may say so, respectfully, a standard particularly for the
33 private sector in the United States of America.

34 The business community in Japan gets this problem, understands
35 it, and has worked most effectively and constructively and creatively to deal with
36 environmental problems.

37 And in that sense, I think if I may create a little bit of friendly
38 competition between the two countries, Japanese business may be positioning itself
39 better than our own for a growing and very profitable role in what is inevitably going
40 to be a growing world market for environmentally sensitive products and services.

41 So looking overall, let me say, in conclusion, that as we look back
42 across the history of this bilateral relationship, these two great countries, the United
43 States and Japan, have a long record, a successful record of adjusting our bilateral
44 relationship to changing times with the painful exception, of course, of the second
45 world war.

46 In the late Nineteenth Century, Japan and the United States
47 worked together to meet the challenges of imperialistic expansion. In the 1920s, our
48 two great nations actively supported the birth and growth of Wilsonian
49 internationalism.

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1 And after World War II, the U.S.-Japan alliance has grown
2 stronger than ever before in our history and certainly anchored the war against
3 communistic expansion in the Pacific during the Cold War.

4 Today we face a new set of challenges and opportunities. And the
5 alliance needs again to adjust. But the opportunities here are unprecedented and
6 enormous and critically important.

7 Whether it be the challenge of China's economic and strategic
8 integration or the threat of nuclear proliferation in Asia, we must look to our relations
9 with Japan not just as a symbol of our economic and strategic commitment to the
10 region but as the major vehicle through which we carry out that commitment.

11 Differences will remain, and we must learn to live with them. We
12 obviously have distinct identities and interests. But the currency descendance of Asia
13 should remind us in America that we are, of course, as much a Pacific nation as we
14 are an Atlantic nation with at least as much interest in the stability of Asia in the years
15 ahead as we have in the stability of Europe.

16 In Asia's enormous economic potential and in its strategic
17 challenge lie much of America's future. And in our alliance with Japan rests I think
18 our best hopes for peace and prosperity in that future.

19 Thank you very much.

20 (Applause.)

21 AMBASSADOR FAIRBANKS: Thank you very much, Senator
22 Lieberman. We have had two interesting, provocative opening statements. And I
23 can't think of a better way to get this day-long conference off to a good start.

24 AMBASSADOR FAIRBANKS: We have a very few minutes for
25 a couple of questions. And if you could make your questions relatively brief, I would
26 appreciate it. We will have microphones in your hands.

27 In the back of the room, please? Could you identify yourself as
28 well?

29 MR. CLEMONS: Yes. Steve Clemons, New America
30 Foundation.

31 Ambassador Yanai, would you say that the Japanese government
32 is proud of or disappointed in the results of the Special Action Committee on
33 Okinawa results since that agreement? And would you speculate that the decision by
34 Prime Minister Obuchi to host the G-8 meeting in Okinawa as well as the recent
35 debate on host nation support are kind of soft pressure on the United States to sort of
36 move forward on some of the commitments in that SACO agreement?

37 AMBASSADOR YANAI: Well, thank you very much. The
38 issues concerning American bases in Okinawa continue to be a great challenge to
39 both the United States and Japan.

40 Our government is very much aware of the importance of the
41 presence of the U.S. forces in Japan but at the same time, as you know, about 75
42 percent of the American bases concentrated on Okinawa.

43 So in light of that situation, we have worked out the so-called
44 SACO agreement, the SACO report to reduce the bases in Okinawa, not only
45 reducing but also consolidating and realigning bases in Okinawa.

46 The most symbolic issue is the relocation of Futenma Marine
47 Corps Air Base to another place in Okinawa. The governor of Okinawa, Mr.
48 Inamine, and the mayor of Nago City, Mr. Kishimoto, made a very difficult decision
49 to relocate the base to somewhere in Nago City. We are still working on that. And

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1 at the same time, we are trying, the government of Japan is trying, to promote
2 economic development of Okinawa.

3 So we are making efforts in two areas; that is, to alleviate the
4 burden of military bases in Okinawa and at the same time promote economic
5 development in Okinawa. So that is the situation now.

6 And as to the G-8 summit, our prime minister took a very difficult
7 decision to invite the G-8 summit to Okinawa. As you may have heard, we had eight
8 different candidates of cities that wanted to invite the summit.

9 He made a very difficult decision to invite the summit to Okinawa.
10 And I think that was politically a very good decision because it gives hope of the
11 Okinawa people into the future. It gives opportunity for them to think about global
12 issues, rather than just thinking of the present situation in Okinawa. So, anyway, it is
13 a very good thing for us to focus on Okinawa this year. And we are preparing for the
14 summit now.

15 Thank you.

16 AMBASSADOR FAIRBANKS: Thank you.

17 I think we only have time, unfortunately, for one more question.
18 May I ask for a question for Senator Lieberman? In the back of the room on the
19 right, please. Raise your microphone.

20 MR. SHIMURA: Senator Lieberman, you --

21 AMBASSADOR FAIRBANKS: Please identify yourself.

22 MR. SHIMURA: My name is Shimura from Japan Center for
23 International Finance.

24 Senator mentioned on free trade in the United States and Japan.
25 My question is: Recently a so-called anti-globalization move, especially from the
26 labor union, is increasing.

27 So my question is: How do you evaluate in such kind of
28 anti-globally move, its impact in tripartite from the United States, especially for the
29 bilateral relation?

30 SENATOR LIEBERMAN: It's a good question and obviously
31 going back to the proposal for a free trade agreement is provocative. It comes in the
32 midst of exactly the domestic American political controversy that you are describing.

33 We are going through an inevitable and ultimately a healthy
34 debate, but it has to go in only one direction, which is toward globalization, because
35 ultimately I think more and more Americans understand that that is the future. And
36 the constituency for trade is growing as more and more Americans come to
37 understand that their economic well-being is based on trade.

38 Part of the gap here has been the unwillingness of people in a
39 leadership role in this country to make this case, both for the number of -- I happen to
40 come from a relatively export-based state.

41 So it's an easier argument to make in Connecticut, but it's
42 becoming easier to make around the country, including, for instance, in agricultural
43 states, states that produce a lot of agricultural product.

44 One of the arguments that we haven't made here is that the free
45 flow of goods into our country and the competition that it brings is one of the reasons
46 that we have been able to enjoy this remarkable and in some ways unprecedented
47 period of both high growth and low inflation and that there is a consumer benefit
48 here.

49 So what I'm seeing is yes, there is some dislocation to

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globalization. And it does affect workers. We have an obligation here in American government and in the American private sector to combine our support for globalization with the strongest possible programs of retraining of economic aid of various forms to those who are dislocated. But I think the momentum is moving toward trade.

I would guess that you are going to see more discussion of this in the presidential election. But the truth is that the four remaining strong presidential candidates, two in either party, -- and we may be down to two before long -- are, to use a general term, free traders.

And it's in that context that I think we have an opportunity here to begin talking again about a free trade agreement with Japan as a way to elevate and invigorate the relationship and the understanding of the benefit for both countries in that kind of new status to our economic partnership.

This is not easy, but I also see it, frankly, as a tactic to see if we can stimulate some further discussion and focus on Japan that is not dominated by the haggling, if you will, by the controversy but focuses more on the potential, mutual benefit, in a stronger relationship.

AMBASSADOR FAIRBANKS: Thank you, Senator.

I think that provides an excellent bridge to our next panel, which, of course, is about the changing business climate between the countries. Please join me in thanking once again our two speakers for getting us off to a good start.

(Applause.)

CHAIRMAN BREER: We will take just a very -- just grab a quick cup of coffee. And we'll get underway just as soon as we can reorganize the dias here and get our panel in place.

(Whereupon, the foregoing matter went off the record at 9:32 a.m. and went back on the record at 9:40 a.m.)

CHAIRMAN BREER: Ladies and gentlemen, we have a lot of material to cover between now and 12:00 o'clock. So if you'd take your seats, I'd appreciate it.

I won't go into biographic introductions of each of our panelists. We have provided biographic material at the check-in so that we could save some time.

What I hope to do this morning is to develop some sense of where the Japanese economy is now, kind of where it's going, and then how doing business opportunities in Japan have changed over the last few years, and then discuss some specific problems in U.S.-Japan relations. There are a lot of problems. we could spend the whole day talking about merely problems.

So I've asked Arthur Alexander to open. And we'll proceed down the line here. Each speaker will have about 15 minutes for presentation, leaving us an hour for discussion among the panelists and interchange with our guests.

So, Arthur?

MR. ALEXANDER: Well, thank you.

After spending some 20 years at the RAND Corporation dealing with the Pentagon and associated agencies, we could never leave the building without a stack of viewgraphs to show for briefings. And that habit has become so ingrained now that, especially since I'm going to be presenting some numbers and figures and charts, I thought I would make use of the projection device.

The main point that I want to make is that there are at least four

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major challenges facing the Japanese economy today. And three of those preceded the bubble economy and its breaking, the thing that most of us focus on today.

What I look at are what I call the aches and pains of economic maturity. For those of us at a certain age, we have become familiar with a magazine called *Modern Maturity*.

Japan has been lucky enough to have reached the stage of becoming a rich, older economy and is suffering many of those aches and pains that we all suffer from when we reach this certain age, although it's taken Japan some time to realize that it is in this condition. And I think, again, that is not very unusual.

The second issue has to deal with what I call poor lifestyle habits. These don't have to deal with growing old but things that people and countries do to themselves, the injuries they cause themselves.

They don't have to be that way. And you can change these habits, even though there may be some lingering effects and it takes a while to get over those negative problems.

The two things that I focus on are too much capital and very low rates of return -- this is a point I want to come back to because I think it's central to understanding this transition period that Japan is in -- and low productivity. I won't say much about that, but it will be implicit in many of the other things I'd say.

I think it surprises many Americans but not many Japanese to see the figures that on the average, across the entire economy, the Japanese economy is probably 60 to 65 percent as efficient as the U.S. That is, it takes a lot more capital, a lot more human resources to get the same amount of output.

Finally, we have the collapse of the bubble and the problems that that has left the economy, very serious problems, in the financial sector. And I just won't talk much about that at all. That's not my concern today.

I do want to talk about the implications and the reasons for slow growth and the too much capital, too low returns, which I think is the heart, the key behind the restructuring that's going on.

Now, this chart is one of my favorite ones. You might say it takes an economist to like this chart. What this shows is to the right-hand side are rich countries. It's GDP per capita, real terms. The top part of the graph are fast-growing countries, and on the lower part are slow-growing countries or even negative.

What this shows, a couple of issues, a couple of points, jump out. First of all, all the fast-growing countries are poor. And it's always been that way for the last 200 years. But just being poor doesn't guarantee that you're going to grow fast. All of the collapsing countries are also poor. And so we have the tremendous variation in how well countries do.

As Manser Olson, who recently died, a professor at University of Maryland, said was that countries could do best to get richer is to smarten up. There are lots of policies that are well-known that Japan pioneered among the developing countries of the world in the post-Meiji period and the post-World War II period. There are many policies that are well-known that could be adopted but aren't for a whole variety of reasons.

The other major point is that as you go off to the right-hand side of that curve, as you get rich, your growth rates slow down. Not only do they slow down, but the variance disappears.

Rich countries tend to grow at about a half percent to at most two percent a year. They basically have the institutions, the capabilities, the organizations,

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1 the processes, the education, and so on, that makes them rich. It keeps them from
2 collapsing. They have adopted the procedures and the processes and the institutions
3 of successful states.

4 It also means that once you have reached the frontiers of
5 technology, of productivity, of capabilities, it's awfully hard to grow fast. If you look
6 out at the richer countries, about 12-13 thousand dollars of GDP per capita, you don't
7 find any examples -- I think there may be one dot there; that was actually Japan -- of a
8 country growing more or faster than two percent a year.

9 What this indicates, a scatter plot isn't destiny, but it does suggest
10 that history indicates that once you're rich, it's very difficult to grow faster than two
11 percent a year for an extended period. And these are ten-year growth rates that
12 average out short-term fluctuations.

13 Now, we'll see whether the United States can get a ten-year
14 growth rate above two percent, real GDP per capita. It hasn't yet, but we haven't run
15 the course. If the United States does achieve that, it will be a remarkable and
16 unprecedented achievement.

17 Now, Japan is no exception to this process. And these are, again,
18 average growth rates over ten-year periods of Japan and the United States and since
19 the end of the second world war. And what we see is Japan converging, marching
20 almost inevitably to that two percent growth level and now slightly below it.

21 So this is a point that it has taken many years for Japanese
22 business and government people and economists to recognize and to accept, that in
23 the best of times two percent growth is the target, the limit, the kind of expectations
24 that they ought to be planning for.

25 The United States has faced this for many years. European
26 countries have faced it. If we have a kind of economic equivalent of the American
27 Association for Retired Persons, it's the OECD in Paris. This is the organization for
28 mature economies. U.S. and Japan are charter members of that. And these are the
29 kinds of lessons that we have to learn on how to live are coming out of organizations
30 like that.

31 Now, countries get rich through investment. It's the only way we
32 know how: investment in real physical capital and in human capital and all the
33 productivity changes that that brings about. And it works better under capitalist
34 societies and under planned economies, but even under planned economies, you have
35 to invest to get rich, as the Soviet Union showed.

36 The interesting thing about Japan is that its investment, which
37 boomed during the 1950s and '60s and '70s, continued to boom after its growth in
38 productivity rates had slowed down. And the capital intensity of the economy
39 continued to grow so that by sometime depending on how you measure it, sometime
40 in the 1970s or 1980s, the growth of capital relative to output was well beyond that
41 of the United States and in most European countries.

42 The mystery to me as an economist looking at these kinds of
43 numbers over the last ten years was what was going on, why the Japanese business
44 people continued to invest at such high rates as the capital intensity of production
45 kept getting bigger and bigger and bigger.

46 I suspected without knowing at the time that rates of return must
47 have been coming down. And, in fact, they were, as the next two charts show in
48 very, very different ways of measuring.

49 These are OECD numbers of rates of return on business capital.

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The first figure off to the left -- I think it says 1976 -- is really the average of 1970 to '76.

What this shows is that in that very early period or in that period just before the original oil problems, rates of return in Japan were very, very high. They then came down very sharply.

And since the 1980s, well before the bubble -- again, this is not a bubble phenomenon -- rates of return in Japan have collapsed, while those in the U.S. have grown, have kind of come back off a bottom. I think that bottom is largely closed by the disruptions of the very large oil price increases of the '70s.

Another chart shows the same sort of thing, but it's for the entire economy. And this shows, again, back in 1955, rates of return for all capital in Japan was very high, 34 percent.

Now, even economists know how to get rich at those kinds of rates of return. You just invest wherever you can. And this is what Japanese business was doing. It made a lot of sense, and they made a lot of money.

But as we see, by 1980, returns in Japan were below that in the United States and Europe. And if you recall the earlier chart, they continued to invest and capital continued to accumulate, again, well before the bubble. And this was something that I was seeing.

I didn't have these numbers, but ten years ago, in the late 1980s, I had a sense that this was happening. Again, this was always a puzzle. What's going on here? This to me was the big mystery. What's going on with this tremendous investment as returns are getting lower and lower and lower?

I think now I have some answers to this. And one of the things that clarified the issue was the collapse in Asia. And as we started looking at what was happening in Korea and some of the other Asian countries, I began to apply some of those lessons to Japan.

One thing was the Ministry of Finance and the general government policy that no bank would fail; that no depositor would lose their money; and by implication, no investor in a bank would lose its money; and then by implication again, no major borrower could fail because if a major borrower failed, that could bring down the bank.

What this did was -- I mean, it doesn't take an economist or a rocket scientist once you see this kind of a statement to know that this is going to encourage excessive investment, high-risk investment. It produces moral hazard, the idea that once you're insured, you don't take quite the care that you would have if you weren't insured. And it was one of the things that produced returns lower than a competitive rate and very high levels of investment.

A second thing was that financial regulation blunted the search for profitability. Banks didn't have to worry about it. Bank customers didn't have to worry about it. And we had in general a situation where profitability, the focus on the bottom line, rates of return on assets just were not much of an issue.

This is, again, encouraged by a very inactive market for corporate control. Companies didn't have to worry they were going to be taken over if they didn't perform as well as they could or as well as somebody else might.

Again, there were deliberate policies established by Japanese companies in the 1970s when there were economic hardships. And it looked as though some companies were exposed to take over. Cross shareholding, long-term relations of that sort just blunted the ability of hostile or friendly takeover.

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1 Finally, there were government-condoned collusions and cartels
2 for a long period. And then when those laws were changed to no longer make that
3 legally possible, the cartels continued, even recognized by government. But
4 government because of a variety of legal and regulatory barriers has found it difficult
5 to do anything about it.

6 For example, when the shares of the steel companies don't change
7 by more than a fraction of a percent over a 20-year period, there's evidence there that
8 there is a cartel.

9 And even the MITI people tell me, of course, they see. They have
10 this evidence, just like anybody else. In fact, they used to sit in in the meetings that
11 established the shares. They no longer do. But, as they told me, who knows what
12 they talk about on the golf course or in their various association meetings.

13 Things are changing. This has already been alluded to by the
14 ambassador and others. Financial system guarantees are weakening. Deregulation is
15 forcing attention to profitability. Globalization, as was mentioned, is introducing new
16 players with new motives, new ideas that don't go along with the old norms. And
17 what is happening is that markets are beginning to reveal the true cost of capital.

18 I'm told I have to speed up for my next two charts. This is leading
19 to restructuring. Restructuring simply to me is raising the rate of return.

20 You can do it in two ways. You can work on the numerator or
21 you can work on the denominator. On the denominator, basically it's profits to
22 capital. Profits you work on by cutting costs, by reducing your number of employees
23 and so on.

24 The other side, you work on the capital. This is bankruptcies,
25 mergers and acquisitions, securitization. All those practices are ways to deal with the
26 costs and value of capital.

27 And this is having an effect, as was mentioned, mergers and
28 acquisitions. On the left-hand side I think is domestic with domestic firms and on the
29 right, foreign with domestic firms. And we just see both of these taking off in the last
30 several years to levels -- if you look at the foreign acquisitions, we see back in the
31 left-hand -- I can't really read the date there, but on the left-hand side, there was about
32 zero or one in a given year. Now we are looking at in terms of numbers something
33 like 150 last year. So this has really made a dramatic change.

34 If we make a comparison to other countries, foreign mergers and
35 acquisitions in other countries, we see that the Japanese curve has definitely come up.
36 But it's still tiny compared with the U.S. or Great Britain.

37 Now, U.S. and Great Britain are outliers here. And it's kind of
38 unfair to make this comparison. Nobody is like us, and hardly anybody is like Great
39 Britain. But we can see that in terms of the scale of this, it's still small. There's still
40 room to grow.

41 Now, the final thing on -- this is U.S. foreign direct investment
42 into Japan and what might be driving it. The first time I looked at this, I was
43 embarrassed by how well these two charts lined up.

44 One chart is the level of foreign direct investment. It goes to
45 1998. The other line is what I call a purchasing power of Japanese companies in the
46 U.S. It's a very simple measure. All I did was take the Tokyo Stock Exchange
47 Index, divide that by the New York Stock Exchange Index, divide that by the
48 Exchange Rate.

49 It basically says: What can you get if you float 100 shares in

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1 Tokyo? How many shares can you buy in New York? And it kind of gives you a
2 sense of the assets that you can get in the U.S. by raising money in Japan.

3 What it indicates is that Japanese foreign direct investment into the
4 United States has followed this embarrassingly well. Economists don't usually get
5 curves that fit this nicely together.

6 And as the Nikkei collapsed and the New York Stock Exchange
7 went up and the value for the dollar increased, it just got much more expensive to buy
8 American assets. And Japanese investment in the U.S. followed that path quite well.

9 Now, for my last chart, we looked to the same sort of thing for the
10 American investment into Japan. And it doesn't follow that until the last year or two.

11 And what I think has been happening is what has already been
12 alluded to in the earlier comments, that various regulations, the cross shareholding,
13 the financial regulation and so on were barriers to foreign investment into Japan, even
14 when it looked relatively cheap, as it was -- well, really, it hasn't ever been cheap. I
15 would say this American chart, purchasing power, is simply the Japanese reverse. It's
16 the inverse of it. So if it's cheap in Tokyo, it's expensive in U.S. and vice versa.

17 Until the last two years or through '97 and '98, which is the date
18 on this chart, what that shows is that things have changed. Not only have Japanese
19 assets become relatively cheap, but they've also been being bought now.

20 And so we are finding the surge in Japan I think brought about by
21 two things: the restructuring, the deregulation, the financial changes, the focus on the
22 bottom line, the focus on rates of return, plus the fact that Japanese assets look
23 relatively cheap now, especially compared to what they were ten years ago.

24 So I think that, as we look to the future, this is only the beginning.
25 And the data for 1999 should be off this chart it's so large. And I suspect that, as
26 was already mentioned, that this is going to have a major impact on what we would
27 be seeing of the Japanese economy.

28 Thank you.

29 (Applause.)

30 CHAIRMAN BREER: Thank you very much, Arthur.

31 And now I'd like to introduce Nobuo Tanaka, the Minister at the
32 Japanese Embassy in charge of trade and MITI.

33 MINISTER TANAKA: Thank you. It is a great honor for me to
34 come and talk to you about Japanese economy. What I'd try to tell you is basically
35 following which Arthur Alexander was explaining, and there's not much difference.
36 But just from Japanese perspective I just want to show you why we were in trouble,
37 maybe most of you know very well, and how we tried to get out of this trouble.

38 My job is basically in the Embassy, and it's a little bit awkward to
39 talk to you in front of my ambassador here, but I dare to be blunt and as candid as
40 possible. This is Japanese economy in 1993. Always Japan is caricatured as a sumo
41 wrestler, and that's very funny for me, but two of the grand champions in sumo
42 wrestling is just Americans. And, as you know, our market is always very open.

43 (Laughter.)

44 But the sumo wrestler in recent one is just like this: He is just
45 jumping out of the window of the Wall Street over the innocent stock traders in
46 1998. This is just after the Asian crisis, and we are in deep trouble.

47 And final one, which I found about a year ago, is very fantastic:
48 Japanese economy sumo wrestler is on the bed of the hospital and operating himself
49 with different instructions from Europe, IMF, and the United States.

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1 But good point of this chart, or this caricature is that we have to
2 do it ourselves. It's not IMF; it's not the United States. We can do that. It's only
3 Japan, and we know that, and we are on the way. So, this I like most in these three
4 charts.

5 By the way, this is what the Japanese growth rate and GDP
6 growth in the U.S. You have realized that this is a historical bad performance of the
7 Japanese economy these two years, and we expect the latest going up in 1999 about
8 0.5 or 0.6 percent.

9 But why we made a mistake in this kind of terrible situation is we
10 are starting from 1980s. Suddenly, we are very arrogant, criticized as arrogant and
11 buying up lots of American estate -- Rockefeller Center, Pebble Beach, and so forth,
12 so forth. But, actually, after this arrogance, the bubble burst, and then we started in
13 trouble.

14 An economy growth rate in these three years was slow, but it
15 starts rising after the series of economy expansion measures. And then in 1995 and
16 1996, a very high positive growth was marked. There we made a mistake. I was in
17 charge of industrial finance section in MITI, and we expected that autonomous
18 recovery was achieved in the fall of 1996.

19 Then Prime Minister Hashimoto decided to facing the aging
20 society we get into the very tight fiscal budget and decided to increase the
21 consumption tax and also we started the six big economy reforms, the many
22 structured reforms or fiscal reforms. All these six reforms were decided in the fall of
23 1996 when the economy growth rate was very high.

24 Even private sectors thinks this is a time for change and
25 restructuring, and almost all the business people, top executives are against spending
26 publicly in the future. So, everybody made a mistake there and almost killed the
27 economy.

28 This is chronology, but I don't get into details. But in the fall of
29 1996, we really decided a very tight budget together with economic reform packages,
30 and both them, especially these economic reforms, in the short-term has a very
31 deflationary impact on the economy. So, both of these deflationary impacts we
32 almost killed the economy. That was our mistake.

33 And then in 1997 the Asian economic crisis starts, and credit
34 crunches really deepen, but until April of 1998 we didn't change the course of our
35 macroeconomic policy because of the strong commitment of the government. And,
36 finally, Hashimoto lost the house election and a new government was created. Then
37 we started again economic expansion packages, and the thing starts moving.

38 Just for your information, I just give you how many emergency
39 economic measures were taken in these years. Total it's about 114 trillion yen. That
40 means about \$1 trillion was spent for these years over our economy.

41 Recently, our real GDP growth figure shows that after two
42 consecutive positive growths, the third quarter of 1999 was negative, and EPA
43 Minister Sakaia announced that maybe we have another decline in the last quarter of
44 1999. That triggered some speculation about the miserable future in Japan. But to
45 some extent, who knows what will happen to the first quarter of 2000, and we expect
46 some growth there. So, maybe we can obtain the positive growth -- about 0.5 or 0.6
47 percent for the fiscal 1999.

48 The factors. Private consumption is still weak. We tried to
49 stimulate consumption, but it's very hard. People start saving and saving and

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repaying their loans. That's inevitable under this big debt overhand, and it's just the same thing. We tried to convince people to consume, but it's as difficult as you Americans to convince people to save. It's just the other side of the economy. We are very, very symmetrical.

Housing investment is moving. Private machinery equipment is not moving, but there are some machine orders, and these things are moving. So, probably investment could be positive in the year 2000.

Government spending suddenly is increasing. The third quarter declined, but the fourth quarter, or in 2000, it's increasing, and we use lots of this public spending to stimulate the economy.

Now, good things about Japan. Maybe a good thing is stock prices start moving up -- 50 percent increase in Tokyo stock exchange -- but the problem is still the land prices declining. This gap explains something. Until the land prices move up, maybe Japanese economy is not really going up. That's the risk factor.

People talk about investment is starting in Japan. That's probably one of the best features which we now observe and encouraging. But when Americans start buying Japan, Japanese people are convinced and give back the confidence to our economy and start investing in consuming. How fortunate that we have truth.

Japan is sometimes criticized. The inward inflow is very small compared to the outward. Compared to the other countries Japanese inflow is very low. But recently that ratio has been improved. In 1996 to 1999, this 1999 figure is just half a year, so you should double it. That means an increase inflow to Japan is increasing almost double compared to 1999. So, these three years it's increasing dramatically, and the ratio to inward/outward is ameliorated dramatically.

Between the U.S. and Japan this figure is much more dramatic. The inward investment compared to 1997 to 1998, it's about five times more investment. Well, mainly it's GE Capital, by the way.

And where the money goes, it's clear this part is financing the insurance. So, deregulation certainly works. And interestingly enough, the foreign stockholders are increasing in many companies. Even Sony is owned by foreigners about 45 or 47 percent now. So, this caused the great corporate governance change. Even Nippon Steel Corporation is owned about 70 percent by the foreigner. So, this is the feature to enforce Japanese managers and executives to respond to the market.

Another big issue of globalization, this is what MITI found in 1995 under the globalization, the corporation can choose a country to operate. It's not the country to choose the corporation; it's the other way around. So, what the country can do is provide the infrastructure, a system where they want to invest. So that attraction is necessary, and it's a competition between countries. It's a competition between states, localities to try to get more investment to your country, to your place.

Investment is much more important than trade. For indirect investment, service sector is moving much faster than merchandise trade. Direct investment is more, of course. Security investment is a much, much faster growing sector. And this is interesting chart explaining about the Japanese cars, which are sold in the United States, is now 65 percent of them are produced here in the United States. The number of imports declined dramatically while the production increased. So, this shows that Japan has exported tens of thousands of jobs to the United

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1 States, but we cannot stop that.

2 Now, this is a speech by the former MITI Minister, Yosano, last
3 year that the government of Japan welcomes foreign direct investment in various
4 fields of our economy. Renault bought up Nissan. IDC and Cable and Wireless,
5 Toys "R" Us or Gap or Goldman Sachs or Merrill Lynch or GE Capital. We
6 welcome that. And that's the proof that conditions in Japan are rapidly changing
7 today.

8 MITI's mission before was just protecting Japanese industry by
9 preventing foreign investment. But now we have changed dramatically. We try to
10 kick and push back IBM into the Pacific Ocean, but we failed, and now we welcome
11 them.

12 This is the kind of structural issues which we are facing. In
13 business startups and business closures in Japan and U.S. in comparison, the U.S.
14 figure is much higher, and the Japanese figure is much lower. And even more than
15 that, U.S. opening is higher than the closure. You have much more net increase in
16 the business while Japanese have less and less opening, while the closure is increasing.
17 In other words, we have negative numbers of businesses created in Japan.

18 This shows a contrast of the dynamism of the economy. So,
19 what's happening and why this is the case -- and this is a very, very powerful chart,
20 because we used this in MITI when I was the Director for the Finance Division to
21 open up the stock option plan and spend, starting with the new law and then the next
22 year the Diet changed the commercial law itself to open the stock option plan and
23 spend. Practically, it was prohibited five years ago. It was impossible. But now it's
24 possible, and everybody is using it. That's a very important tool to attract the good
25 personnel to the business and for the ventures, and this chart made it possible.

26 Another factor in explaining about the gap of productivity is this.
27 This is investment on information technology out of private investment. The U.S.
28 increased dramatically. Japan stagnated after the bubble, and now increasing. But
29 still the gap is still about ten or 20 percent. We need to invest much more in IT to
30 increase productivity.

31 Another chart which I use very often is high construction. Japan is
32 -- we compare the corporate tax electricity bill, long distance, local bill, freights or
33 labor costs, office rent compared to China, Taiwan, Singapore, Germany, and the
34 United States. The only higher cost than Japan is a local telephone company in
35 Germany. This is 1996 but the situation could be ameliorated but the exchange is
36 almost the same, so the situation is not as good as it should be. So, this shows that
37 the deregulation in the service sector is really must for us to attract more investment
38 to Japan domestically or from foreign. This is the reason Japan is trying our best to
39 deregulate our economy.

40 Still the problem is the debt overhang. Mr. Alexander explained
41 very well about why we're having trouble. These are the loans and discounts
42 outstanding in domestic. If we think that 1970s are the relatively health stage of
43 Japan, then we have about 30 percent of the GDP is over -- debt overhang still exists.

44 It's about 150 trillion yen. It's a huge amount still maybe in the Japanese economy,
45 which we have to get rid of from our balance sheet. So, balance sheet cleaning is a
46 key issue for Japan.

47 Now, I'm finalizing my presentation by showing you what MITI or
48 Japan is trying to do. First, we have done the demand simulation, the thing starts
49 moving. The national reform with strong leadership in finance is going, and the

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capital infusion is there, and bank reform is there. Now, what we have to do is the supply side reform. Manufacturing sectors still have a huge debt overhang, and we have to get rid of them from the balance sheet. And for that we try to prepare the tools for them.

Objective: Alleviate excess capacity, increase productivity, and then economy growth. But the basic principle is that the private sector initiative, not government intervention as we used to do, through market mechanism or environment or facilitate M&A and foreign capital is very welcome for that.

What we have done recently is this: First, strategy for revitalizing industry is tools for the corporate restructuring. The industrial revitalization law has passed the Diet last year in October 1st. It's enacted, in effect. And this gives certain tools, which the United States has used for restructuring your economy in the '80s to make divestiture possible. Divestiture was prohibited even under the commercial -- or it's not expected under the commercial law. We need to change the commercial law to make it possible. Debt equity swap, EBO, MBOs or loss carry forward, the Bayh-Dole Act -- these concepts.

And another thing is holding company, stock swapping, chapter 11 split-offs, consolidated taxation. These are the tools which you have used to reestablish or revitalize the economy, and we are trying to do that same thing. And IAS international accepted standard-based accounting is going to be enforced. That's another big environment change.

Consolidated disclosure was already implemented. Pension fund integration and market price evaluation of financial assets is going to be introduced in March of this year, the end of March of this year. Cross holding stocks again is going to be evaluated at the market price. That means we cannot use the latent assets in our balance sheet. So, we are going to be forced to be more transparent, and that enforces the corporate governance change dramatically.

Another feature of strategy revitalizing industry is encouraging new business -- deregulation, which I said, spread of stock option plans, limited liability partnership for the venture capital. These are really the concepts which the United States is enjoying to revitalizing your economy.

Also, at the same time, we have to mobilize our labor and change the market in the labor force and 401(k). A defined contribution pension plan is going to be introduced into Japan. Also, at the same time, social security net should be strengthened.

Finally, some convincing changes in Japan is that 7-Eleven Bank, Sony Bank, these companies getting into the commercial banking sector. E-Trading starting with liberalized commissions, and that creates lots of investors. Individual investors are coming back. Private equity funds are searching for the good projects in Japan. Renault bought up Nissan, Softbank and NASDAQ creates a new market in Japan, Enron and Orix starts a new energy trading business in Japan.

And jobs such as in the foreign companies is very common. Even I was told by some of the investment bankers in Tokyo that Tokyo University graduates used to go to bureaucracy or big companies, but now they are coming to us. In 1998, 30 of them applied to one company, but this year they came 300. So, lots of these people are seeking jobs in foreign companies.

Finally, this is a small advertisement of MITI. We no longer exist, as of January 1st, 2001, next year. Our ministry is going to be given a new mission: Ministry of International Trade, Industry, and Economy. So, MITIE is correctly

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pronounced -- very French. But this "E" stands for economy reform and restructuring. This is really a story. This mission is given in the law that we are in charge of economy restructuring. That's our new mission, and we think by doing so we can revitalize the Japanese economy and put that back into the arrogant stage, as you are now.

(Laughter.)

Thank you very much.

(Applause.)

CHAIRMAN BREER: Thank you very much, Mr. Tamaka. You owe me three minutes.

We'll move on. I would like to ask Bill Farrell to give his presentation now. Bill served for a number of years as the Executive Secretary of the American Chamber in Japan, with hands-on experience in Tokyo.

MR. FARRELL: Thank you very much. Having no slides and no charisma, maybe it's better if I stay in the dark. I'll know how things are going when I see Roger Swanson's head snap back. That's usually a good sign.

Thank you very much for having me here today. And it's important to invest to Japan, I think, and you invest in Japan for the same reason that Willie Sutton used to rob banks -- that's where the money is. And there are plenty of opportunities, I think, in Japan, and investing and having 0.002 percent of the Japanese economy is like having multiple percentages of other economies in Asia. So, the scale may be small, but the return may be very good.

And I don't have numbers and charts. I'm going to deal more with some of the attitudinal approaches to investment in Japan and some of the difficulties that foreigners have perceiving the need for investment there.

Mutual understanding is a career industry between Japan and the United States, and you have one culture who claims it's unique and descends from the sun goddess and another one who was a city on a hill speaking directly to God in a theocracy and two unique cultures trying to get together. And it's very, very difficult.

One of the problems I think that emanates from our side in the United States, a question I hear all the time is, "When will those Japanese change? Don't they get it? When will those Japanese change?" And my answer is probably never. Japan is about 97 percent Japanese, 1.5 percent Korean, and then the rest of us who get a job over there for a period of time; strong culture. So, fundamentally, there's no great need for the Japanese to change and maybe no reason for them to want to change. So, it's a lousy question to ask.

But if you turn around and say, "What's changing in Japan," then it's like hitting the jackpot or the slot machine. All kinds of things are changing in Japan. So, it's very important that you ask the right question. And then you need to say, "Okay, if the following is changing in Japan, how does that impact my company and my bank or my investment portfolio, et cetera, and can I then take advantage of it?"

You can buy a book and start with Japan and bring it up to World War II, and there's change. You can go back or just watch satellite TV beamed from Japan, and they have some of these old newsreels on every now and then and some panoramic shots of Tokyo in 1945, and now you go back, and that's changed. There's real change going on in Japan, and I think it's important that you ask the right question.

The Japanese who we lauded in the mid-1980s and wrote all the

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books on Japanese management and we all got our quality circles around in our companies, et cetera, suddenly did not go brain dead in 1991. The same people are there. The economy may have tubed, but basically all the values and things that we admired in Japan are still very much there.

What's difficult now, I think, and a long time for the Japanese to respond is that this is a self-inflicted wound. The economic problem is not an oil shock, it's not a yen shock, it's not something from the outside that you can rally around against an external force. Like the cartoon Pogo, "We've met the enemy and they are us."

And, therefore, there are bureaucrats who disagree with other bureaucrats about how to save the nation. There are politicians who talk among themselves, and in many respects there are power shifts taking place within Japan. And it's carved or be carved in a situation like that. So, that adds to the difficulty in solving the problem.

The other thing is I'm not sure that there is enough pain in the Japanese economy where the people are calling out for leadership to take us in a new direction. I think they're still calling out for management to adjust the situation, keep it stable. I like to equate it to the fact that right now Japan has a toothache, but if you take two aspirin every four hours, you really don't have to go to the dentist.

And there are enough people still working. If you go and walk the streets of Ginza on a Sunday or a Saturday afternoon, Gucci is still alive and well and doing a flourishing business. So, really, I'm not sure there's enough pain for radical change. And that's why I think it's important when you think about change in the investment environment, change in the financial world, change in the political world, that you do take it with a little bit of grain of salt and recognize that when somebody from Japan will come and it's translated as drastic change, that drastic may not be the appropriate word from our point of view. There is change taking place.

I think that if you go to invest in Japan, you also need to know the dynamics that are going on in the political world. It wasn't too long ago that in 1993 those of you staying in a hotel in this fair city could read articles written by Tom Reed out of Japan about the political revolution that has taken place. Prime Minister Hosakawa was in; the LDP was out.

Within a brief period of time there was a pact with the devil and a covenant with Hell, and Madiliana and the LDP were on the same stage together. This was not a principal change of leadership. This was a need for stability and power. And no matter what you think about the LDP, they know how to play politics. They have a lot of good grassroots organizations, and somehow the opposition can never get its act together to pose a real force for change. And I think that goes back to the idea that the pain in the economy is still not enough.

But politicians are important if you're going to invest in Japan. They do have certain roles to play in brokering and disputes among ministries. And if you're going to invest the old-fashioned way with bricks and mortar and you're going to have facilities or research facilities and a particular prefecture and the like, it becomes very, very important to get to know the role of a politician and how they might be of some assistance.

We're going to find out in a few minutes how much tax policy is important, and there are politicians on tax committees, and they can be lobbied.

Bureaucrats have suffered a lot of abuse lately. And, once again, in the mid-'90s, bureaucratic bashing was in all the papers over there, and in many

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1 cases, rightfully so. There are a few bureaucrats that entertained too much and too
2 long, invested poorly, accepted gifts in an untimely fashion, ate at the wrong
3 restaurant when a photographer from Friday was nearby. But all the bureaucratic
4 bashing that takes place, to me, is really addressing the symptom and not the disease.

5 Bureaucrats are powerful, because they control the information
6 when the political center is not strong. I think if there is a strong, informed political
7 center, the role and the importance of the bureaucracy would be somewhat different.
8 So, I think the long-term problem gets back to the need for serious political change.

9 But the Ambassador this morning made an interesting point about
10 battering rams. And one of my first visions was charging ahead from the outside, a
11 nice form of giatsu with a battering ram, head into a wall made of vulcanized rubber.
12 Very little impact except on those carrying the battering ram.

13 And then I thought about the old Senkogugi guy, the warring
14 periods, when Japanese, not necessarily in a time of harmony, were sieging and killing
15 each other as they were realigning the power base in Japan. And if you want to do a
16 castle siege and you want to use a battering ram, it pays to know where the wall is
17 weak. You could look at this as a transition to the afternoon on security issues.

18 But siege warfare is very important, and one of the ways you find
19 out where weaknesses exist is that you have folks on the inside. And I think if you
20 look at the Tokugawa and others, they had some very nice folks on the inside of
21 certain sieges. And I think foreign investors need to have that too, and that is
22 developing relationships with key people who may be agents of change in Japan, may
23 be bureaucrats, politicians, but find out where the internal pressure for change is.

24 And then so you have a niatsu of sorts, and then you try to meld
25 your giatsu into a dynamic and bring about change. Because there are agents for
26 change, and there are times when foreign policy directed towards Japan has been very
27 effective when it met a domestic need as well. And I think in the investment area
28 that's true too.

29 In the finance area, we have a lot going on, and I think that's often
30 touted as an area where great strides are being made. M&A is taking place, GE
31 Capital is there, Japanese insurance companies are being taken over, Yamichi and
32 Merrill Lynch, there are a lot of great stories there. The thing that, in my mind, that
33 impacts -- or while those are great headlines, beneath the surface I think you have to
34 look at how many M&As are really taking place that aren't severely distressed
35 companies where the white flag has gone up and say, "Yes, we will subject ourselves
36 to foreign barbarians and be taken over."

37 I don't think the mindset in corporate Japan is still there that you
38 might get engaged in an M&A or you might be bought out, because over a period of
39 time, because of new technology resulting from your alliance, that your profit margins
40 may increase, et cetera, et cetera. I still think there's a reluctance by Japanese
41 companies.

42 There have been some very notable changes in corporate
43 governance among companies, but I think that's still a hinderance, the behavior of
44 corporate governance and where board of directors come from internally still, in
45 many cases, in Japan, how they got to the top of the company and their people below
46 them who have certain expectations about how they're going to rise to the top of the
47 company. And suddenly to change all that or put it at risk is very difficult, because
48 that gets to stability, and stability, I think -- we, in the United States, love choice --
49 consumer choice, caveat emptor -- caveat emptor? Buyer beware. Well, if you saw

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1 my transcript out of Jesuits High School, I didn't do very well in Latin.

2 But the opportunities, as I said, are there, but the Japanese opt for
3 stability over choice. And if you talk to somebody in Fidelity or MFS or Wellington
4 or State Street about opportunities in Japan, depending on what part of the company
5 you talk to, you'll find that, wow, things are great. Fidelity's got deals at selling
6 securities through Nomura and banks, and the money's rolling over the walls. If you
7 go and talk to those that are trying to set up defined contribution and pension
8 programs, they'll talk about old Japan and resistance to change and the role of the
9 ministry getting actively involved and thwarting the marketplace.

10 So, it's still mixed over there, and I endorse everything that was
11 said about change. I just think you have to realize if the fact that's a headline and
12 there are major events coming, you still an undertone of stability there that needs to be
13 addressed.

14 One of the points that you hear about are new industries and new
15 opportunities in Japan, and why not the Internet. Let's dot.com our way into Japan
16 or dot.co, dot.jp our way into Japan. And there's good reason to do that. If you
17 survey the buying habits in Japan, you see that there is increased use of the Internet to
18 buy. You'll find that the greatest thing for Apple Computer to come along is the
19 color of their I-Macs, and the biggest purchaser of Apple computers are OLs, office
20 ladies, single ladies looking for a fashionable computer. They sign on from home
21 after 11:00, generally, because that's when the rates go down.

22 If you study, there are certain peaks in buying on the Internet in
23 Japan: noon to 1:00 or 1:30, so the people who are diligently working at their desk
24 in your office may be actively engaged in procurement of items not related to the
25 good of the company. But since the sign-on fee is fairly low, free to them, that's an
26 active time. Six to 7:00, once again, from business computers is a good time for
27 people to buy, and after 11:00.

28 But the role of women, the spending habits of women, the
29 increased use of credit cards, et cetera, all indicate that this is a place where foreigners
30 can come in and invest and do very well with minimal brick and mortar.

31 The other thing to realize, though, is that the Internet in Japan is
32 going to be handled in a Japanese way. I mean 7-Eleven and Softbank deal is a result
33 of the fact that many people place their order but they don't want to pay for it over
34 the Internet. They need some form of human interface. And fumikomies from the
35 bank were getting inconvenient because of the lines, so why don't we strike a deal
36 with 7-Eleven? That's a response to a consumer need. Or they'd rather have Takubin
37 show up and deliver a product and pay the Takubin people who make more money in
38 financial transactions than they do in shipping costs, by the way.

39 So, once again, you have to consider the environment. So, if you
40 think you're going to do well just coming in from here to Japan by doing it in an
41 American way strictly, I think you'll find yourself in trouble.

42 But, lastly, what the Internet also means is the transfer of
43 information. And the transfer of -- it's a vehicle, and it's a threat to the old order in
44 many respects. I think it's a threat to institutions like doctors where patients now
45 have information and actually come in and question the sensei. It's a threat to
46 bureaucrats. It's a threat to everybody that had the coin in the realm information.
47 And, so therefore the embracing of the Internet by certain institutions may not be like
48 it is in the United States.

49 So, once again, we have to see how this change is taking place in

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Japan, and those who wish to do business have to do it in the Japanese way over there.

So, I would say that you would be foolish not to seriously consider investment in Japan, but I would keep your expectations in line with reality, because expectations through poor analysis is a self-imposed trade barrier, and then we have to get even, so we get mad at the Japanese when our own analysis is lousy.

Thank you.

(Applause.)

CHAIRMAN BREER: Our next speaker is Satoru Murase of the law firm of Bingham, Dana and Murase in New York City.

MR. MURASE: I think I'd like to conform my presentation a little bit to the others by giving up on this powerpoint -- oh, actually, it's coming on.

Actually, what I wanted to start off from was to tell you my perspective. I have no policy background, no strategic background in that context. What I am is a lawyer, a practitioner in the field, and I spend a lot of my time in conference rooms negotiating transactions and have seen a marked change in the type of transactions that have been going on. And as Bill just said, I think it's -- and, actually, the whole panel, I think, indicates, there's an incredible amount of foreign direct investment going into Japan, and that has started initially from a lot of purchases of distressed assets, and now has moved into other areas.

Now, there's a good old guy named Boone Pickens that in 1989 had a little bit of an incident with a company called Koito. And he wrote this in the Washington Post in '91. I thought it was sort of interesting. He said, "As an oil man I've drilled my share of dry holes, but I've always prided myself in knowing when to plug them." And going on, "And I've decided to sell Boone Company's stake in Koito back to its former owner." And going on, "Koito's known as one of the premier auto lighting manufacturers, and I'd hoped to make it still more profitable, but now I realize that I can't fight Japan's cartel system that keeps Koito and many others like it captive."

And in way for '91 it was an interesting quote. He said, "As good as it is, Japan's industry is not necessarily smarter, more agile, and more efficient than ours. It is simply based on business practices that America spurned almost a century ago when we outlawed trusts, monopolies, and cartels. We never said those practices didn't work. The question was work for whom and at what cost." I wonder who actually wrote this.

But in the end I think it's an interesting quote for ten years ago, and I think it indicates the changing times. I think it indicates something about stockholdership, corporate governance; it talks about anti-trust issues, and it talks about frustration with investing in Japan at that time.

Now, we go to ten years later and we look at a company called Nissan, essentially, effective control or leadership taken over by Renault. And you have the new, as of I think it's today, Shinsei Ginko, a long-term credit bank acquired by Ripplewood. Softbank is now negotiating for the acquisition of Nippon Credit Bank, and GE Capital, of course, into consumer finance, also into purchasing part of Japan Leasing. As the others have talked about, you have also NASDAQ, Japan Mothers developed for companies, but especially to try to take advantage of a market for high-tech and emerging companies.

And you have takeover bids. Many, for example, the Ambassador talked about Cable & Wireless, for example. There's more recently SS

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1 Pharmaceuticals, and there's also the more, I guess, widely reported failed Shohey
2 case.

3 Now, these are also interesting cases, because I think you see this
4 in auto manufacturing, for one. You see obviously the financial area, which is the
5 result of the big bang. You see consumer finance investments. You see venture
6 capital, small business, and you also see many transactions between domestic and
7 foreign companies.

8 I don't want to go and start talking about what people have
9 already spoken about, but I'm just going to go very quickly. Obviously, I think one of
10 the main areas, part of the big bang and part of the reality of the economy has been
11 that the role of banks has changed as well. As a result, you have non-performing loan
12 sell-offs continuing, and that has resulted in two things: Obviously trying to
13 restructure banks, but also -- it's also changing the bank-corporate relationship.
14 Having bought quite a few packages of non-performing loans, I can tell you that the
15 companies whose loans are bought are not very happy to find that their foreigners
16 have become their creditors.

17 You also see another fact which is, if you look back in U.S.
18 history in the financial area, that the role of banks has changed and that more direct
19 financing, that there's more direct debt and equity issuances by companies and less
20 reliance on banks. And also as part of restructuring you're seeing massive bank
21 mergers -- Sakura-Summitomo being the most surprising to me because of going
22 across the old lines. You also have the realignment of the Keiretsu system. You
23 have more tension within the group to individual corporate performance.

24 Another thing that personally I have great interest in is the venture
25 capital Internet area. You're seeing incredible amount of activity in that area. It's
26 actually sort of like a miniature bubble in Japan right now. Anything you put the
27 word "net" on or "Internet" on, you'll have interest in.

28 You also see a younger generation which in Japan is probably still
29 -- younger generation is probably 30, 40 -- that is growing into this area by starting
30 up new companies, and you're also seeing some level of job mobility. I still say some
31 level of job mobility, because many times when you look at the resumes that are in the
32 business plans of the Japanese Internet companies that investments are made in, they
33 are primarily people from very large organizations in background and basically large
34 organization drop-outs or innovators. Very much, actually, so that the Japanese
35 venture capital market, in my opinion, is much more similar to the Boston-New York
36 market than it is to the Silicon Valley market.

37 Also, social changes, the extended recession, and unemployment
38 frustration with delayed recovery. You see daily jarbs in the weekly magazines at
39 politicians, bureaucrats, corporate officers, politicians, bureaucrats, corporate officers,
40 and it's getting a little bit redundant everyday.

41 Also, the most troubling aspect, I think, in any of this type of
42 extended recession is the unemployment issue. And this is one of the things that I
43 personally, in my practice, see as something of a overall issue which may actually
44 affect a lot of the foreign direct investment into Japan and the policies involved.

45 Legal developments, there are so many that actually I think I'd like
46 to get a copy of Minister Tanaka's list, because that was such the comprehensive list.
47 But I'm just going to go through just a couple things that I see personally in my
48 practice.

49 There are better disclosure and enforcement rules, and I think that

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1 disclosure in the context -- obviously, you have stock exchange rules. You have
2 financial supervisory agents. I thought there was a little bit of an uproar recently in
3 that agency, but there's a clearer direction to enforce disclosure.

4 Foreign investors have been a major influence and corporate
5 governments to -- I think that is actually, I would say, parentheses, shareholder
6 derivative suits in Japan. Actually, sometimes more frightening than a shareholder
7 derivative suit in the United States because of the unpredictably and the amount of
8 damages.

9 The anti-trust area, you're also seeing a considerable change in the
10 type of analyses taken about market share and the more global market share analysis.

11 I think also Minister Tanaka talked about the many corporate
12 changes. You have domestic acquisition, stock swaps permitted. Under the anti-
13 monopoly law, holding companies are now permitted. You have consolidated
14 financial statements. Losses are more difficult to hide now. You have marked
15 accounting, again, showing a more realistic value of assets.

16 Personally, on the legal profession area, there is a great debate
17 very recently about trying to increase the lawyers, judges, prosecutors, and also to try
18 to set up a legal system that's more business or consumer-oriented. For example, one
19 example that's commonly talked about is the length of time that litigation takes in
20 Japan. Quite often in cases I've been involved in, five or ten years is not long.

21 You've also seen more recently -- well, from April, you'll see the
22 chapter 11 type of bankruptcy law being put in. This may not mean very much in the
23 context from a normal person's point of view, but it just is interesting from my
24 practice, because there is more strengthening of a debtor in possession. The idea of
25 keeping management even after bankruptcy or a budding attempt to make failure
26 acceptable. This is going to be very difficult to do, but I think the concept is to make
27 bankruptcy the procedure more predictable and maybe have more transactions where
28 you can sort of calculate your risk in an investment.

29 Now, invest to an atmosphere. I mean, clearly, things have
30 changed since T. Boone Pickens was around, but actually in many ways the system
31 hasn't actually changed that much. I think that the economic downturn, the economic
32 reality, globalization has really caused realistic changes in the Japanese economy. I've
33 listed here saying that business has been energized and threatened by foreign
34 investment, but threatened may be the more larger word.

35 Currently, government is encouraging investment, and in Japan, as
36 Bill Farrell pointed out, I don't think you can underestimate the government. I think
37 while the government will say it's a hands-off type of an approach, nothing happens in
38 Japan without the government. And I think that the government has been very, very
39 open to investment, encouraging it, trying to study what elements would help in this
40 context.

41 Also, just talking about more mundane subjects, what sort of
42 issues do I see? Actually, has there been change in issues in negotiating? And,
43 actually -- I've actually seen very little. If you're negotiating a mutual fund, acquiring
44 or going into a joint venture with a Japanese company, if you're negotiating a
45 purchase of a failed bank, if you're negotiating a purchase of non-performing loans, if
46 you're negotiating with the new venture capital people or you're negotiating with
47 various corporations as to new alliances, I think the issues have changed very little.

48 I think disclosure is easier said than done. Everybody says
49 disclosure is important, but it's very hard to tell somebody to hang their dirty laundry

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1 out and basically explain why it's there. In negotiations we always encounter the
2 situation where the letter of intent may say that disclosure is important. But when
3 you actually get to the points of actually doing the audits and doing the promises of --
4 continue to report, it's very, very difficult.

5 Corporate governance issues are also, again, very difficult. Many
6 companies have had foreign investors join, and it's an incredible education process for
7 them to learn how, for example, simply as how a board of directors meeting should
8 be held under a Japanese system but in a system that an investor or a foreign investor
9 can understand and feel comfortable with.

10 Also, I think the most important issue, as I said before, is
11 employment. Whether you're negotiating with a bankruptcy trustee in a bankruptcy
12 court situation, whether you're negotiating with an investment company, whether it's
13 a venture-related company, any company, the overwhelming issue that comes up, and
14 it's not actually written -- nobody writes this down -- but it is, "We're not going to
15 have to fire anybody, are we?" Who has control over personnel? This is a major
16 stumbling block.

17 I actually had one meeting with a bankruptcy judge with a number
18 of other people, and nowhere in the law is anything written about this, but half of the
19 conversation was what are you going to do about the employees? And what is the
20 plan going to be? And if you looked at the agreement afterwards, there is nothing in
21 there saying that our client had any obligation at all in the context, but, inevitably,
22 there's a moral obligation.

23 Also, in general, if you're an operating company going into Japan,
24 it's very difficult to fire employees. There's issues of the severance; there's issue of
25 needing to have actual and detailed cause for termination. So, surprisingly, for some
26 foreign companies that have tried to deal with personnel issues, it is very difficult.

27 Again -- I'm trying to finish up quickly -- the government political
28 leadership issues, I think, are also related to the unemployment issue and the
29 employment issue. The current government is encouraging investment, and that is
30 clearly the case. It's obvious wherever you go, whichever ministry you go, especially
31 MITI and I'd say Minister of Foreign Affairs, MOF, et cetera, it's very clear. But the
32 overall issue is the political leadership and how they will deal with a new economy, a
33 newly reformed economy where employment may not be as high as traditionally
34 expected.

35 Finally, just in one minute, foreign companies are being the
36 spearheads of change, and the question there again becomes this is the giatsu
37 battering ram in the investment area. In all areas you see in the economy, this has
38 been an incredible change in Japan, an incredible openness in Japan, but can this
39 continue under the political scenario of continued unemployment or, further, maybe
40 layoffs or reallocation of personnel through these acquisitions? Because many of
41 those acquisitions have not reached that level as of yet, and is there a backlash
42 possible?

43 And then, finally, I think I would talk about one thing is the new
44 economy, e-commerce. Can this lead the economy out of recession? I don't think so
45 in the end. I think that the e-commerce and net economy is an incredibly uplifting
46 sector of the economy which brings in a lot of foreign money and domestic money.
47 Actually, there is too much money trying to follow too few Japanese ventures now,
48 and we actually have seen a number of U.S. companies trying to soak that money up
49 in Japan by setting up subsidiaries, et cetera.

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1 But I think that this year you'll see another factor. You're going to
2 see every single trading firm, every single bank, every single manufacturing company
3 the president has stood up at New Year's and probably in front of the new employees
4 at the beginning of April, and it will be e-commerce, it will be net ventures, and that's
5 what they will be talking about. And though it's very difficult to make a steel
6 company into an e-commerce venture, it is a very, very important thing. It shows that
7 the focus is not on the past but is on the future.

8 And I think in that context Japan is going to have a steady
9 recovery. There are going to be bumps in the road. There are going to be many
10 policy issues on the political end, but I think we finally see the end to this recession in
11 the long run.

12 Thank you very much.

13 (Applause.)

14 CHAIRMAN BREER: Thank you very much, Satoru.

15 In any financial or economic transaction, there's a tax dimension.
16 We've heard about the opportunities and the changing climate in Japan for investment
17 and for doing business. Now, we'll talk about tax consequences.

18 Howard Charnas is a Legislative Tax Counsel for the IBM
19 Corporation with years of experience in dealing with this issue.

20 MR. CHARNAS: Thank you. Ambassador, ladies and
21 gentlemen, good morning.

22 I'm currently Legislative Tax Counsel for IBM, but I really was
23 invited here because of my last five years prior experience. Until the start of this year,
24 I was IBM's Asia Pacific Tax Counsel, located in Tokyo. And also during that period
25 of time, I served on the Tax Committee of the American Chamber of Commerce in
26 Japan, and in my last capacity, I was Chairman of that Committee.

27 I was actively involved in not only IBM's Japanese tax matters but
28 also those of the broader company membership of the Chamber. Our Committee was
29 actively engaged with the U.S. Embassy folks, especially Ambassadors Mondale and
30 Foley and also with the International Tax Policy Division of MOF.

31 It is in this broader sense that I'll make my remarks today.

32 First, let me briefly tell you about the IBM Japan story. IBM's
33 direct investment experience in Japan has a relatively long history, and I think
34 demonstrates the rewards of perseverance. In the 63 years from the start of IBM
35 Japan, we have gone from an outside supplier to what I hope is a valued national
36 asset recognized advisor to the government on a range of issues like Y2K, e-
37 commerce, privacy, and security.

38 IBM Japan was established in 1937 at a time when Japan was
39 moving toward office mechanization and the state of the art in those times were punch
40 card machines and mechanical fingers that read all sorts of data from the holes.

41 The period from 1962, when IBM Japan had about 2,400
42 employees and about \$40 million of revenue, to about 1984 was really a very difficult
43 time for us as there was a buy Japan practice, and the government gave full support
44 to the Japanese computer manufacturers. But as Tanaka-san said before, like
45 Konishigi and Akibono and Mushari marrow, American sumo, we were pretty hard
46 to push from our dojo in Tokyo into the Pacific Ocean.

47 From 1985 the policy changed, and the door opened widely to
48 foreign computer manufacturers, and the restrictions on buy Japanese were lifted.
49 That year we had about 16,000 employees and about \$3.8 billion of revenue.

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1 By mid-1999 last year, we had increased the number of employees
2 in Japan to 21,000, and IBM Japan's full year 1999 revenue, which is reported locally
3 in Japan, was about \$14 billion, over one-sixth the total of IMB worldwide.

4 Today, we look for further growth in e-commerce and services
5 and outsourcing as Japan moves to the 24-hour a day Internet world.

6 It's a pretty good story. It could have been more impressive if the
7 trade and the tax environment were more direct investment friendly, but not every
8 American company story is the same as this, as you can imagine.

9 From a tax perspective, there are some good things about direct
10 investment in Japan. The professionalism and the quality of those involved in Japan in
11 formulating tax policy is very high. They certainly gave access to the ACCJ Tax
12 Committee. They were very interested in what we had to say about improving the
13 tax climate. They truly wanted to understand.

14 But as a next step there also must be a time to take action, and I
15 would like to talk about some of the things that I believe action should be taken on.
16 The first chart I'd like to talk about is really the bold, courageous action that Japan
17 has taken over the past few years in tax reform. As you can see, there's been a
18 significant reduction in the corporate tax rate at the bottom, the middle part there,
19 from about 50 percent to 40 percent. Fifty percent was the highest in the OECD. At
20 40 percent, it's still very high, but it's quite an improvement.

21 There has been a modest asset investment incentive enacted last
22 year, and it was extended another year to 3-31-01. I think you can see that -- it was
23 wrong on the chart -- but it's to the end of next fiscal year. That incentive is the first
24 million yen of fixed assets can be written off immediately, which will benefit office
25 equipment and computers and various productivity and technology tools.

26 Reduction in the top individual rate can also lower the cost of
27 assignments for foreign companies bringing their key people into Japan, at least for a
28 portion of the assigning population. Top rate going down from 65 to 50, and I'm
29 sure that's a source of joy for many Japanese individuals as well.

30 However, the world is still changing, and if you looked at recent
31 budget announcements that appeared in the press, you'll see that there has been a
32 further lowering of corporate rate trends worldwide, in the UK and Canada. Canada
33 federal rate was announced to be reduced from 28 to 21 percent over five years,
34 transitioning over five years starting next year. And the UK corporate rate, ten
35 percent reduction from 33 percent to 30 percent as a way of stimulating the economy
36 and increasing investment.

37 I believe that you really have to take a look at the national budget
38 to get sense of what is going on to drive tax policy in Japan -- and why don't we put
39 up chart 2, thank you. And this is what has been happening for the past few years.
40 There was a major decline in the tax revenues from 1998 to 1999. These numbers
41 are lower than the numbers of tax revenues that were generated at the time of the
42 bubble, or the arrogant period. It's very unusual to have lower revenues ten years
43 afterwards. This trends continues into the next fiscal year where the revenue from
44 taxes is essentially flat.

45 This has to be made up somewhere, and it has been done at the
46 price of additional debt financing. To use Japanese understatement, this is less than
47 popular. If the 1998-1999 jump was unwelcome, this further debt increase in 2000
48 must be a real shocker to the policymakers, and is driving them to take various
49 actions. Notice, too, how the resulting debt services continue to creep up and takes

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up an ever larger chunk of the total expenditure. Gosh, it kind of looks like the U.S. budget about ten years ago, doesn't it? This is not a pretty picture, but this is the canvass on which tax policy is painted in Japan.

Expenditures are virtually flat, and surely pressures must be building for more services and local support in Japan. The consequences of this is the need, the demand to develop more tax revenue by base expansion and by new tax measures. Perhaps Japan will jump into short-term fixes, but these may very well cause greater difficulty later for the foreign investors and for the economy itself.

Let's take a closer look at some of these -- can I get chart 3? Let's start to look at some of the problem areas for direct investors. These are the inhibitors. This first one could easily be fixed since it is still prospective. And with the right approach will not bite and will not cost Japan any tax revenue to fix it if they want from the point of view of the foreign investor.

As we saw in the budget numbers, there is sensitivity for additional sources of tax revenue. One source seriously being considered is the large number of Japanese companies that are not profitable. They pay no income tax. If they are brought into the tax base by converting one element of the current income tax today -- that's the enterprise tax, which basically is local funding -- to an excise tax, this will have a profound negative effect on U.S. companies with subsidiary operations in Japan.

Even if this reformed tax produces the exact amount of tax cost to the American subsidiary, it's going to be a very big negative. The reason for this would be the impact on the U.S. foreign tax credit on that U.S. company. Such a changed local tax would no longer be an otherwise credible income tax, and this would result in true double taxation on the U.S. direct investor.

The solution can be very simply and can be done in the design of the tax itself and how it is imposed. By keeping the prior tax and making this new tax in the form of the higher of, the enterprise tax, the old tax or the new tax, at least that portion of the enterprise tax level would still be credible in the U.S. Something like this was done in the case of Mexico when they enacted a capital tax.

You can look at the chart -- I hope you can see it in the back -- there's some details of this tax proposal, which appeared in the Japanese press just a few weeks ago. It could come as early and probably will come as early as the next fiscal year.

The key word seems to "wide and thin." And that's the phrase that's used, to try and spread this over as many companies as possible. I guess there was a proposal by the Tokyo metropolitan governor to tax only big banks in Tokyo, to hit them with an excise tax as a way of raising revenue, but I think that's now going to be taken over by this broader tax that would be applied nationally and to all industries.

And the tax base that's being considered is some sort of excise tax, which is either going to be based on turnover or labor in the case of payroll or a combination of labor and capital in the case of assets or people or just capital itself. So, this is a major concern for U.S. companies. Turning a very significant amount of tax into a non-credible tax will really change the equation and cause a lot of problems.

The next issue has been a perennial favorite of the U.S. business community, and I'm sure one that the Ambassador has heard many times. And that is -- and also there's some growing interest in the Japanese business community in this one as well. And that is the modernization of the old U.S.-Japan tax treaty.

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1 In Japan, for something to be appreciated as an antique, I guess it
2 has to go back to the Ado period, maybe late Meji period as well. In the U.S., last
3 year's generation of computer chips are antiques already, and if you want to start
4 collecting Y2K compliant buttons, I'm sure you're going to find those in the antique
5 and swap shows. So, we have kind of different time definitions of antiques, but if
6 you're not willing to accept that it's an antique in Japan, it certainly is antiquated, and
7 I'll stay with that.

8 This was negotiated over the 30 years ago, and the world and the
9 economic reality is just no longer the same. We heard those remarks by Senator
10 Lieberman and the Ambassador today talking about the old days. Thirty years. I
11 mean, heck, just eight years ago it would have been impossible for me to conceive of
12 the word "surplus" and "U.S. Government" being used in the same sentence.

13 So, here's the story on the senior citizen of commerce. It's badly
14 out of date. It really does admittedly by everybody limit the ability of businesses to
15 compete effectively. It truly is a deterrent to increased incremental foreign investment
16 because of the higher withholding rates. Interestingly, both Japan and the U.S. have
17 recently modernized treaties with their other trading partners but for some reason not
18 with each other.

19 You can take a look at the rates -- many of you are familiar with
20 this. In the Japan-U.S. Treaty they're ten percent across the board on dividends,
21 interest, and royalties. In the OECD, dividends are five percent, royalties are zero,
22 interest is high. The U.S. model, which is just a U.S. position, it is not the ultimate
23 end result that the U.S. insists on but just merely a starting point, looks to five percent
24 on direct investment dividends; interest and royalties at zero.

25 The net of this, of not having a modernized treaty, is that U.S.
26 companies are put at a competitive disadvantage vis a vis other foreign-owned firms
27 in Japan, as well as impeding investment and growth in both Japan and the United
28 States.

29 Let me show you how this works on the next chart. Let's take a
30 look at this example. Here we're assuming that this is a perfect world, because we're
31 able to hire 100,000 economists, and each one could hold something constant, and it's
32 a perfect world. Here we have two identical companies operating in Japan, a U.S.
33 one and a French one. They have identical products and identical cost structures.
34 Both have sales of 100 and costs of 50, which are taxed in Japan, and the after-tax
35 profits are remitted back to their parent company. The French parent gets 28.5, while
36 the U.S. gets 27. But hold on. This is not about cash. This is not the real world.

37 The real world is about winning in the marketplace and making the
38 sale. Because France has a more favorable treaty with Japan with a five percent
39 dividend rate or even a zero in certain cases that I'll tell you about, the French
40 subsidiary can and will -- if you look at last column -- reduce its price to 95 to win the
41 sale. And if it does that, it will still take as much cash back at the end of the day as if
42 the U.S. company did win the sale at a price of 100.

43 This means the French company can out-discount the U.S.
44 company every time and win because of this antique or antiquated tax treaty.
45 Remember, we still have those 100,000 economists holding everything constant out
46 there.

47 Now, if this French company is a listed company, it would get
48 even a bigger benefit. It would get a zero withholding rate, and it could lower its
49 price to 91, and still come out with the same cash as the U.S. parent company selling

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at 100 if it could get the sale. Don't get me wrong, I love France, my wife loves France. But why should they get better treatment than the U.S.?

If you want to look at other treaties Japan has, you would also find this five percent lowered dividend withholding rate with Luxembourg, Netherlands, Canada, Norway, Singapore, South Africa, and Mexico. And if you look at the royalty provisions, Japan has five percent rates on cultural royalties with Hungary, Poland, and all the countries that constitute the former USSR, and there are lots of them, and they all end with "stanz" and stuff. Interesting, Sri Lanka has a five percent cultural royalty and also five percent on films and copyrights.

Don't get me wrong, I also like Sri Lanka, maybe not as much as France, but this is certainly not a top-tier international economic relationship that anywhere comes close to that of the United States. And by the way, I won't comment on this anymore, there's a zero percent royalty withholding in the case of Pakistan.

So, let's go to the bottom line. Let's look at the next chart. A new treaty is really a win-win, and everybody knows it. And with all due respect to all the Sri Lakans that may be here or in Washington, the U.S.-Japan relationship is the world's most important economic relationship, and it really does deserve the most favorable tax treatment and the most favorable rates. The world really has changed and so has Japan's position in the world.

We also need to find an effective mechanism to deal with the double taxation dispute resolution. We understand from discussions with the IRS and NTA that things are becoming very difficult between the competent authorities of the two countries in trying to resolve double tax disputes, and there is a need in a modern treaty for a mechanism to help this process. And I'll say this very carefully: Consensual arbitration.

Let me just comment here about the concern of Japan, about the revenue cost of a lower treaty rate in the case of royalties. This really can be eased in a very practical way by phasing in the rate reduction over a period of time. The U.S. has done this in other treaties in Canada and in India. So, we can soften the blow, but at least it should be done in a modern treaty. It can solve all the other problems, and this can be worked out at the same time.

And, finally -- put up the last chart -- there's sort of a trio of additional items that I think need to be addressed and can be improved. As Tanaka-san said, Japan has given favorable tax treatment to qualified stock options, as defined in Japan. That is Japanese company stock and only for employees of the issuing Japanese company. Most U.S. companies only list parent company stock and do not list their subsidiary stock. So, Japanese employees of U.S. subsidiaries cannot get this favorable tax treatment under the law. This makes it more difficult to attract and retain key people in Japan for U.S. subsidiaries. Remember, we have all these 100,000 economists holding something constant.

A modernized treaty could easily remedy this by providing for mutual recognition of each countries' qualified stock and retirement programs, and that exists in other U.S. treaties.

There are currently very aggressively tax audits of U.S. assignees in Japan assessing 401(k) matches, parent pension funding, and the like. These are, in my view, overreactions and stretching the interpretation of the law. But they are driven the quest for additional tax revenues.

They're very unfair if you consider that these amounts are deferred

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1 for these individuals. They just can't get at the cash without extreme penalties
2 imposed by the U.S. regulations. And if they're taxed now, that tax won't be credible
3 later in the U.S., because the five-year carry-forward for credits will have been
4 expired. So, we really have true double taxation of the individuals.

5 Again, the best way to fix this is in a treaty provision which
6 recognizes each other's qualified and retirement and savings plans.

7 Japan will be introducing its version of 401(k)s. Perhaps you
8 won't be too happy if everybody in Japan continues to save more and not spend, but
9 the 401(k)s are coming. Such aggressive audit practices by the Japanese tax auditors
10 in the case of some 20,000 Americans in Japan may prove to be difficult in the case of
11 several hundred thousand Japanese that work in the United States. So, I think that
12 should be definitely avoided.

13 So, with that in mind, I think I'll rejoin the panel now, and we'll
14 open it up for some discussion.

15 (Applause.)

16 CHAIRMAN BREER: Thank you very much, Howard.

17 I'd like now just briefly to turn to the panel and ask the panel
18 members if they have any comments on what they've heard so far? Then we'll open it
19 to public questions and discussion.

20 MR. CHARNAS: I'd just like to say that Tanaka can always join
21 IBM, because I've never seen so many charts covered so quickly and so fast.

22 (Laughter.)

23 MINISTER TANAKA: Thank you. I'm always using computers
24 at home and the office.

25 CHAIRMAN BREER: Questions and comments? Please, wait
26 for the microphone, and identify your name and affiliation.

27 MR. REDFORD: Yes, I'm Tom Redford with the World Affairs
28 Council. Mr. Alexander and Minister Tanaka both talked about foreign direct
29 investment both going into Japan and outside it.

30 I wonder if they could address for just a moment what are the
31 current trends for Japanese investment elsewhere in East Asia, especially in Southeast
32 Asia? Have these trends been hurt by problems in the last few years?

33 MR. ALEXANDER: Well, we -- JEI, Japan Economic Institute,
34 wrote a report on this a few weeks or months ago when the author was here. But
35 one of his findings was that Japanese companies were not fleeing foreign direct
36 investment in Asia in the same way that the banks were recalling their loans in the
37 area; that these were much more -- had much longer longevity and staying power and
38 for a lot of good reasons. The cost situation's improved, sometimes the exchange
39 rate situation's improved, especially if these facilities and investments were being used
40 for export to other countries.

41 And now as the countries seem to be coming back -- we'll have to
42 wait to see -- as the countries themselves are coming back, they even look like a
43 better bet these days. So, we have not seen a decline at all in the rate of investment
44 or much of a pullback either. I think that the foreign direct investment was long-term
45 and was sticking.

46 MINISTER TANAKA: Thank you. I remember that in year
47 1998 suddenly, as Mr. Alexander said, that the banks are calling back the loans from
48 Asia, and that deepened the Asian crisis. And actually the Japanese credit crunch, in a
49 sense, moved to the Asian countries and made things worse.

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1 But even around that time, I think Japanese companies keep
2 investing, at least to sustain at some level of operation in Asia. And I think the
3 investment, not the loans, but investment flow to Asia was maintained and maybe
4 declined a little bit. But at least that's what I understand.

5 And, now I think in 1999 the economy in Southeast Asia is
6 recovering. So, I think -- I don't have the figure here, but I think that investment to
7 Asia increased dramatically again back to the same level.

8 MR. NICKERSON: I am Greg Nickerson, National Foreign
9 Trade Council.

10 This question's for Mr. Tanaka. Mr. Charnas discussed at length
11 the withholding rates and how a reduction in withholding rates would promote
12 investment in Japan. Does Japan see this as -- is that the way the Japanese
13 government sees that, that reducing withholding rates would promote investment and
14 somehow stir the economy?

15 MINISTER TANAKA: I am not an expert in the tax issues, so I
16 cannot tell you where we stand on tax treaty or where we stand on withholding rates.
17 But, generally speaking, our current position is to try to get more investment to
18 Japan. Why not? Suddenly, there is a very strong position in the Minister of Finance,
19 so I can't really answer the question for their own sake.

20 We do have -- and another issue which Mr. Charnas mentioned
21 about is this stock option tax treatment. We got the stock option tax incentives for
22 certainly the domestic company and the domestic employees; that's true. And we
23 realize there's a problem. When I was in charge that question was raised by some of
24 the foreign investors, and we tried to get it widened to the foreign companies but
25 failed.

26 But, certainly, the more the American companies invest in Japan
27 and there are many employees working for them, and they certainly complain the
28 different treatment. And I think things are moving -- change is very rapid, so
29 anything is possible. But I cannot tell at this moment what the government official
30 position is.

31 Thank you.

32 MR. CHARNAS: But, Tanaka-san, you would agree that the
33 United States should have at least as favorable a treaty with Japan as the other trading
34 partners with Japan, as a matter of principle?

35 MINISTER TANAKA: Yes.

36 MR. CHARNAS: I think so too. Perhaps in your new job next
37 year, when your agency gets renamed --

38 MINISTER TANAKA: So, you give me the job of Finance
39 Minister. I really appreciate that.

40 (Applause.)

41 MR. CHARNAS: Well, if it gets a treaty, you can have my vote.

42 MINISTER TANAKA: Oh, thank you .

43 MS. TERRY: I'm Edith Terry from Enron.

44 I wondered what the panelists thought of Senator Lieberman's
45 proposal about a foreign free trade agreement between Japan and the U.S.? The idea
46 has been around for a long time, but is there some sense in which it could revitalize
47 the relationship or help to stimulate the Japanese economic recovery?

48 MINISTER TANAKA: Senator Lieberman's proposal free trade
49 agreement between Japan and the United States is certainly very exciting, and it

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excites lots of domestic politics also in Japan, especially in the agriculture field. So, practically speaking, I don't think any possibility at this moment to finalize this kind of agreement, but at the outset of this disaster in Seattle, this kind of thought, to reinput these kind of ideas into the bilateral trade front is a very, very good thing. Why we don't think about our mutual relation trade and investment relationship and try to create something like that is really healthy input to the bilateral relations. This is my personal view. I have never consulted with our government on this issue before.

But, for example, now Japan is trying to negotiate bilateral free trade agreement with Korea and Singapore. These are very new to us. And Mexico is in some ideas but not really in an international way. Canada was another possible discussion.

So, to maintain the momentum of free trade, these bilateral -- negotiation of bilateral agreement ideas is a really good one. So, even though it's difficult -- personally speaking, MITI's position on this free trade agreement is very positive even though there are different views in the different sectors of the government or different sectors of the economy in Japan. So, I really appreciate that proposal or input to this discussion.

MR. ALEXANDER: One point on this. I think that -- every time we've -- as Senator Lieberman mentioned, this has come up before, and every time it comes up, it kind of gets knocked down, because of the substantial difficulties, differences between the countries and so on.

But perhaps being clever about it, we can back off from the idea of an all around free trade agreement that covers all areas and begin looking more creatively at what areas might be included, and recognize that some places, some areas, some sectors will have to be left out or brought in slowly or brought in only partially. But there may be grounds here for some creativity and backing off from a full-scale, 100 percent treaty to something more limited.

MR. FODDER: Jim Fodder from the U.S.-Japan Business Council.

In light of those discussions, how do you get at things like cartelization and business practices, which have proven to be such impediments in the Japanese market? I don't foresee any way that a free trade agreement can adequately address those kinds of issues.

MINISTER TANAKA: Well, we have already agreed the bilateral enforcement of the competition law between the United States and Japan just recently. So, it's a kind of positive committee concept. Maybe you have noticed that if the United States finds any problems in Japanese enforcement of the competition law, we are getting to the bilateral consultation and exchange ideas and see what we can do.

So, it's not the dictatorial application of the anti-trust law of the United States to Japan, but it's a kind of a mutual agreement which you have already with Europe, and it's practicing very well. So, in a sense, you have two to use already. And if you have the issue, why not use it?

But from our viewpoint, the competition in these fields is quite important, and we really want our JFDCs practicing and enforcing competition law as severe as possible. And it's a mutual interest for both countries. And there are many American players now getting in, so I don't see much problems at this moment.

You say in some industries -- well, as Mr. Alexander said, I don't know what they're playing in with golf and talking about the cartelization, I don't

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1 know. They are not bringing their lawyers, at least, into their games; it's different
2 with the United States.

3 But I think the situation is changing because of this transparency
4 and foreign players in Japan. I realize that, for example, after the purchase of Nissan,
5 the French President of Renault is enforcing a very different application of
6 management in terms of the employee, in terms of the component builders or the
7 suppliers, and the market is there. And I don't think -- these kind of things will
8 happen more and more.

9 So, if there is any problem, just do it, and practice in the
10 competition law.

11 MR. MURASE: Fortunately or unfortunately, I have two anti-
12 trust cases that are sort of extritoriality cases right now.

13 I have one comment in the sense that I think the T. Boone Pickens
14 cartel word is a very broad word. So, I think on the one hand I think that through
15 treaty or through bilateral understandings you can have a very effective anti-trust,
16 anti-monopoly enforcement regime.

17 But the question is in the U.S.-Japan situation is how do you
18 accommodate certain cultural and business traditions, which U.S. executives go out
19 and play golf as well. I mean there's a lot of issues that are there. So, I think you
20 have to distinguish, one, you see in a number of cases carbon fiber, you see et cetera,
21 many cases that are ongoing now, very effective control in the anti-trust area, not
22 only against Japanese companies but against U.S. companies and also of the
23 European companies. And I think that is the trend that will continue. On the other
24 hand, the question of adapting cultural aspects to that is a difficult issue.

25 And, thirdly, just another comment is globalization has always
26 raised very difficult issues in the anti-trust enforcement area, because you have huge,
27 huge telecommunication and other organizations being created, and how do you
28 balance those interests. But it would be better to have a bilateral, global approach to
29 this, and I would hope that we continue the dialogue.

30 PARTICIPANT: I'd like to make some comment on Minister
31 Tanaka's recommendations. Today, actually, I am very happy to know that you show
32 several scenarios how to get out of the current situation. Those scenarios actually
33 works very well in Japan. I was very much impressed with your presentation.

34 You mentioned that the investment is very, very more important
35 than the trade, because the investment should be accompanied by hundreds of
36 thousands of jobs. But this dimension, this factor tends to be even more in general.
37 So, it is my opinion that the relationship should be much more strongly publicized or
38 stretched in both countries, especially in the United States. Thank you very much.

39 MINISTER TANAKA: I cannot agree more that exactly the
40 initial investment should be stretched. I'm talking not very much in Washington but in
41 all localities in the United States. I'm traveling a lot to North, South Dakota or
42 Missouri or wherever I'm invited and talk about this issue.

43 Investment is key. I mean the other day Jeff Sachs came to
44 Washington to talk about that, and those countries who successfully received the
45 investments simply grow, not the economy aid or not the loan but investment. I mean
46 risk money is definitely necessary for the growth, and countries like Malaysia
47 successfully invite money is just growing.

48 In my experience, when I visited, for example, Youngstown, Ohio,
49 it's very disastrous place. They failed to encourage and introduce investment to the

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city. It's just now failing. While those who are successful just 100 miles from Pittsburgh or Cleveland, it's quite successful. Houston, Austin in Texas is the same thing. So, it's just a matter of the locality or region or state or country who can successfully invite the investment will grow. So, it's a competition among these localities. So, it's sometimes harsh reality in some localities, but in general, that's a competition, and we have to -- that's a serious facts of the globalization.

MR. HALPER: Hi. My name is Eric Halper from the Department of State.

The subject of deregulation was raised a number of times by the speakers, and I'd be interested in hearing the views of the panel on the political climate as it relates to deregulation. There's been some concerns voiced by part of the LDP on the wisdom of proceeding with deregulation and the current harsh economic climate, especially in the area of small retailing. And this is a sort of general reconsideration in certain political circles.

In light of this election year discussion, what are the prospects for deregulation especially in sectors like small business and distribution in the year ahead and as a longer process?

MR. ALEXANDER: I have a chart that I did not use, but it was the number of backsliding of reduction or delaying of regulations that we've had in the past year. In every case I had that the delay and the LDP clientele that was being preserved by this. So, from everything from the delay of a year of the deposit insurance caps, limits and so on. And, so the delay in the 401(k), and so there are many of these areas where it was felt that the business, the construction industry, the financial sector was going to be heard, and these were particularly large contributors and employers.

And I'm hoping that as the election year passes and moves on, then we will get back to full-scale deregulation. This is my own view of -- interpretation of what's happening.

MINISTER TANAKA: I am not representing LDP, but it is true that there is some backpedaling occurring, but it's a political reality. That is happening in the United States in the steel industry, same thing. It's inevitable to some extent.

But if you keep doing that, we will be penalized by the market, and that is happening with the rating of the Moody's and the things. So, I talked with the guy in the Moody's the other day; we penalized. But he said, "Well, there are lots of other issues, so this kind of small penalty doesn't make much difference." But right after that they decided to reconsider the Japanese rating. So, I'm not so sure he's optimistic or not.

But the lesson we learned through our disaster or depression is that the market prevails. Even the government cannot win. So, that's a lesson which we learned. I hope the United States also learned that what you taught us.

MR. FARRELL: I would also echo that in this election year, where the LDP is less than secure in its base, that playing to local politics is very, very real, and I think maybe even encouraged by senior members of the LDP to buttress some of the local constituencies that were rocked a little bit in the previous election.

And, once again, I go back to the fact that the pain isn't severe enough yet to warrant radical change. So, the old ways of doing things are prominent, and I think conservative LDP politics plays to the local constituency at the expense of everything else. But it's a fact of life of election processes in Japan, so it's

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1 to be expected.

2 MR. FARIN: I'm Jeff Farin. I also work at the State Department.

3 Mr. Tanaka did an excellent job kind of cataloging the technical
4 changes in Japan, such as market-to-market accounting and consolidated accounting
5 as well. And Mr. Murase gave some anecdotes about the problems of applying these
6 things in actual business acquisitions or negotiations.

7 And I just wonder what the view of the panel is? How far will
8 these technical changes take root in Japan so that they genuinely force market
9 operation or will things kind of work to roll that back in unexpected ways? Thanks.

10 MR. ALEXANDER: I think we will always see kind of
11 unexpected ways to get around the regulations. But in fact they are taking them a
12 very major impact -- they're having a major impact. We see in the mergers and
13 acquisitions how that's changing.

14 More bankruptcies are going to court rather than being settled in
15 this kind of -- these midnight trucking companies who come and get your equipment
16 out before the creditor sees them, or when the Yakuza come and put the lock on the
17 door for the benefit of the creditors.

18 None of that makes sense in terms of business arrangements, of
19 keeping a business going. We are seeing more things happening in the court system.
20 And I think that, in general, the securitization -- there was no market for
21 securitization five years ago, and now it's something like ten trillion yen domestically.

22 So, in all of these areas the regulations, the law is changing. We
23 are seeing the consequent change in business behavior, even in the areas of, as
24 Tanaka-san just said about markets, attacking something like cartels.

25 I think the Nissan rearranging of its steel suppliers is a breakdown
26 of the old system of the steel cartel system that is going to force the other Japanese
27 automakers to say, "Are we going to stick with our old suppliers or can we go out
28 and look at Korean steel or Brazilian Steel?"

29 If Nissan is getting a better advantage and better price on its steel,
30 can we afford to stick with the old methods so that marketization and changes in
31 regulations and laws I think are having an effect? But we'll always have the ways to
32 get around it, the side deals in the same way that was described.

33 MR. MURASE: I think that's right. I think that especially in the
34 Japanese context, a personal opinion is, in Japan I think the legal reforms are sort of
35 not the leading indicator. And the Japanese are very -- I hate to use this word -- but
36 they're very quick in taking other examples, the best examples, and some people
37 would say copying them in many ways. But in a way, taking them and adjusting them
38 to the Japanese legal and business climate and doing that. And I think the legal
39 reform is probably after the fact in many of the cases.

40 I think that there are not that many lawyers in Japan, but still
41 there's a lot of loopholes, so people that have been doing business and been basically
42 getting -- dealing with the insolvencies, dealing with restructuring, dealing with
43 refinancing matters, and these legal reforms are just a reaffirmation of them.

44 Now, on the other hand, I still think that you have to be careful,
45 because in the context there is a big -- with the big bang on the payoff issue, et cetera,
46 you've seen a lot of legal changes, but there hasn't been the -- I would say there hasn't
47 been the press. The press is relatively supportive of the changes I think, but once you
48 have examples of people becoming unemployed or major issues with smaller shops
49 and mid-size companies being affected by these laws in an adverse manner, you could

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1 have some backstepping.

2 But I think in the end, as probably Tom Friedman would say,
3 globalization has changed things. I think the Japanese have realized that. I think the
4 people I meet, people that are out of college in companies for ten years, they are
5 really committed. And I think from that context, I think, that is the biggest indicator
6 of real change.

7 MS. GREER: Jean Greer with the Department of Commerce.

8 There's been a lot of discussion today about the market reforms,
9 disclosure of accounting and all. But the question I have is how much is this going to
10 change the business-government relationship? With U.S. firms and other foreign
11 companies going into Japan with an experience of a much different relationship with
12 the government, will the close relationship between government and industry
13 continue?

14 And I know there's been things -- you know, we've had the
15 information disclosure law that will go into effect next year. You have a public
16 comment procedure now. But I'm just curious as to what you think the relationship
17 or how the relationship may change between business and industry?

18 MR. FARRELL: My personal opinion is it's starting to change,
19 that you don't see too much reference to the Prime Minister of Business anymore, the
20 head of Kaedon Ren. And you get into an organization like that where you have
21 some innovative companies and "Oh, please save us, please save us" companies. The
22 relationship with the government from a large organization like that is fractious.

23 And then you have outside companies coming in and establishing
24 themselves that are no longer part -- or not part of the establishment. So, you're
25 seeing this taking place right now. How far and how fast it's going to go, I don't
26 know. But the relationship between business and government, in my mind, is
27 definitely beginning to change, and it will change significantly.

28 The point is organizations like Kaizu Doyukai may not have the
29 oomph of a Kaedon Ren, but you're getting some very innovative statements out of
30 individuals who are business leaders versus company statements there.

31 So, I sense a change. How far and how fast, I don't know.

32 MINISTER TANAKA: Well, that's a very interesting question. I
33 think it is, as Mr. Farrell said, it is changing, and it is inevitably the relationship
34 between the government and corporation will be remote compared to the former
35 situation, the previous situation.

36 One example: As you may notice, the government officials once
37 retired will get a job in the private sector sometimes. It is called descent from Heaven.

38 But, actually, the MITI officials, there are quite a number of people in the private
39 sector, but it is getting more and more difficult for MITI to convince them to take
40 one from us.

41 (Laughter.)

42 It's true, because simply that we don't have any regulation, and we
43 don't have much control from the company, but just leave it to the market, as I said.
44 And also restructuring is happening in the board of directors. The number of boards
45 have declined dramatically these days. How could you take one from the
46 government? It's simple.

47 So, I think that shows dramatically the change of corporate and
48 government relationship. Sometimes I feel that the United States has much closer tie
49 to the government when we negotiate with USTR.

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1 That reveals a lot. You have consulted so close. So, I rather envy
2 your relationship.

3 (Laughter.)

4 CHAIRMAN BREER: Please join me in thanking our panel for a
5 very interesting discussion.

6 (Applause.)

7 A buffet lunch is being set up at the back of the room, and -- do I
8 need some guidance?

9 And the keynote speech will be delivered at 12:30.

10 (Whereupon, the foregoing matter went off
11 the record for lunch at 11:50 a.m.)
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A-F-T-E-R-N-O-O-N S-E-S-S-I-O-N

(1:06 p.m.)

MR. SMITH: Ladies and gentlemen, it is my great honor and pleasure to be able to introduce our speaker at the lunch today. He really needs very little introduction.

Senator Roth has been involved in the policy world for many, many years. He got his education at the University of Oregon and then went on to a place called Harvard where, not satisfied to just get his MBA, he went on to get his LLB as well, doing that right after the Second World War.

During the war he enlisted in the army as a private and left the army as a captain which, as a former army officer, I appreciate that achievement. That is a very fast rise, indeed.

Somewhere along the line he moved to the state of Delaware. He has been the state republican chairman there for four years. He went on to serve in the House for four years.

He is now in his fifth term in the Senate and is the chairman, as you all know, of the Finance Committee, also chairman of the Joint Taxation Committee, a member of the Government Affairs Committee, and a member of the Joint Economic Committee.

Now, that is all the stuff that is well-known about the chairman's resume.

What is perhaps less well known to some of you but well known to those of us at CSIS is that he has been a great friend and supporter of our center.

The last time that he and I were together was in Brussels, two or three years ago, when Senator Roth was kind enough to lead the largest congressional delegation that has ever been to Brussels to a meeting that we were holding on transatlantic relations.

He has been to many other CSIS activities. He has been leading for us a group looking quietly at the international financial organizations, and what sort of reform ought to be done there.

We are always delighted to have him with us. Senator Roth, it is a great pleasure to have you with us.

Thank you.

SENATOR ROTH: Thank you very much, Tony.

It is always a pleasure to join CSIS which I think really is one of the great think tanks of the world, I will put it that way.

I am pleased that we are having a conference on U.S.-Japan relations, a subject that once commanded a lot of front page attention.

While media interest has somewhat waned, I must say that the relationship between our two great countries is as important now as it has ever been.

The fact that U.S.-Japan relations command less attention is in many ways good news. I say that because I know that you recall as I do that in years past Japan gained attention primarily for negative reasons; trade problems existing between our two countries, exaggerated talk about Japan becoming the world's number one economy, or Japan's investments leading to wholesale takeover of American industries.

I think the current lack of attention to Japan, however, signals at least in part, a maturing of bilateral relations, and hopefully a reduction in the number of bilateral problems.

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1 The bad news about increasing indifference to Japan is that a
2 relationship as crucial as I believe this one to be ought to be scrutinized and
3 discussed thoroughly, by the press, Congress and the public.

4 Today, potential problems with China, North Korea, even
5 Indonesia, overshadow our relationship with Japan.

6 But adequately addressing any problems we encounter with any of
7 those countries, or really any of the major issues confronting the Asia Pacific requires,
8 in my judgement, close cooperation between Washington and Tokyo.

9 In the case of China, for example, I believe the PRC's entry into
10 the WTO and its continued economic development will tend to encourage Beijing to
11 act in ways more in accordance with the interests of the United States and Japan.

12 But if Beijing's recent inflammatory statements regarding Taiwan
13 are any indication, that of course, may not be the case.

14 That is one of the reasons why the steps taken in recent years to
15 reinvigorate the bilateral alliance have been so vital. Strong security ties between the
16 United States and Japan provide the foundation for peace, for stability and economic
17 development for all of the Asia Pacific.

18 They also allow us to hedge our bets in the event China's
19 economic rise does not lead to more cooperation from Beijing.

20 In the case of the Korean peninsula too, the United States and
21 Japan must work together as well as with South Korea to contain the threat posed by
22 the North.

23 The enactment of the defense guidelines by the Diet was a vitally
24 important step in permitting Japan to play a suitable role in the event of conflict on
25 the Korean Peninsula.

26 Enormous problems that Indonesia faces in emerging from its
27 economic crisis, in making the transition to democracy, and in quelling ethnic and
28 religious conflict, all can benefit from joint American and Japanese efforts.

29 There is no question that both our countries share an interest in the
30 maintenance of peace and stability in the world's largest Muslim country and a nation
31 that sits astride vital sea links.

32 In responding to the sorts of security problems that I have outlined
33 and others throughout Asia, Japan and the U.S., as I said, remain indispensable
34 partners. That is one reason I believe it would be a mistake, a serious mistake, for
35 Japan to lessen its commitment to the bilateral alliance by reducing host nation
36 support.

37 Let me just turn briefly to the economic situation in Japan.
38 Another reason for the relative lack of development in Tokyo has, of course, to do
39 with Japan's decade-long economic stagflation.

40 If you wanted to sell books and magazines in the late Eighties, you
41 can recall that inflated predictions about Japan's imminent global economic
42 dominance was always helped.

43 But those predictions, of course, grew far off course. Now we
44 have a number of prognosticators who are forecasting Japan's pending economic
45 demise. They bolster their claims by pointing to Asia's return of growth in the
46 aftermath of its financial crisis, notwithstanding Japan's lingering economic troubles.

47 In my opinion, those who dismiss the importance of Japan today
48 are just as wrong as those who overstated Japan's economic mite in the Eighties.

49 Clearly, Japan has some very, very serious problems. And the

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transition to more openness and competition is frankly taking place far too slowly, and in too much in a piecemeal fashion.

The trillion or so dollars Tokyo has wasted on public work projects over the past decade to revive the economy has only achieved one thing and that is, as you well know, winning Japan the dubious distinction of leading the world's major industrialized nations in public debt.

The budget that passed the lower house yesterday only furthers these bad habits.

So, let me put it this way. From Bit Valley and Shibuya to the influx of foreign direct investment to the emergence of MOTHERS, and here I am talking about the joint venture of NASDAQ and Softbank, change and innovation is in the wind.

Moreover, Japan has enormous resources in the skills of its people as well as the talents of its companies.

The changes that Japan must still undertake to fully restart its economy remain substantial. Indeed Japan requires reforms of such magnitude that they will necessarily force social and cultural change. And that is, of course, a key reason why opposition to reform is so formidable.

After all the ending of the cozy sanctuary of lifetime employment is extremely difficult for those who entered the work force expecting it.

But breaking the protective bonds of the Keiretsu leaves non-competitive firms by the wayside and relationships formed over the decades in tatters.

Opening Japan to foreign direct investors and the foreign business practices they bring threaten long cherished ways.

But the path of deregulation -- competition is frankly never comfortable for anyone, just ask the American workers who lost their jobs when the U.S. began its successful journey down that path in the Eighties.

There is no question that resistance to change among the bureaucrats, uncompetitive industry and among many of the Japanese people themselves, is formidable.

Fortunately, however, younger generations in Japan are embracing change and the challenge of competition. That is why I remain optimistic about Japan, its future, the future of our bilateral relationship.

Japan will, of course, take the helm at the next G-8 summit meeting in Okinawa, and I recognize the political constraints to dramatically form in an election year such as this.

But I urge Japan and Prime Minister Obuchi to demonstrate leadership by fully addressing the issues that I have outlined and by furthering the process of reform.

The eyes of the world will be on Japan in July, and the opportunity should not be missed.

MR. SMITH: I want to give you some indication before Senator Roth takes a few questions of the devotion to CSIS. Not only has he not had lunch, his lunch is sitting right there uneaten, but he is also floor-managing a major bill on educational savings accounts coming up this afternoon.

So, we do have very limited time. But the Chairman has very graciously agreed to take a few questions.

Sir, when you feel like you have had enough questions please let us know, and we will let you get some food.

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1 Yes, please?

2 MR. ALEXANDER: Arthur Alexander, The Japan Economic
3 Institute in Washington.

4 Senator, you touched on the political backsliding on reform.

5 Is there any advice as a politician that you could give to the Prime
6 Minister about how to accomplish deregulation and imposing pain upon citizens, and
7 yet getting ahead with the job of doing it? Something that is debated daily in the U.S.
8 Congress and I hope you have some lessons that you have learned over the years.

9 SENATOR ROTH: It is very difficult, as you well know, to
10 change the course of a nation.

11 I have to say that I have been disappointed in the case of Japan
12 because I have always felt that when the situation becomes serious enough that they
13 will get together to bring about a great change, even though it is very dramatic in
14 nature.

15 So, I have been somewhat surprised at the lack of will to do what
16 is necessary for their country.

17 I think part of the problem is obviously the constraint of politics.
18 That is always a constraint wherever you go.

19 But it does seem to me that somehow the leadership in Japan has
20 to be willing to take more risk, not play it safely, not worry so much about the next
21 election. To be candid, not only their welfare is at stake, but I think the entire Asia
22 area. I find it hard to believe that Asia can make the kind of permanent recovery that
23 it should if Japan does not become more open access to foreign products.

24 I just think that whether you are talking about that or talking about
25 transparency or whatever, it is time for a consensus to be built there to get things
26 moving, in their own best interest.

27 So, I have to answer you directly; I have no recommendations.

28 MR. SMITH: Yes?

29 PARTICIPANT: My question is what is your point of view about
30 your idea for the international financial architecture?

31 SENATOR ROTH: We have a CSIS commission currently
32 studying that. We have not, frankly, come up with any recommendations at this
33 stage, and I would hesitate to try to predict what we are ultimately going to
34 recommend.

35 They have put together, I think, a very distinguished panel. I don't
36 consider myself an expert in this area, but for some reason I am on this commission.

37 So, for me it is as much a learning experience as contributing, so at
38 this stage I am not certain what direction it will go.

39 MR. SMITH: That group that Senator Roth refers to is about
40 halfway through its deliberations and it would be premature to judge any conclusions
41 coming out of that. We are very grateful for Senator Roth, and his participation may
42 have something to do with the role he plays in the Senate.

43 So, that group will continue to meet and we hope, in due course,
44 to have some crisp and hopefully innovative recommendations on that subject.

45 SENATOR ROTH: If I could just make one observation that
46 doesn't directly have to do with Japan and ourselves, as one who believes how
47 important trade is, I am very concerned at this stage with recent developments.

48 I see in my own country protectionism growing from both the Left
49 and the Right. I happen to be a strong believer in China becoming a member of the

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World Trade Organization, but I have to tell you with recent events, it becomes increasingly difficult to accomplish, in this country, what has to be done.

I was shocked with the Chinese, when they talked about Taiwan and the use of force. I was shocked when the Vice President made his statements about a tougher agreement.

So, I am really very concerned about where is the World Trade Organization going. I think one of the challenges that Japan and the United States in our relationship has to be to try to provide some leadership to ensure that we continue the direction of market access. That means that Japan has to significantly open its market.

But if we don't have leadership in this area I think it does not spell well for the world economy.

MR. SMITH: I think that is all the time the Chairman has.

Mr. Chairman, thank you very much, once again, for taking time out from your heavy responsibility. We are very grateful.

AMBASSADOR FAIRBANKS: We will continue the afternoon session which is scheduled at 2:00 p.m. I would like to start now but not everybody is here.

So, at 2:00 p.m. we will continue on with the afternoon topics.

In the meantime, the buffet is still open. The bar is not open yet. There is dessert and still more food, so please help yourself.

(Whereupon, the proceedings adjourned from 1:26 p.m. until 2:04 p.m.)

CHAIRMAN BREER: Just a couple of announcements. Copies of Senator Roth's speech are or were available outside and copies of Mr. Tanaka's charts and Arthur Alexander's charts are also available on the table in the reception room.

I think we had a good session this morning, covering a number of aspects of recent developments in the Japanese economy and in the environment for doing business and investing in Japan. We had excellent presentations by Ambassador Yanai and Senator Lieberman, sort of setting the tone for the meeting.

We appreciate those very much.

We had a brief drop-by by Senator Roth in the midst of a very busy floor schedule.

We will continue now with the emerging strategic environment in Northeast Asia.

We will go from sort of the specific to the broader during the course of the afternoon. As I said earlier, biographies of our participants were passed out earlier.

So, I will ask Kurt Campbell, the Deputy Assistant Secretary of Defense and soon-to-be a member of the CSIS family, to open the afternoon discussion.

Kurt?

MR. CAMPBELL: Thank you very much, Bill.

I was struck as I was listening to the Senator over lunch, and he was talking about the importance of the organic links between Japan and the United States.

But the fact that perhaps they are not always as discernible, not always as obvious as perhaps at times in the past, I was struck by an anecdote, which

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1 I am going to share with you just very quickly, of an event that took place a couple of
2 months ago, that on the face of it is kind of humorous, but at another level I think
3 suggests some of the problems that we face as an institution in terms of the
4 U.S./Japan Alliance.

5 Prime Minister Obuchi visited the United States several months
6 back. The President had his largest State dinner up to that point, in which large
7 numbers of American glitterati were invited, both key players on Capitol Hill, key
8 business people, Hollywood types. You all know the general kind of people who
9 would be invited to such an event.

10 Same thing happened in Japan. Key Diet members, key players in
11 the Japanese economic orbit were invited to Washington.

12 Somehow, at the very last, there were a couple of seats made
13 available, so low that both Rusty Demming, my good friend and partner at the
14 Department of State and myself were both invited.

15 So, you get the invite two days in front of the dinner so you know
16 they have been thinking about you for a long time. We were both thrilled and both
17 went to this event.

18 As we were milling about before going to dinner, I saw a group of
19 Diet members, perhaps the most powerful group of Diet members I've every seen
20 outside of Japan, sitting in a group alone, just basically having cocktails with one
21 another. Not really interacting very much with their American counterparts. Not
22 really focused on the people around them.

23 Then suddenly one of them said, "Look, over there, it is Rusty
24 Demming." And they all launched to go talk to him. On the way they went over
25 about four cabinet secretaries, the Chief of Staff to the President.

26 It gives you a sense of a sort of distortion that we have
27 experienced over the last several years, where someone like Rusty, who is absolutely
28 critical and central to the U.S./Japan Alliance is a household fixture, very well known
29 in Japan.

30 But central key players in the United States and indeed in Japan
31 don't have the contact, don't have the association with one another that perhaps they
32 have had in the past.

33 So, when I was given the assignment today of about assigning a
34 sort of a list, a strategic list of challenges that the United States and Japan face on the
35 security front over the next five or ten years, I must be honest with friends that I think
36 the most key and critical challenge that we face is going to be an internal one.

37 I think both sides have a tendency to recite, very effectively, the
38 catechism about it is the most important alliance in the world, bar none. All the things
39 that we have said for many, many years.

40 I am afraid that over the next several years that we are going to
41 need to move beyond that. Those are important sentiments, they are I think widely
42 held.

43 But I think what is going to be critical is a much more serious
44 evaluation and a much more serious, and high level and sustained bilateral dialogue of
45 the kind, frankly, that my friend and mentor, Joe Nye, initiated when he was in
46 government, several years back.

47 That is going to have to be one of the top agenda items of the next
48 administration, both in Japan and the United States.

49 I am afraid that when we talk about strategic dialogue in either

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1 Japan or the United States right now, it is seen as almost a code word.

2 In the United States it is sort of a code word for, aha, Japan wants
3 us to talk about force reductions.

4 In Japan, it is, aha, the United States wants us to spend money on
5 another American initiative they can't afford.

6 In reality, real strategic dialogue, real strategic discussions are
7 absolutely critical on the rise of China, problems on the Korean peninsula, an Asian
8 Pacific region that needs, in my view, the stability of the U.S./Japan Alliance perhaps
9 more than anytime in the past.

10 I don't think this is going to be an easy process. I think it is
11 absolutely critical that it not just involve the key and traditional players in both
12 bureaucracies.

13 Indeed, it has to widen and broaden to include members of the
14 Diet and members of Congress.

15 If I could ask for one or snap my fingers and have one
16 achievement, it would be for a much more sustained diet between our Congress and
17 the Japanese Diet.

18 I think that kind of strategic exchange of views on the importance
19 of the Alliance would be absolutely critical to the future.

20 I know that we have programs that exist; I am just not sure we
21 have focused our attention in the way that is going to be necessary for the future.

22 So, at its base, the key will not be just how we discuss issues like
23 China or Korea or out of area problems. But frankly a more fundamental
24 reassessment and recommitment at a very high level to remember what I think some
25 of us have forgotten.

26 The real key to stability is this U.S./Japan relationship and security
27 in the future.

28 As we think about what are the central criteria of post-Cold War
29 stability, I think one of the things that we have tended to forget is that we need to
30 focus much of our attention on problems like Kosovo and Haiti and Somalia and
31 Bosnia. Those are critical, obviously.

32 But it is also important to take the crucial and sort of the most
33 fleeting asset that we have in the U.S. government, the time of our central leaders,
34 and have them focus their attention on those things that are working well and that we
35 base all of our other policies on like the U.S./Japan Alliance

36 So, let me just begin with that as a fundamental.

37 The second challenge is one that we have all addressed and we
38 have thought about consistently in the past.

39 If there is to be true peace and stability in the Asian Pacific region,
40 the relationships between the United States, Japan and China will have to receive
41 much more attention in the future than they have in the past.

42 I think from the U.S. perspective I think there are three key
43 challenges that I think that we are going to have to undertake in the coming years if
44 we are to succeed in achieving a kind of partnership among the three capitals on
45 peace and stability.

46 I think the first is we have to make clear, both internally to
47 ourselves, and to Japan and China, that the U.S./Japan Alliance is not some sort of
48 springboard, since the defense guidelines, since the reinvigoration of the U.S./Japan
49 security relationship, a springboard to be used against China.

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1 Indeed, it is a framework for maintaining peace and stability that
2 has a remarkably good track record over the last 25 years and should be sustained
3 into the future.

4 That is not going to be an easy proposition for many in the body
5 politic who think about so to speak, containing China. You hear a lot of loose talk
6 about somehow the United States and Japan forming some sort of alliance.

7 Nothing will alienate Japanese friends faster than the idea that they
8 are somehow part of an American jihad in Asia, aimed at China.

9 A second issue that I think is absolutely critical is greater
10 coordination and consistency of purpose between the United States and Japan on
11 maintaining peace and stability in the Taiwan Straits.

12 I think it is absolutely critical that the United States and Japan
13 coordinate our policies, because if there is any distance, any light between us, that
14 tends, like other developments, to send messages either to Taiwan or the PRC that
15 are unhelpful.

16 Then of course, is an issue that we ave lived with for many years.
17 That is to encourage China to accept the fact, accept the reality that Japan is
18 changing. Japan wants to play a role in security dialogues in Asia.

19 Japan will play a role.

20 I think some of our Chinese interlocutors have suggested that
21 because of the tragedies of the 1930s and 1940s that somehow Japan does not
22 deserve or should not undertake responsibilities that would somehow suggest that
23 Japan is a more normal state.

24 I would say to that that Japan, over the last fifty years has been
25 one of the bulwarks of peace and stability, and that Japan has changed, and that Japan
26 is changing in its attitudes. Perhaps slowly in certain sectors, but more rapidly in
27 others, demanding to play a more active role in Asia Pacific.

28 We need to gain, I think, Chinese understanding that they need to
29 engage Japan in a dialogue about that rather than just saying that that is unacceptable.

30 I think again, that one of the next challenges for us is to think
31 about ways that we can encourage dialogue, informal and formal, between the United
32 States, Japan and China, not only about economic issues and political issues, but
33 about security issues as well.

34 A third issue that we of course all face is the potential for change
35 on the Korean peninsula.

36 I think one of the very important consequences of our trilateral
37 desire to engage North Korea has not necessarily been in the progress in U.S./North
38 Korea and South Korea or Japanese/North Korean dialogue with Pyongyang. That is
39 going to be a difficult process.

40 What has been a very important achievement has been the degree
41 of policy coordination we have seen over the past three years between the three
42 capitals. Unprecedented.

43 If you look, in fact, in the security and political realm over the last
44 five years, something that I don't think anyone has given as much attention to or given
45 enough credit to both Japan and South Korea, is that the most important
46 development on security related areas has been the coordination between these three
47 countries.

48 The progress is nothing short of phenomenal. We need that
49 process to continue into the future.

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1 We can't imagine or predict that peace and stability and change
2 will not come to the Korean peninsula. I think inevitably there will be change on the
3 Korean peninsula.

4 The United States, Japan and South Korea, as an initial step, have
5 to be talking about how we work together, not only to maintain the situation and
6 maintain close coordination, but also to begin thinking about how we coordinate
7 together, should changes come on the Korean peninsula, in the future.

8 A fourth area I broadly describe as out of area challenges.

9 Over several years we have seen instances where the United States
10 and Japan have had friction on areas like Burma and the Middle East and others.

11 I think part of the strategic dialogue is the need on the part of the
12 United States to explain more clearly how much of our role, much of our strategy in
13 the Middle East is designed to secure the safety of oil supplies to the Asian Pacific
14 region and that Japan is a tremendous beneficiary of such a U.S. presence and
15 commitment.

16 I think we also have to make more of the fact where the United
17 States and Japan have worked together and well, like Indonesia over the last several
18 months, and take opportunities to work in the future, together.

19 I think is a sense, what we are seeing in a lot of areas in foreign
20 policy, outside of the direct U.S./Japan security relationship, is the desire on the part
21 of Japan to have its own voice, to play a role in Asia or in the world that is not linked
22 directly to the U.S./Japan framework.

23 I think that is something that must be encouraged rather than
24 discouraged. Japan does have a unique voice. It does have a role that is distinct from
25 the United States.

26 The health of our Alliance will be in our ability to understand that
27 on many issues we will indeed have very different perspectives.

28 Last, probably one of the greatest challenges, something that
29 needs constant attention, and this is something that really, bureaucrats need to focus
30 on, over a long period of time, is to come to the realization and to understand that
31 Japan is not a platform for military operations.

32 Japan is a partner and what that means is that both sides, after
33 thirty or forty years in which Japan did not want to know about security and did not
34 particularly want to be consulted, and frankly more in an ally, traditionally that the
35 United States likes, who says you go ahead and do what you think you need to do,
36 right?

37 So, it has suited both of us, right down to the ground.

38 That has changed. Japan wants to know more, wants to be
39 consulted.

40 So, it is involving and very substantial cultural change in the nature
41 of the way the Alliance is run.

42 Questions about our operations, questions about our training,
43 questions about what is necessary and critical to the smooth and effective functioning
44 of the U.S./Japan Alliance.

45 That is going to require tremendous sensitivity on the part of the
46 United States and I think some commitments on the part of Japan.

47 That process, to be successful, I think will need to demonstrate
48 some flexibility on both sides.

49 I join Senator Roth in his strong support of host nation support.

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1 This is not a sympathy budget. It is a strategic commitment on the part of Japan to
2 the maintenance of peace and stability in the Asian Pacific and I urge our Japanese
3 friends to listen to those comments coming from Capitol Hill.

4 I will just close with one last issue.

5 I have talked mostly about questions associated with policy and
6 regional dynamics. We will have to deal with technology developments, as well. I
7 think one of the issues that the United States and Japan will need greater dialogue on
8 is, of course, what ballistic missile defense and theater missile defense will mean for
9 the maintenance of peace and stability in the Asian Pacific region.

10 I think there is tremendous misunderstanding everywhere in Asia,
11 and indeed in Japan, about what the implications are for the United States, for our
12 presence, for our relationship with China, and the like.

13 With those five general, over-arching principles, Bill, I will say
14 thanks.

15 CHAIRMAN BREER: Thank you, very much, Kurt. Our next
16 presentation will be from General Yamaguchi.

17 GENERAL YAMAGUCHI: Thank you, Bill.

18 This morning my colleague, Minister Tanaka, made a comment
19 that it is kind of awkward to make a public speech before the Ambassador.

20 This afternoon, again I am kind of awkward, but much worse. I
21 am just sitting between two former bosses.

22 When I was working on the joint declaration in Tokyo, Professor
23 Nye was the Assistant Secretary of Defense, one of the bosses. As to Kurt, when I
24 was a member of the drafting team of the new guidelines, he was the boss in
25 Washington, D.C.

26 So, it is a kind of awkward job to do this.

27 Basically, what I am going to say is quite simple because I am a
28 simple soldier.

29 First, I would like to talk about how we see the public perception,
30 changing public perception in Japan. Second, how the strategic requirements have
31 been changing in the last ten years, I guess.

32 Before getting into the point, let me show what sort of things have
33 happened in the last ten years.

34 There are many things, from the Gulf War to the violation of
35 Japanese territorial waters by North Korean boats. There are many things, and many
36 new policies which the government of Japan has taken.

37 As many colleagues have been pointing out this morning and this
38 afternoon, there seems to be two major driving factors.

39 First, popular perception about how Japan's security needs have
40 been changing and have become more realistic and pragmatic mainly because of the
41 outside factors such as international crises.

42 Second and more importantly, Japan has found itself facing a set
43 of fundamentally changing requirements for their national security in an environment
44 created by the end of the Cold War.

45 In the last decade Japan has experienced a number of international
46 crises, in which the public improved its awareness on the reality of the post-Cold War
47 world. Such crises may include the Gulf War in 1991, '93-94 crises caused by
48 suspicion of North Korea's nuclear programs, the Taiwan Strait crisis in 1996, North
49 Korea's missile launches in 1993 and 1998.

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1 In domestic areas, (--unclear language--) and the gassing of the
2 Tokyo subway system in 1995, we feel that the national crisis management system of
3 Japan was far from sufficient.

4 Next slide please.

5 International and domestic crises seems to have made changes in
6 public perceptions in several directions.

7 First, the public has become aware of the necessity for Japan's
8 contribution to international efforts to maintain peace and stability of the region, and
9 the world as a whole.

10 This was particularly because of the experience of the Gulf War
11 and the reconstruction process of Cambodia.

12 Second, the Japanese public has become more willing to utilize the
13 capabilities of self-defense forces in non- or semi-combat operations such as U.N.
14 peacekeeping operations, humanitarian or disaster relief operations in and outside of
15 Japan.

16 This became very prominent last March when the Maritime Self-
17 Defense Force was ordered to conduct a maritime security operation for the first time
18 in its history, to chase two North Korean speed boats violating Japan's territorial
19 waters.

20 The third, having experienced a crisis mentioned earlier or the
21 Taepo Dong launch over Japanese territory. The consensus seems to have been
22 formed on the necessity of establishing a more effective system for crisis
23 management.

24 Taepo Dong launch in August, 1998, in particular, may have
25 significantly reduce opposition to the government decision to participate in a joint
26 research program for missile defense with the United States, and to acquire a satellite
27 defense system of its own.

28 In addition, through a number of crises during the Nineties, the
29 alliance with the United States has gradually gained support.

30 It is apparent that the Japanese public has become more aware of
31 the importance of the U.S. military presence in the region, particularly when looking
32 at the tension on the Korean peninsula which might become volatile without the
33 military alliance between the U.S. and Korea.

34 Next slide please.

35 I said more important things are strategic requirements, changes in
36 strategic requirements.

37 Security specialists found fundamental security requirements for
38 Japan's post-Cold War security policy during the process of developing a new
39 national defense program outlined in 1995 and new defense guidelines of 1997.

40 Prior to this, in 1994, the administration asked a group of scholars,
41 business people, ex-governmental and ex-military officers for proposal on Japan's
42 security policy to deal with the post-Cold War strategic environment, headed by the
43 chairman of the Isaki Beer Company, his name is Higuchi. The last report is usually
44 called the Higuchi Report.

45 I regularly participated in that meeting, I can assure you that
46 Higuchi's company did not make a lot of contributions because it was held in the
47 morning in the Prime Minister's official residence, so not much beer was enjoyed by
48 the members.

49 The important thing is that the advisory group clearly pointed to

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the fundamental differences between Cold War and post-Cold War roles of Japan's defense capabilities.

It states, I quote, "The defense capability of Japan in the Cold War period was built up and maintained for the primary purpose of preparing for attacks on Japan's territory by hostile forces." And, "Japan's mission was to defend the country based strictly on self-defense."

However, in light of its geographic position, Japan naturally played an important role in the anti-Soviet strategy of the Western Block.

As you can see on the chart, NATO established a Western Front against the East's massive ground force in Europe. Japan was directly facing the Soviet's Far East forces through the maritime border.

Defense of Japan itself was a significant contribution to the Western Allies since Japan's three key straits happen to be the critical exit for the Soviet Pacific Fleet from Japan Sea to the East China Sea, and the Pacific Ocean.

The Cold War ended, Japan's contribution to its defense capability became no longer as relevant as it used to be because its strategic significance had drastically decreased in terms of anti-Soviet strategy.

Then, how Japan contributes to the security of the region or the world became a serious question.

Next slide please.

The advisory group also raised another serious question of how Japan should deal with the new types of threats in the post-Cold War security environment. It says, again I quote, "While clearly visible threats have disappeared and moves towards arms control and disarmament have made some progress centering on the U.S., Russia and Europe, we found ourselves in an uncertain situation.

In other words, there exist dangers of various qualities which are dispersed and difficult to identify and it is hard to predict in what form such dangers would threaten our security."

From a military point of view, the future will require Japan not only to respond to direct invasion, but also to deal with a variety of unpredictable threats such as proliferation of weapons of mass destruction and missiles and spill-over of original conflict.

There may be also new types of lower-intensive threats, like violation of air and sea space, illegal occupation of territory, interruption of sea lines of communications, terrorism, armed refugees and sabotage by commando-type units.

Next slide please.

Another challenge to Japan's future security is its increased vulnerabilities which has become more and more serious.

As Japan's economy grew so rapidly since the Fifties, cities have become more complex, population and industry bases have become more and more dense, and domestic lines of communication have become more congested.

Japan's vulnerabilities have been increasing in international terms as well.

As its economic activities abroad are dispersed throughout the world, Japan is heavily dependent on the safety of its market. Also, sea-lines of communication.

These factors have accelerated the changes in Japanese security policy.

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1 Finally, let me conclude my remarks by mentioning where we are
2 and we should go.

3 As all of you know, last year the guidelines were passed in the
4 Diet. Based on the guidelines we are making every effort to implement what the
5 guidelines meant.

6 But since I was an insider on that job, so I have to quote another
7 staff person.

8 A year and a half ago there was leak of Operation Plan 5027, U.S.
9 war plan for the contingency on the Korean peninsula.

10 At that time, North Korean friends reacted very harshly, saying
11 that, I hope I remember correctly, according to the North Koreans, American
12 imperialists are planning to militarily hit the Republic and southern puppets are
13 preparing themselves to become shield for the imperialists.

14 And Japan is making every effort to be a bell-boy by making laws
15 related to the guidelines.

16 I am not discounting the important job of bell-boy because my
17 father, after the end of the Second World War, he retired from the military officer's
18 job and he was working at the hotel as a bell-boy for a while.

19 So, without the bell-boy, I am not here. So, I am not discounting
20 this.

21 But these guidelines did was to enable us to provide the U.S.
22 forces operating in Japan and the area surrounding Japan, logistic support, search and
23 rescue sort of things.

24 Then, if I were Koreans and Americans, I would really appreciate
25 the bell-boy job if the bell-boy is strong enough to defend himself. But if not, I have
26 to care about the bell-boy's safety. It is my totally personal feeling.

27 What we need to do is we have to work hard on bilateral planning,
28 and work hard to create bilateral coordination mechanism to integrate the efforts of
29 two countries to deal with regional contingencies.

30 In addition to this, I firmly believe that we need to improve Japan's
31 own capability to defend ourselves.

32 Again, I firmly believe the defense of Japan in the case of regional
33 contingencies means protecting the efforts of the U.S. and other countries in Japan
34 and the area surrounding Japan.

35 Thank you, very much.

36 CHAIRMAN BREER: Thank you very much, General
37 Yamaguchi.

38 We will now turn to Mike Green.

39 MR. GREEN: Thank you.

40 I am afraid I don't have a joke prepared for today. The reason is
41 that I am flying actually right after this talk to Okinawa to give a speech about the
42 importance of the U.S./Japan Alliance, and all of my joke capabilities are consumed
43 with trying to come up with a joke that I can use in Okinawa.

44 I have one idea. I am getting married later this year -- that is not
45 the joke.

46 But my finance was born in Okinawa. She is the daughter of an
47 army officer. She grew up there and follows issues in Okinawa very closely, and she
48 has been teasing me that she wants a fifteen year review of our marriage. I keep
49 telling her that I can't predict strategic situations in fifteen years. Maybe I won't use

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1 that one.

2 But I am sure I will say that in large measure, thanks to the people
3 I am sharing the front table with, Kurt Campbell, Joe Nye, General Yamaguchi, and
4 others, the Alliance is in better shape than many academics certainly predicted ten
5 years ago as the Cold War was ending.

6 The defense guidelines review has broadened the support that
7 Japan can provide. Public opinion polls show that there is a better feeling about the
8 U.S./Japan relationship in both countries than there has been since 1984, which is the
9 famous Ron-Asu relationship year.

10 But we also should acknowledge that as broad as the support
11 appears to be, we don't know how deep it is, we don't know how resilient it is in the
12 face of changes, and we have to acknowledge that we are in the midst of a
13 transitional situation.

14 We are uncertain what sort of relationship we will have with
15 North Korea and China, we are uncertain how the United States will sustain or use its
16 unipolar power, and we are uncertain what sort of political realignment will take
17 place in Japan as a new generation comes up.

18 Several speakers have already alluded to this new generation, who
19 want more ownership of the Alliance, who want a larger voice for Japan, who are in
20 the middle of what may be a silent revolution in Japanese society, more pluralistic,
21 more civil self-determination, more devolution of power to local governments.

22 All very good news, but very complicated, fluid developments that
23 will affect the Alliance.

24 Now, some have argued that, in order to take care of this problem,
25 in order to give Japan more ownership of the Alliance, we have to reduce the
26 asymmetries between the U.S. and Japan.

27 We have to, for example, dramatically cut the number of U.S.
28 forces stationed in Japan. Or perhaps we have to press Japan to play more of a
29 combat role in contingencies in Korea or Taiwan, to change the constitution or
30 recognize collective defense.

31 I would argue that in many respects that these arguments have the
32 prognosis right. There are asymmetries in the U.S./Japan Alliance, and in fact it
33 shouldn't be surprising. These are two countries with different histories, different
34 sizes of GDP with different relative capabilities.

35 But I do think that the prescription is wrong. That to argue now
36 for a restructuring of the Alliance for a recalibration focusing on the bilateral
37 asymmetries is not the medicine this patient needs.

38 Now, I am not opposed over the long term to, in principle,
39 reducing U.S. forces in Japan if the strategic circumstances make that appropriate.

40 I also am not opposed, in fact I am very much in favor of Japan
41 playing a larger security role.

42 But I think for the near term it is not terribly pragmatic to think
43 about cutting bases that would have serious operational effects on U.S. capabilities in
44 the region or would have an uncertain effect on geo-strategic dynamics in the region.

45 And while I am not opposed to changes in the constitution to the
46 issue of collective defense, I think that we have to recognize that this is an issue that
47 will take some more time, that will require consensus in Japan and in the region.

48 So, I would like to focus instead, in a more humble way, on things
49 we can do in the near term.

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1 Bill Breer asked me to give a talk a little while ago about the
2 Alliance and I had a list of ten things the U.S. and Japan should do.

3 I have lowered my expectations; I now have five things that I think
4 we should be thinking about. Not correcting the asymmetries, per se, but finding
5 ways to utilize the Alliance as an asset that can work for both of our interests.

6 First, I think it is imperative that Japan find ways to demonstrate
7 clearly that it wants to play a larger security role, and how it will play a larger security
8 role.

9 There is a disconnect in some ways between the debate in Japan
10 and the action on the ground.

11 The press reports deliberations in the Diet about whether or not
12 Japan has the right to use preemptive force, politicians calling for Japan to play more
13 of an independent defense role, constitutional revision, and so forth.

14 These debates are all appropriate, but it is not clear on the ground
15 what this means. When I give talks in Washington and point out how Japan is
16 becoming more realistic about security policy, those who are not following Asian
17 affairs always ask me, "Then why didn't Japan send peace-keepers to East Timor?"

18 I now have good answers for that, but I used to be sort of stuck
19 on that.

20 So, it is critical that Japan do things now to demonstrate what kind
21 of security role it would play and that Japan is willing to take risk on the ground.

22 The most immediate step that I would argue for is a change of
23 Japan's Five Principles, which many of you are familiar with, which limits what peace-
24 keepers can do on the ground. It severely constricts their ability to respond to
25 violence or to help other peace-keepers nearby who are in trouble.

26 These restraints were appropriate in 1992 in Cambodia. But
27 today, U.N. peace-keeping experts are worried that Japan is possibly going to
28 become a drag on peace-keeping operations because of these. So, these need to
29 change.

30 The second thing we need to think about, this is an easy one, is the
31 base issue in all its dimensions.

32 The hottest issues are host nation support and Okinawa.

33 On host nation support I am sympathetic in some ways with
34 Japan's argument or the Minister of Finance's argument that with lower economic
35 growth, with large budget deficits, Japan cannot be expected to pay as much.

36 On the other hand, as I think Senator Lieberman and Senator Roth
37 both pointed out, host nation support is very important. Strategic commitment by
38 Japan to maintain not only U.S. presence in the region but peace and stability.

39 It is going to be difficult for the Congress, for example, to accept
40 cuts when the issue they are most consumed with now in terms of defense policy is
41 what to do about the high operational tempo, the stress that U.S. forces are under,
42 because they are doing so much with so little.

43 Particularly at the time that Japan is spending money, lots of
44 money on things like indigenous satellites. I won't make a judgement on indigenous
45 satellites, but it is going to be conspicuous if the Japanese side argues that cuts are not
46 possible when that kind of large project is under way.

47 At the same time I wouldn't argue that the U.S. doesn't have some
48 responsibility to look for possible savings or ways to more efficiently use the money.

49 My sense about this is that it is too late to do anything major in the

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current round of negotiations. But over the longer term, there probably are ways that host nation support could be made more flexible.

The Korean government essentially writes a check for U.S. forces. It is much less money; hundreds of millions instead billions of dollars. But because it is a cash amount it can be used more efficiently, in some ways.

So, we ought to be thinking over the near term and longer term about how to make the host nation support system more flexible so that the money can be used more efficiently.

Sako and Futema, obviously we need to move Futema, but we should think about creative ways to follow-up. I am in Okinawa meeting with a group of industrial representatives who are interested in turning Futema into a humanitarian relief center, after the base is moved.

That sort of thing is very creative and makes sense because transitioning this base into civilian use will take time, cost money, and this is a creative way for the U.S. and Japanese governments to make good use of the base for good purposes, things that are helpful to the region and the Alliance and helpful to the landowners and others who have economic interests there.

Finally, and this has been mentioned as well before, when it comes to bases we need to continually need to find ways to share ownership and joint use.

Now, there is an obstacle to that, and that is the question whether or not the joint use space, whether it is U.S. forces and Japanese self-defense forces or civil military, whether or not access to that base can be counted on in a crisis.

I think the U.S. military had some questions, some legitimate questions about whether joint use would work given that the legal structure in Japan today.

So, this is the third area where I think that Japan, in particular, has a lot of homework.

That is, to move forward with crisis management legislation, the pieces of legislation that should come, logically, after the defense guidelines legislation that would allow the Japanese government and the U.S. government to share facilities, and in a crisis, make sure that the facilities are available.

It is important also for the guidelines, of course, so that in the event of a regional crisis, U.S. commanders, Japanese government officials can count on local governments or the transport ministry or other agencies to be playing a role.

That piece of the guidelines is politically tough, but still needs to be done.

Fourth, we ought to be thinking about a roles and missions review. I have a very sort of dialectical historical view of the U.S./Japan Alliance.

It strikes me that the national defense program outline was reviewed, then the defense guidelines were reviewed, and those of you who are veterans of the security years of the Seventies and Eighties know, after the defense program outline, after the defense guidelines were introduced in the Seventies, the next thing that happened in the early Eighties is the U.S. and Japan agreed to the division of roles and missions.

So, by that sort of dialectical progression it makes sense. Japan has reviewed its defense program outline, we have bilaterally reviewed the defense guidelines, and maybe it is time to start taking another look at roles and missions.

Not that the division of roles and missions in which the United States is the spear, so to speak, and Japan is the shield, where the U.S. has offensive,

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1 power projection type of missions, Japan has self-defense missions.

2 Not that that essential formula should be changed, but that there
3 are other new areas of cooperation in this post Cold War environment.

4 Peace-keeping is one. We could do more to think about how the
5 U.S. can help Japan in logistics and other ways to improve its peace-keeping
6 capabilities.

7 Theater missile defense is another one. The TMD discussions
8 between the two countries have largely been technical. How do we transfer
9 technology, how do we jointly do research?

10 We should probably have a lot more dialogue about the strategic
11 implications of TMD, interoperability, how we would actually use this stuff.

12 Already, we are only a year or two away from the early systems
13 like PAC-3 being introduced, and there are a lot more that could be done there.

14 Of course, the revolution in military affairs which CSIS has done a
15 lot of work on. There are obvious implications for new technologies in the
16 U.S./Japan Alliance in how we work together and how we operate.

17 So, there is some room for review of roles and missions.

18 Finally, the fifth point, the fifth homework assignment I would
19 cavalierly throw out to the two governments is to strengthen strategic dialogue. Kurt
20 mentioned that right off the bat. It is an area where the U.S. and Japan have a lot
21 more work to do.

22 On the Korean peninsula, U.S./Japan strategic dialogue and
23 coordination is actually I think probably quite strong now, in large thanks to this
24 trilateral process with South Korea started by former Secretary of Defense Perry.

25 But many of you will remember, before that trilateral process
26 began there were some real miscues and misconnects between the U.S. and Japan on
27 how to deal with the Taepo Dong missile and Quito and other things.

28 But we, I think generally, have got that right now and there is a
29 good consultation formula. But we don't have probably the same sort of effective
30 strategic consultation on China, which is odd, given how important China is to both
31 of us.

32 I wonder if part of this is the legacy of our respective China
33 policies. On the U.S. side, from the Nixon shocks on, a history of basically
34 determining our China policy and sort of thinking about Japan a little bit later.

35 On the Japanese side, from Yoshita Shaguran, there has been a
36 history of trying to maintain a special dialogue and relationship with China and not
37 become entrapped in the U.S./China relationship.

38 So, we both sort of guard our China policy, even though our
39 interests and objectives largely overlap.

40 It would be useful to think of ways to strengthen higher level
41 coordination and dialogue on China because we have a fluid situation on Taiwan, we
42 should both be constraining, we, the Japan and the United States, should be
43 constraining each other on Taiwan policy, in many respects.

44 I end by saying that rather than thinking about this alliance as an
45 asymmetrical problem that, for bilateral political reasons we need to solve, we should
46 be thinking of it as an asset that we can utilize.

47 Not an asset like real estate in Tokyo, not an asset you have and
48 keep on your books just in case you get in trouble, but an asset you can use for both
49 country's diplomatic and security purposes.

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1 Thank you.

2 CHAIRMAN BREER: Thank you, very much, Mike.

3 I would like to call on Professor Tanaka.

4 PROFESSOR TANAKA: Thank you, Mr. Breer.

5 Probably as a result of the prolonged recession, the Japanese are
6 fond of describing themselves as how miserable they are, accustomed to say how
7 miserable the are.

8 I notice in the morning one participant said that his situation is
9 miserable because his ambassador is speaking after us, and General Yamaguchi talked
10 about the miserable situation of being between the two.

11 I don't want to compete with others on whose situation is more
12 miserable than others, but I urge your attention to those who are following me and
13 Joe Nye, and Hisashi Owada, how miserable I am you can understand quite easily.

14 Then also, the topic that I was assigned by Mr. Breer is Japan's
15 role in maintaining peace and security. Then the topic that was supposed to be talked
16 about by the previous three people was the security situation, and I had a hard time in
17 differentiating the two topics. So, in that respect I think my plight should be taken
18 into account by the audience.

19 Despite this, I have to say something but I will try to be very brief.

20 The subject is Japan's role in maintaining peace and security, and
21 naturally that has a lot of overlaps with the subjects that the previous speakers
22 mentioned, so naturally some of the points are repetition.

23 But I have generally four areas where Japan should make efforts
24 so that peace and security in the region and the world should be maintained.

25 The first is obviously the Korean peninsula because I think this is
26 still the most volatile area which can effect the conditions of peace and security in the
27 region.

28 I believe the first thing that Japan should do is to continue to
29 improve relations with South Korea.

30 I think that as some previous speakers mentioned that it is quite
31 unprecedented that relations between the two countries, two neighbors, have become
32 so good now. I think the credit should be given to president Kim De Jung as well as
33 credit also to Prime Minister Obuchi, to improve relations, taking advantage of Kim
34 De Jung's visit to Japan.

35 I think we have to capitalize on the current good situations and we
36 need to continue to improve them.

37 The second thing with respect to the Korean peninsula that Japan
38 should do is continue to work on strengthening the alliance with the United States.

39 I think the Japanese, SDF and all other ministries have to work
40 hard to be able to implement what the newly decided guideline-related law stipulates.

41 As to the host nation support, it is my long conviction that it is
42 wrong to be called a sympathy budget and that word should be banned.

43 Then I think the Japanese government should tell the public that
44 the host nation support that Japan provides is nothing to do with Japan's sympathy
45 with the Americans, but most critically to do with Japan's security and the security of
46 the region.

47 So, I think generally the general commitment and the general level
48 of host nation support that Japan provides should be maintained in the coming years.

49 Although I think I would like to urge some American friends to

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1 recognize some importance for the need for scrutiny, of how the budget is being
2 used. If the budget is used in a somewhat inefficient way, then Japan being a
3 democracy and a lot of media paying attention to that, there are a lot of possibilities
4 that the public's criticism might be rising.

5 So, I believe that it is important to maintain the general level, but
6 some elements of restructuring maybe needed.

7 The third thing about the Korean peninsula that Japan should do is
8 something that Kurt Campbell and Mike Green and others have already mentioned, is
9 to continue to work closely with the United States and South Korea in approaching
10 North Korea.

11 Japan started the negotiations on normalization of relations with
12 North Korea last December and I anticipate that the progress will be very slow and
13 not an easy one. But in doing so, I think the Japanese government needs to maintain
14 a close coordination with the United States and South Korea.

15 The second area that I think Japan should do is China and Taiwan.

16 I think about Taiwan that there are limitations that Japan can do.
17 We are not in a position, legally, to say anything about Taiwan's position and we are
18 bound by the commitment to a joint declaration of normalization between Japan and
19 China.

20 But I think the Japanese government and the Japanese in general,
21 on every sort of occasion, can emphasize the critical importance of a peace approach
22 to the Taiwan situation to our Chinese friends.

23 I think the Japanese use multiple channels of communication with
24 both China and Taiwan; that peaceful approach is really critical.

25 On that issue, I agree with Mike about the necessity of strategic
26 dialogues and communications between the Japanese and Chinese as to their
27 approach to China. I think we need to utilize some of the track two activities that
28 have already started involving the United States, Japan and China so that we will be
29 able to maintain high communications with our Chinese colleagues.

30 The Korean peninsula and China and Taiwan are obvious
31 geographic concerns.

32 The third is more functional, that is Japan's activities in peace-
33 keeping.

34 In East Timor, I believe the Japanese financial contribution has
35 been positive and welcomed by some of the Southeast Asian countries that send
36 peace-keepers to East Timor because they utilize the Japanese funds.

37 Then, the self-defense forces send some missions to West Timor.
38 Also, the Japanese government is ready to send civilian police and others to East
39 Timor.

40 In that respect, the Japanese have been quite constructive in the
41 East Timor case in U.N. peace-keeping.

42 Having said this, I have to point out the great limitations. The
43 limitations have had little to do with Japan's national interest and willingness to
44 contribute to international security and peace, but a lot to do with technical and legal
45 limitations.

46 Again, I here agree with Mike Green, that the Japanese Diet
47 should smoothly revise the current peace-keeping operations law, particularly change
48 the so-called five conditions in which Japan can send peace-keepers to the needed
49 areas.

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1 But then there is another concern, that is an emergence of
2 reluctance on the Japanese public as well as the governmental organizations to be
3 forthcoming in sending peace-keepers to the needed areas. I think the government
4 should propagate how important the Japanese contribution in peace-keeping is.

5 I do not name any ministry or agency in the current Japanese
6 government structure. But, for example if you can see that the number of civilian
7 police that were sent to East Timor, I think that was far too small than the
8 international society might want Japan, and far too small if you consider the Japanese
9 government's previous willingness to contribute to international peace.

10 I think in that respect the political leadership needs to persuade
11 those within the Japanese bureaucratic structure to be more forthcoming in peace-
12 keeping activities.

13 The fourth area, the final area of Japan's activities in security and
14 peace is not directly related to military tasks but more broadly to diplomatic activities.

15 What I mean is sort of what I call a multi-lateral diplomacy.

16 This year will see a series of important multi-lateral meetings for
17 Japan. In Japan we are having the G-8 summit, and after the summer, as usual, we
18 have an APEC summit.

19 In addition to the APEC summit in autumn, we have an AESum,
20 Asia/Europe meeting summit that takes place every other year, and it will take place
21 in Seoul.

22 In the winter we are having the so-called ASEAN + 3 summit,
23 three meaning Japan, China and South Korea.

24 So, in that sense, the Japanese prime minister needs to attend these
25 four important summits in the latter part of this year.

26 I believe the Japanese diplomacy should utilize these opportunities
27 of multi-lateral diplomacy to solidify the atmosphere of peace and solidify the attitude
28 of coordinate amongst the East Asian countries.

29 Last year's ASEAN + 3 summit, at the initiative of Prime Minister
30 Obuchi, it was the Japan, South Korea and China, the three countries' leaders held a
31 breakfast for the first time in history. I believe it is quite important for the region that
32 Japan, South Korea and China will increase their coordinate and dialogue.

33 Then in a certain sense, the AESum and the ASEAN + 3, the
34 summit meeting, that the U.S. is not represented and in my opinion it is important for
35 East Asian regions to increase the mechanisms for coordination, even if it doesn't
36 involve the United States or Australia.

37 But I think the challenge for Japan is to create a new concept of
38 East Asia that includes China and the all important East Asia, but that is also
39 compatible with the strong ties with the United States.

40 I believe at a certain time in history some people feel that it was
41 not so easy. But I think now with the strong framework of APEC, having an East
42 Asian sort of meetings does not pose a serious threat to divide the Pacific.

43 In this respect I believe, this is a subject to urge the Japanese role,
44 but I would like to urge the Americans to continue to show a strong interest in the
45 affairs of the Pacific. The APEC summit is quite important I believe it is in a way,
46 quite essential for the American leadership to continue to maintain the Asian Pacific
47 framework.

48 Within that strong Asian Pacific framework, Japan, an ally of the
49 United States, can cultivate its relations with the East Asian neighbors.

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1 The 1990s, I think, saw a tremendous fluctuations of threat
2 perceptions. In the early 1990s there was a threat from Japan and then there were the
3 ups and downs threats from China. In China there is a strong perception of U.S.
4 hegemony.

5 Then, somehow in looking over the ten years of U.S./Japan
6 relations experienced severe economic frictions and U.S./China relations went
7 through ups and downs, and Japan/China relations have also experienced tremendous
8 strains as well as certain good times.

9 I believe it really undermines the security and peace if these three
10 countries continue to have unstable relations. I believe from that respect it was
11 critically important then that this should be highly appreciated that the Japan and the
12 United States agreed to reaffirm the security relations.

13 I believe that from at least 1996 on there is no doubt the
14 continuing validity and importance of Japan/U.S. security alliance, at least among the
15 Japanese and Americans.

16 This sort of solid relations between the two countries will prevent
17 the further deterioration of the trilateral relations in a way that will prevent our
18 Chinese friends to believe that they are capable of playing the Japanese off against the
19 Americans and playing the Americans off against the Japanese.

20 So, in that sense, I think the continued strong ties in itself will be
21 the key to the future security and peace in the region.

22 Thank you, very much.

23 CHAIRMAN BREER: Thank you very much, Professor Tanaka.
24 I would like now to call on Joe Nye.

25 MR. NYE: As I look down at my notes, one of the things I
26 noticed was every good point I had, one after another has been used by my prior
27 speakers. They are such a distinguished group that I find it hard to disagree with
28 them. Then they went and stole everything I had written down, actually preempted.
29 The only consolation is that I get to go before Hisashi Owada, but I know I will agree
30 with him as well.

31 I thought though, to echo a theme that's been in several of the
32 presentations, it is worth taking a 10-year look at things. If we go back to 1990, and
33 we're having this conference in this room in 1990, the conventional wisdom was that
34 the United States was in decline, that Japan was a great threat. There was a book
35 that was published about a coming war with Japan. There was a grave worry about
36 the U.S. role in Asia, indeed in the world.

37 Today, obviously you have pictures of the U.S. as a hyper power,
38 as the French sometimes put it. Many people see Japan in decline, and the new threat
39 is China. The books that are on the list now are the coming conflict with China
40 instead of the coming conflict with Japan.

41 Well, just looking at how dramatically different those two pictures,
42 those two snapshots are ten years apart, should make us very worried and cautious
43 about the snapshot that we have now. The one we had ten years was that wrong,
44 what makes us think the one we have now doesn't also have some flaws?

45 Indeed, a couple of the flaws are quite obvious. I remember even
46 at the time when we thought the U.S. was in decline, and the conventional wisdom
47 was that Japan was a threat, on the contrary, the United States was often in policy
48 terms, trying to press the Japanese to do more.

49 I remember going to a Shimoto conference, I think it must have

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1 been in 1990, when Mrs. Doy was prime minister, and the key question, Tom Foley
2 was chairing the American side, the key question was how are we going to get Japan
3 to play some role in the Gulf. Oh, there was great mashing of teeth about the -- Mrs.
4 Doy was then the head of the Socialist Party and was at the conference. She was
5 saying absolutely impossible that the Diet will ever pass anything in this area, can't be
6 done.

7 Well now, if you go back to those charts that Noboru Yamaguchi
8 put up, and you look at the progress over the last ten years in Japan doing more, of
9 playing more of a role in the world, it really has been very quiet with very significant
10 progress.

11 So even at the time that we had this character, this overly simple
12 characterization of things of you know, Japan is this great strong threat, we were
13 indeed asking Japan to do more. We were told at the time Japan couldn't do more.
14 But if you compare today to ten years ago, Japan has done dramatically more than it
15 was doing ten years ago. Not enough, but a lot more.

16 So that's one picture that I think that -- one way we alter the
17 picture. I would expect this progress is going to continue in the future in a very
18 Japanese gradual way of an increasing Japanese role in the world.

19 The other thing that makes the picture today too simple is this
20 view that China is the new threat, that China has overtaken Japan, is a significant
21 factor in East Asia.

22 If somebody asked me -- if I were a man from Mars, and came
23 down and somebody said now here is a region, if you could have this country or you
24 could have that country to play this game, and this country has such-and-such an
25 economy and such-and-such a military, and the other one has the other one, and then
26 they said, and one of these is called China and the other one is Japan, but you don't
27 know anything more about them. Anybody who didn't choose the Japanese economy
28 for all its troubles over the Chinese economy, it seems to me would be crazy.

29 Similarly, if you really look hard at the capabilities of the military, I
30 would rather have the Japanese military than the Chinese military.

31 So when you get these statements like there was one in Business
32 Week a year ago about how China has replaced Japan as the big great power of East
33 Asia, it is people projecting into the future. It is not the reality of today. A lot of how
34 that plays out will depend on indeed the actions that the U.S. and Japan take, as well
35 as the actions of China.

36 So these simplified pictures of the snapshot I gave you of 1990
37 and 2000, even today's snapshot is somewhat misleading. But the thing that I think is
38 correct and several of the speakers, Aki Tanaka just mentioned it again, the thing that
39 we have to look at is the fact that stability in the East Asian region is going to depend
40 on the triangle of U.S., China, and Japan.

41 Maintaining good relations in all three legs of that triangle is
42 extremely important for both the U.S. and Japan, and that we always have to
43 remember this is not an equilateral triangle. The U.S. and Japan have a closer
44 relationship, an alliance relationship, but that U.S. and Japan, as Kurt put it, do not
45 want to get into a situation of pushing China way into a corner or trying to contain
46 China, but of trying to think about maintaining stability in all legs of that triangle.

47 This track two diplomacy that was mentioned earlier, Doug Paul
48 and Sashi Owada and others, Aki and others that have been involved with averting
49 U.S.-China-Japan together, this is important, and we have to do more of this. We

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1 have to make sure there are open lines of communication in all three legs of this
2 triangle.

3 Now what about this point of Japan playing a larger role in the
4 world and a larger role in the region? I think this is greatly to be desired, but I also
5 think that when you step back and you ask what is one of the problems there, it's not
6 just domestic politics in Japan. There still is a problem of history.

7 When you look at East Asia, it is very different from Europe. I
8 mean if you look at Europe and the relations between France and Germany and
9 Britain today, they were profoundly transformed during the Cold War by the creation
10 of a common market, which then gradually became a European Union, and now a
11 common currency. Essentially, many of the factors of history were overcome.

12 If you look at East Asia, these factors of the 1930s were frozen in
13 place. When the Cold War ended, essentially many of the misconceptions or
14 mistrusts of the 1930s came back.

15 I remember in 1995, when I was sent to Beijing to explain the
16 forthcoming declaration, reaffirmation of the U.S.-Japan Security Treaty, being
17 quizzed very closely by a high Chinese official, who was rather skeptical. I said to
18 him, "This is not anti-Chinese. This is not aimed against you." He said, "Oh, but
19 what you are doing is you are unleashing Japanese militarism." I said, "Well, Mr.
20 Minister, I have been to Japan, I don't know 30 or 40 times, I can't even count the
21 number of times, and I have never seen any Japanese militarism except for a few odd
22 people with sound trucks who occasionally disrupt some neighborhoods in Tokyo."
23 He said, "Oh, you have forgotten the 1930s."

24 To him, the 1930s was still real. So in that sense, history still
25 matters. One of the things that I think can be very important for Japan in terms of its
26 being able to play a wider role in the world, which we do desire, is to do more in
27 terms of overcoming that history.

28 Now this is a sensitive and difficult topic. We have discussed it in
29 this trilateral or three-part diplomacy that I mentioned earlier. But I do think that it is
30 important to realize that as Japan repairs its relations generally in the same way that
31 it's repaired them with South Korea, its ability to play that larger role will increase,
32 and that that's all to the good.

33 Now I don't mean to exonerate China on this. China obviously
34 likes to play on this guilt feeling and these lessons of history because it gives them a
35 card to play against Japan. They play it mercilessly. Nonetheless, I do think there is
36 enough reality there that this question of dealing with history more openly and more
37 forthrightly which I suspect will occur as generational change occurs in Japan, is
38 going to pave the way for this greater Japanese role in world affairs, and increasing
39 that gradual pace that I described or that we could see in Yamaguchi-san's chart of
40 how things have changed from 1990.

41 To the extent which some of these historical factors are overcome,
42 I expect that pace of change will increase as we look forward in the 21st century. I
43 think that is a good thing.

44 Now if you look at this greater role that Japan will play in the
45 world, obviously it involves some things which are somewhat difficult and
46 controversial. Getting Japan a seat on the U.N. Security Council makes good sense,
47 but looking at how blocked that whole process is, it doesn't look like it is going to
48 happen any time soon. I will be happy to be contradicted by the real authority, the
49 former ambassador to the U.N., but I don't see it happening any time soon.

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On the other hand, the Japanese role in peacekeeping operations I think can greatly expand, even without its becoming a member of the Security Council. I do agree with Mike Green and Aki Tanaka and others, I think it's important for Japan now to soften those five rules that govern its peacekeeping operations. It is time now to actually become more involved and take somewhat higher risks than has been true in the past. I suspect that that will happen.

When the people who say "Oh, it can't happen. It will be so difficult in the Diet or in public opinion." It's interesting. Some of the public opinion polls that I have seen recently from Japan indicate that there is not an overwhelming majority, but a substantial number of people in Japan who are ready to move toward a more active role in PKO.

I also think that as we look at the conference ten years from now, we will see that this will indeed have changed.

Obviously on the U.S.-Japan relationship, there are a number of important things. I think this point about the relationship with Korea and in particularly the handling of North Korea is extremely important. The fact that we and South Korea or the Republic of Korea, Japan and the U.S. have worked out in the context of the Perry Report, a way to consult with each other very closely so that Pyongyang can't play off Tokyo against Washington against Seoul, that's very important that we continue that close coordination. It's essential, it's a necessary condition for the successful handling of the North Korean program.

On the bilateral relationships, I think I would agree again with what my predecessors have said. I think the U.S.-Japan relationship is in much better shape than its been in years. I think I would hate to see what I would call a false economy of cutting back on host nation support for the sake of balancing the budget, undercut what has been one of the strongest arguments that I and other Executive Branch officials have made when we have gone before Congress.

We have often faced Congressmen or Senators who have said, "Why are you closing a base or why do you want to close a base here in my state when you have these troops overseas in Japan that you could close the bases there?" The answer I was always able to give is Japan plays a significant role in supporting those troops. This is a case in which host nation support makes a big difference, and Senator, frankly it is cheaper to keep the troops in Japan than in your state. If you don't believe me, just check the numbers of how generous the host nation support is. That usually was an argument that won the day.

If now you turn to that same Senator and you find the demand for reduction in host nation support at the same time that you have the satellites, and again, I have nothing against the satellites per se, it is going to be harder to make that kind of argument.

So I think Aki Tanaka is right, that the money has to be well spent because the waste will come out in a democracy. But I worry a lot about the larger political effects of cutting those nations' support. It's not a sympathy vote for the United States. Actually, it is a good solid investment in Japan's security. So I think that is important.

Similarly, I think the cooperation in TMD is extremely important. But I would argue overall, that in the area of Japan's expanding role that goes through the U.S. relationship, that things are indeed much better. So in the multilateral context, in the U.S.-Japan context, I think things are much better.

I should also say a word about Japan's economic power, the fact

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1 that Japan's overseas development assistance is a very major factor. Japan is one of
2 the few countries that still has generous ODA. That does have a -- that is a way for
3 Japan to exercise its economic power on a global scale. It should not be ignored as a
4 significant role that Japan plays.

5 Finally, there is Japan's soft power, its cultural and ideological
6 appeal. There, I think the success of Japan in dealing with democracy, the ways in
7 which Japan is basically a country which has over the last century-and-a-half adapted
8 to globalization, before people were aware of the word "globalization", and done it
9 successfully, it gives Japan an appeal and a model for others.

10 Sometimes now in the current day, people say well, you know,
11 globalization means Americanization, it means cultural homogeneity, the loss of all
12 separate identity. This is nonsense. If you go back to the Meiji Revolution and you
13 look at how Japan borrowed from the world, and you ask has Japan been successful?
14 Enormously successful. Has Japan lost its cultural identity? Not in the least.

15 Every culture changes, including ours. The important lesson or
16 the model that Japan shows for others is that you can borrow from the world to
17 strengthen yourself and maintain a very distinct and very unique culture. In that
18 sense, I think Japan has a lot of soft power in a global scale which it can be using
19 more than it does now.

20 So you think of these different dimensions, Japan's military power,
21 its economic power, its soft power. I again think that when we look at this chart ten
22 years from now, you are going to see a larger Japan role in the world.

23 Let me finally end with the question of China because right now in
24 the United States political system, there is a certain current craziness about China.
25 We have a long tradition in American politics of what I call the left and right against
26 the center. You find people in the left wing of the Democratic party and the right
27 wing of the Republican party making common cause against the traditional policy on
28 China, which has been true since the Nixon Administration.

29 We usually overcome these tendencies of pulling ourselves apart.
30 I think we'll probably overcome it again this time. But it does make it difficult for our
31 allies in Japan to coordinate China policy with us, important though that is.

32 It's now becoming even more complex and difficult because of the
33 existence of democracy in Taiwan, and the fact that it is now a three-party game. The
34 Taiwanese are playing another game. Indeed, it's a mistake just to talk about the
35 Taiwanese. There are very different positions inside Taiwan.

36 So it becomes a very complex interplay of domestic politics in the
37 U.S., China, and Taiwan. Therefore, when we talk about coordination between the
38 U.S. and Japan on China policy, it is understandable why Japan would want to stay a
39 step back or a step away from this.

40 But I think as again, one of my predecessors on this panel said,
41 that would be a mistake. If you go back to my early comment that the key to success
42 and stability in this region is maintaining this triangle of U.S.-Japan-China relations,
43 with the U.S.-Japan part as the strongest leg, but with openness in communication at
44 all three legs of this triangle, then it's extremely important for the U.S. and Japan to
45 coordinate their policies on China and Taiwan so that together, we work in a way
46 that treats China as a normal country and together help to encourage China to be a
47 responsible player in the region.

48 If we do that, if we are successful in that, then I suspect that this
49 gradual growth of Japan's role in the region and the gradual growth of Japan's role in

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1 the world will happen, and we'll all be the better off for it. So thank you.

2 CHAIRMAN BREER: Thank you very much, Joe.

3 I would like now to call on Ambassador Owada.

4 AMBASSADOR OWADA: Joe Nye is a very great friend and
5 colleague of mine of more than 20 years standing, our friendship. I have always not
6 only admired, but also feared him to speak before me because as always, as I told him
7 always, he says everything that I want to say.

8 But this time, he has done something even more terrible than that.

9 That is, that he has deprived me of the only privilege which the last speaker can use,
10 which is that the last speaker has nothing to add to all the good points which have
11 been made by the previous speakers. Joe Nye does not have the privilege to say that
12 as a person who is speaking last but one. But he has done that. Therefore, I don't
13 even have that privilege.

14 I think that my starting point is that I would agree. I would be in
15 basic agreement with all the points, with all the good sense which has been said by the
16 previous speakers, as I have just said. Nevertheless, it seems to me that perhaps it
17 would be useful to try to say things which are not quite in line with the points which
18 have been made by the previous speakers by adding some words of caveats, if not
19 words of caution to the extent that all the points which have been made by the
20 previous speakers, and particularly by the Japanese speakers, have been very
21 encouraging.

22 I don't disagree with that, but I think that it is also important to try
23 to bring in a sense of balance by making some points which we should keep in mind
24 in thinking about the future in the context of all the improvements which have been
25 brought about on the security situation, political and security relationship between
26 Japan and the United States for the last five to ten years since the end of the Cold
27 War.

28 The starting point is that as Michael Green said, I agree that there
29 has been tremendous improvement in the political security relations between Japan
30 and the United States. That is manifested by the public opinion polls, by all the things
31 which have been said by the previous speakers. But the question is how deep is this
32 improvement.

33 I accept that there has been a broader support for the U.S.-Japan
34 security alliance and there is a very general feeling, if you take the public opinion poll,
35 both in Japan and in the United States, that people are very happy about the present
36 state of affairs as far as political relations are concerned. But my question is, however
37 broad that support may be, how deep is that support?

38 Now Bill Breer asked me to end this discussion with an upbeat
39 conclusion. I don't want to disobey his instruction, but I would like to base some of
40 the issues which we have to keep in mind in thinking about the future of our relations.

41 The point was made, particularly by Ambassador Yanai, security
42 of East Asia after the demise of the Cold War is not exactly the same as the security
43 in Europe, in the sense that although one could say in general that the Cold War
44 situation has disappeared, there are legacies or even remnants of the Cold War
45 situation remaining in this part of the world.

46 There are new factors which have come about which could
47 threaten the stability of East Asia. To that extent, the security situation in East Asia
48 can not be said to be as stable or comfortable as one might think it would be.

49 But many of the issues that we face, including the situation

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concerning China-Taiwan relations, or the situation on the Korean Peninsula, the possible evolution has a negative or positive in Russia. All these issues are probably in the short-term perspective the problems for the management of the relations, the management of the alliance between Japan and the United States.

One does not have to be pessimistic about the capability of Japan and the United States to deal with these issues within the context of the management of the alliance. But going beyond that, I think there are problems which we have to think about more in the broader perspective. I am going to come to some of the points.

The basic point, the basic starting point about my caveat is the state of the national psyche of Japan. Again, I must preface my statement by saying that I am not going to be alarmist. I am not sounding pessimistic about the future of Japan, but when I came back from the United States after five years of absence in the United Nations, I was taken by a sense of distress by seeing the changed psychological environment in Japan, which I am afraid is still continuing in Japan.

That sense of distress comes from the fact that there is a sense of loss of direction in Japan still prevailing among the people. I would say that one of the major factors which has contributed to that is the state of the economy in Japan. That certainly is a major factor, but I don't think that that is the whole story.

I think that the Japanese are still in the state of confusion in the sense of the Japanese are being confused. Not that the Japanese are in a situation of objective confusion, but the confusion has been created in the minds of the people in the sense that after 50 years of the post Cold War period in Japan, and after the demise of the Cold War situation which has affected the psychological, political, and social environment in which the Japanese had lived quite smugly for the last 50 years, has disappeared. People do not know how to behave. People do not know how to identify the direction in which Japan should be moving.

That would apply to the question of foreign policy, the question of domestic policy, the question of how politics should be, and the question of how we should carry out the economic reform. Not to speak about the social reform, which is perhaps even more difficult and more important.

The basic problem is to my mind that the Japanese, thanks to a certain extent thanks to the prevailing cover of the Cold War situation, which really set the framework in which Japanese foreign policy, Japanese politics, and the Japanese economy could go, people did not have to think too much about the basic problem in which direction Japan should be going.

In other words, the framework, the basic framework had been set for the Japanese. They did not have to think about too seriously about the fundamental soul searching, problem of what Japan should be, and what the Japanese should be, and how Japan should be placing itself in the world. That is a problem which had surfaced more visibly and perhaps more articulately to the minds of the Japanese after the artificial cocoon of the Cold War period disappeared. That is where we are.

I am not going to get into all the concrete details about this because of the time factor, but I just want to raise this as the basic framework in which to think about the future of Japan.

The points which have been made about what Japan should be doing in terms of the role of Japan in the East Asian setting, in terms of contributing to the stability of East Asia, contributing to the strengthening of U.S.-Japan alliance,

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1 in the political security sense, and the contributions of Japan to be made to the world
2 public order, all these things I have no disagreement with whatsoever. But the
3 problem is how you do it, how you think about the process in which we should be
4 moving in that direction.

5 I am certainly in complete agreement with the need for rethinking
6 about Japan's participation in the peacekeeping operations. I am in total agreement
7 with Japan trying to fortify the security, narrow security aspect of U.S.-Japan alliance
8 in terms of the U.S.-Japan security treaty. I am very much in favor of Japan moving
9 in the direction of intensifying its effort to contribute more positively and more visibly
10 to the stability of East Asia.

11 Having said that, the question is what is the process through which
12 we get to that point in bringing about those points into reality. There are a number of
13 constraining factors when you think about that. One of the basic constraining factors
14 is the national psyche of the Japanese people, as I have just described.

15 I think that the Japanese society is going through a major
16 transformation. We are going through a long period of transition. I am afraid that
17 that period of transition is not going to be over in one or two years. I think it will
18 take at least five years, maybe ten years. That is a problem that we have to face in the
19 context of how to not only manage, but also to reinforce the alliance between Japan
20 and the United States in a broad sense of the word. Here I am using the word
21 "alliance" not in the mutual security sense, but in the broad sense of forging a
22 cooperative relationship in order to contribute to the vision to the world and to the
23 good of the world.

24 The sense of responsibility, the awareness of responsibility sharing
25 is something which has to be borne in the minds of the Japanese. That is not totally
26 missing. At one stage, I was more optimistic about the immediate future. For
27 example, several years ago when I was still working in the Ministry, when I was
28 engaged in the enactment of the peace cooperation law which enabled the Japanese to
29 dispatch the defense forces to participate in the peacekeeping operations of the
30 United Nations in Cambodia, for instance. Those were the days when I felt that the
31 people in Japan were much more proactive and were much more conscious of the
32 responsibility of the Japanese in the world, either in the regional sense or in the global
33 sense.

34 The prevailing mood in Japan, it seems to me, is that this trend has
35 been on the decline, hopefully on a temporary basis. But nevertheless, that is a feeling
36 that I cannot suppress from my mind. I hope I am wrong, and I hope that people on
37 the panel or people on the floor will be able to contradict me, but that is the sense that
38 I feel. As I said, much of the problem comes from the economic situation that Japan
39 is going through. Whether that is the only factor or not, I am not quite sure of. If
40 that is the case, I will be happier.

41 But I think it really requires a bit more than the recovery of the
42 economic situation in Japan in order to create a better psychological environment in
43 which the people in Japan could feel more positive about the future in general, and
44 more enthusiastic about the role that Japan can and should play in the world, and the
45 role of Japan in terms of realizing the ideals the Japanese could have in terms of
46 contributing to the creation of a better world.

47 To put it in a very short sentence, the sense I have is that the
48 Japanese are still groping their way, trying to find, trying to identify what it is that the
49 Japanese should be living for. That is something which has not quite come about in

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terms of a concrete, tangible objective that the Japanese can identify themselves with.

The task that the Japanese should be striving for and the contribution that the U.S.-Japan alliance in the broad sense can make to this problem would be to try to cooperate or to try to create a framework of cooperation in which the Japanese would be able to identify those ideals and those goals which the Japanese could feel to identify themselves with and feel to be worthwhile pursuing.

I think that it is in that context that the point made by Ambassador Yanai this morning about the importance of common agenda comes in. Perhaps I am somewhat, how should I put it, perhaps I am a little too self-possessed to speak in the sense that the agreement on common agenda came about as one of my last efforts when I was Vice Minister in the Ministry of Foreign Affairs. It came about in 1993, July 1993 as an integral part of the package which came about between President Clinton and Prime Minister Miyazawa as a result of the comprehensive framework.

But let me tell you that when the Japanese side -- in fact I was the negotiator in that particular negotiation -- when the Japanese side offered this idea of putting an emphasis on pursuing the common agenda between the United States and Japan as an important, as an essential ingredient of this comprehensive framework, there was a very strong resistance from the U.S. side for a very surprising reason that the Japanese side was presenting this item called the common agenda as a red herring to divert the attention of the U.S. side from the burning economic issues which were the sole objective or sole concern on the part of the U.S. administration as of that time. Those were the issues of the macro economic management and the problem of automobiles.

When I pointed out that while the Japanese side would be serious about tackling those issues and trying to come to constructive agreement of those issues, nevertheless, those are the issues which belonged to the realm of management of the relations.

We have to go higher than that. We have to aim at something higher than that by including as an essential ingredient of that package of the comprehensive framework, what might be described as a common agenda so that Japan and the United States would be and could be seen as working towards the promotion of common goods of the international community.

I thought that it was very important, not only for the U.S.-Japan alliance, but also for the sake of giving an identifiable objective to the Japanese so that people feel that U.S.-Japan alliance in the political sense was something worthwhile to have, worthwhile having. So I was really taken aback by the action on the part of the United States as of that time.

Many years have passed since then. That is why I feel that I am so happy about the statement made by Ambassador Yanai this morning, that common agenda is not only an accepted agenda in bilateral relations, but also something which both of the two countries treasure so much as an important ingredient of the U.S.-Japan alliance.

That is exactly what I mean by saying that we have to think about something which is tangible for the Japanese to be able to identify themselves with so that Japan can be much more confident about what Japan is or will be doing in the world to come, both in terms of the regional stability and in terms of the promotion of the good of the world.

I think that here again, I have to offer my deference to my good old friend, Joe Nye, because he has already deferred to the two points that I wanted

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1 to make. One is the question of development issue, where U.S.-Japan cooperation is
2 very much needed in order to change the present situation. I think that the 21st
3 century would be an extremely dangerous century if we do not succeed in solving this
4 problem of development. This increasing divergence, increasing disparity between
5 the rich and the poor, between the developing countries and the developed countries.
6 I think that this divergence, this disparity is growing very fast.

7 In 1960, as of 1960, the poorest 20 percent of the world and the
8 richest 20 percent of the world, the disparity was about 30 to one. In 1985, that
9 disparity grew into 60 to one. In 1995, it has grown to something like 90 to one.
10 Perhaps it is by now 100 to one.

11 That is the kind of problem that we have to deal with in order to
12 create the situation of stability and security in the broad sense of the word, where the
13 alliance between Japan and the United States could do much in terms of improving
14 the situation that is contributing to the cause of civility and security in the world.

15 Another problem that Joe Nye touched upon is the cooperation
16 between Japan and the United States in coping with the impact of globalization, not in
17 terms of its competitive aspect which has to be encouraged in terms of creating an
18 environment of healthy competition between Japan and the United States as advanced
19 industrialized democracies, but more importantly, the cooperation between Japan and
20 the United States in order to look after the possible negative implications of
21 globalization to the world as a whole.

22 There again, I think Japan-United States cooperation in this area
23 would be extremely constructive and useful for bringing about the kind of stability
24 and, if you like, security in the broad sense of the word, which would be the basis for
25 the role of Japan and the United States in consolidating the world public order, which
26 is the basis for the civility of the world in the years to come in the 21st century.

27 I am afraid I have perhaps spoken for too long without any
28 preparation whatsoever, for which I apologize. But I have to confess to you that in
29 spite of the intensified and increasing degree of mutual understanding and the
30 improved means of communication between Japan and the United States, the line of
31 communication between Bill Breer and I had completely broken down. It was only
32 the day before yesterday that I learned that I was still being expected to come to this
33 conference. So I have come in the spirit of Olympics. As you may know, the spirit of
34 the Olympics is that all that is important is to participate, not to excel in the race.
35 Thank you very much.

36 CHAIRMAN BREER: Very fortunately, the telephones still
37 work. Ambassador Owada is never at a loss for words. So thank you very much,
38 Mr. Ambassador.

39 Much to my satisfaction, I think the presentations this afternoon
40 have sort of gone along, sort of set the tone that I wanted to, and sort of followed
41 each other in a reasonably productive and understandable order. I want to thank my
42 panel very much for assuring that outcome.

43 I would like to open the discussion to the floor, but first, I would
44 like to call on the panel to see if they want to comment on what a colleague has said
45 so far.

46 If not, then we would like to open the discussion with our guests
47 here today.

48 MS. DOI: Ayako Doi with the Japan Digest. I was somewhat
49 surprised that no one mentioned that this is an election year in both countries, the

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question of whether the present course of policy of close cooperation between U.S. and Japan, trying to bring in China, and so on and so forth, will continue in both countries.

I suppose the assumption is that somebody that will continue the policy will be elected in both countries. Is there any factors to consider? I mean is there any possibility that anybody sees that the result of the election or the form of the government that will be formed as a result of that may bring some kind of a policy change in terms of security policy between Japan, U.S., and Asian region? Or is there otherwise a reason to believe that there won't be any change?

MR. NYE: In terms of American politics, which I can comment on, I will leave one of my colleagues to comment on Japanese politics, I think one of the most remarkable things is that if you look at the now three major contenders or possibly four, there really is unlikely to be a lot of difference. There will be nuances and marginal differences, but they all come pretty much from the centrist tradition in American foreign policies.

What I said about the left and the right against the center in an election year has been true of the Congress, but it hasn't really been true of the major candidates. I think that is a healthy thing.

If you go back to 1992, Japan was indeed an issue in domestic politics. The result of the American election was that we screwed up Japan policy for the next two years. So I think it is a good thing that this is not an issue. I just hope that China and Taiwan doesn't become an issue, because we might wind up screwing that up for two years if it does, or longer.

So, so far, on the American electoral scene so good. But somebody else ought to comment on the Japanese political scene.

PROFESSOR TANAKA: I think one of the good things about the political changes of Japanese political scene in the 1990s is the real convergence of security policies amongst the major parts. I agree with Ambassador Owada that support of the alliance was broader but shallow. Shallowness, I deplore. But then it is quite good in a way that we cannot think of anybody who might change the basic framework and change the agreements that we concluded so far.

One of the difficulties in the coming general elections is that it is quite easy to point out who will lose, but it is very hard to anticipate who gains. There are lots of points that you can make against the fate of the LDP. But then on the other hand, you can point out the similar difficulties of the Democrats. So it's hard to find who will really gain. So you cannot rule out the possibility of the change of the government.

But then in terms of the Japan-U.S. relations, I believe even a change of the government will not change the basic framework. I think the only problem or concern for some is maybe the rise of the Communist party. The Communist party may be the party that may gain.

Then given the current willingness on the part of the Communist party to join the government, you cannot really rule out 100 percent the possibility that the Communists might join the government. But I don't believe -- it's 100 percent impossible for the Communist leader to become the prime minister, just as was the case the Socialists became the prime minister in 1994.

So even in that small probability circumstances, I don't believe that the basic things will change.

MR. GREEN: Mike, I agree with both the comments, but for

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1 Ayako's sake, I want to add a small dose of pessimism. The continuity is likely. In
2 both countries, the center is prevailing over the outside. But in the U.S. presidential
3 election, you will have an administration come in with a mandate. Depending on the
4 administration, that administration may ask for more from Japan than is currently
5 being asked, whether it's on the economic side or the security side.

6 In the Japanese election, I am not so sure that the outcome will be
7 so clear or decisive. It will be one more step in the process of political realignment.
8 It's possible you may have an even less confident government in Tokyo. I would like
9 obviously to see a clearer sense of direction.

10 So there may be, although we both have elections, a little bit of a
11 different outcome in terms of the mandate each side has to move forward.

12 MR. NAKASHIMA: Aki Nakashima, Council on Foreign
13 Relations/Reischall Center at SAIS. Some speakers pointed out that real strategic
14 dialogue between Washington and Tokyo is increasingly important, which I agree.
15 But in this regard, Japanese government's peculiar interpretation of the constitution
16 that Japan does have the right to collective self-defense, but cannot exercise that right
17 continues to be a serious impediment that prohibits Japanese policy makers and
18 military planners from engaging in full-fledged strategic dialogue with American
19 counterparts.

20 So any speaker's comments on these points, particularly speakers
21 from Japan?

22 AMBASSADOR OWADA: My answer is not going to be
23 satisfactory in the sense that I have no disagreement with the thrust of the question,
24 although I have some points of disagreement about the concrete details. But the
25 thrust of the question, I accept.

26 The problem is how you achieve the desired result. That is not the
27 problem of the hesitation on the part of the government as the person who has just
28 asked the question hinted at. I think it is very much the problem of the national
29 psyche of the Japanese people.

30 One might say that this is a risk avoiding or avoidance of the risk
31 speaking rather than the commitment to the cause as the national credo. I think it is a
32 mixture of both, myself. That is my personal feeling. But whatever the background
33 may be, as long as you do not have the situation where people do not feel that that is
34 necessary, it is no use trying to lament over the unspilled milk. The question is how
35 you do it.

36 I think what is really important, which I did not touch upon
37 because of the lack of time is that the greater exposure to the reality of the world is
38 the most important point. I think that perhaps there, the government, together with
39 the mass media and other elements in society, could do a lot better in trying to let
40 people understand the reality of the world.

41 I do not mean to say that the change of the constitution in one way
42 or another is going to solve the problem, because what is really running through the
43 problems that have been raised by many of the speakers is very much the same in the
44 sense that the sense of pessimism, so to speak, or passivity and the tendency to avoid
45 risk taking is the essence of the problem. How you change that, is a problem that the
46 Japanese have to solve by themselves. That is the comment that I would like to offer.
47 Thank you.

48 PROFESSOR TANAKA: My personal position on this issue is
49 quite clear. I am for the change of the interpretation. I am for the amendment of the

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1 constitution. So I agree with the thrust of the question.

2 But my observation now about the realizability of such view is sort
3 of analysis of myself as a political scientist. That is, it seems almost impossible for
4 any prime minister to change the current constitution unless he is really, really, really
5 determined. Then the primary responsibility on this issue resides in the cabinet
6 legislation bureau. My understanding of the cabinet legislation bureau is that you
7 can't change the interpretation. If you would like to change it, change the
8 constitution.

9 So the current movement in the Diet to establish the deliberation
10 organ of the revision of the constitution is one way. But I feel that it's hard to predict
11 which way it goes.

12 GENERAL YAMAGUCHI: I guess I have to come to two
13 excellent questions. Whenever I say "excellent questions" -- good questions, good
14 questions are which I have hard time to answer. Excellent question means I cannot
15 answer that.

16 (Laughter.)

17 They both remind me of a couple points. It's been a long way to
18 come here. At the beginning of the 1990s, both U.S. strategists and Japanese
19 strategists disagreed with specialists. Used to work hard to figure out which way we
20 should go. Americans are doing themselves. Japanese were doing themselves.

21 Then 1996, at the first time after the end of the Cold War, because
22 of the Hashimoto-Clinton Joint Declaration, both sides came to agreement, to a
23 consensus that U.S.-Japan security ties are going to be the key for the future strategy
24 for both countries.

25 Then since then, the lawmakers or policymakers have been
26 working hard until the last year to pass the law related to the guidelines. What my
27 colleagues in Tokyo or in the field in Japan are doing to militarily and operationally
28 implement what the guidelines and the Joint Declaration meant. So it takes quite a
29 long time.

30 So from military point of view, to the first question, it's an answer
31 has been achieved. So the work, regardless of what kinds of administrations are
32 going to be, these works will be done and should be done.

33 Secondly, again it is a kind of excellent question because one of
34 the easiest ways to lose my job is to talk about the constitution.

35 (Laughter.)

36 I must say that for instance, the reason why we were so reluctant
37 to send troops to East Timor is not the issue of constitution. But there was some fear
38 of if something happens we might be involved in the debates over the constitutional
39 issues.

40 I myself am a man on the field, so I can't think the issue, the real
41 issues from in directive ways, but rather, I tend to think the issues inductive ways.
42 For instance, if we had troops in West Timor with Chinese troops, and once
43 something happened, and the Chinese troops were authorized to protect the Japanese
44 troops, but while Japanese commanding officer didn't know whether he was
45 authorized to order his men to protect Chinese. That may provoke the serious
46 discussion between Beijing and Tokyo. What I suspect Beijing is going to say is
47 again, Japanese are so selfish.

48 MR. IDIYAMO: Akido Idiyamo of the Sosoko Peace
49 Foundation. I have three questions, if I may. The first one is on guidelines.

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1 Although admitting how important and how meaningful the establishment of the
2 guideline is, but one famous critic in Japan talked about guidelines. It may be very
3 useful during peacetime, but will not be of much value during wartime. Do any of the
4 speakers have any comments towards his opinion? That's my first question.

5 The second question relates to the interpretation or if I may, using
6 Mr. Green's expression, what does U.S.-Japan security treaty mean on the ground?
7 Another critic in Japan said the United States made it public, but if Taepo Dong hits
8 the Yoko debates, then some retaliatory actions will be taken. But if it happened to
9 fall on the citizens' questions in Tokyo, no action will be taken. If that is the case,
10 what we are talking about when it comes to mutual security treaty?

11 By the way, if this sort of redefinition or reinterpretation can be
12 done in public, then it may contribute to the stability of the region we are talking
13 about. That's my second question.

14 The third and the last is, in relation with the expected election, do
15 we have some reasons to believe the current government's position, I mean American
16 government position, to welcome more influence of China in the Indochinese
17 peninsula? I am talking about Burmese policy. Do we have enough reasons to
18 believe American government will more favor, less influence of China over the
19 Indochinese Peninsula? Thank you.

20 GENERAL YAMAGUCHI: I think I'm going to answer the first
21 wonderful question. The guidelines have mainly three parts: peaceful cooperation
22 and cooperation in case of attack against Japan, and reason in case of "stations."
23 That means peacetime regional contingency on wartime cooperation.

24 This particular document rather emphasizes peacetime
25 cooperation, although the press media didn't take it seriously. If you look at
26 peacetime cooperation's part, there are a number of lines saying that peacetime
27 preparation is important. Also, preventative approach to avoid any tension or source
28 of conflict is quite important. For instance, defense dialogue, military-to-military
29 contact, to engage the region.

30 In doing so, Japan and the U.S. are supposed to cooperate or
31 consult with each other. That is what is meant by valuing the peacetime point.

32 It is difficult to divide regional contingency and wartime -- direct
33 attack against Japan, but because of the difference in legal basis for the self-defense
34 force or government of Japan, in case of outside war and contingency on the land, we
35 divided. But we assume that both can happen simultaneously.

36 If you look at wartime cooperation apart, there are a couple of
37 lines talking about how we should cooperate in case of missile attack, and how we
38 should cooperate in case of guerilla commando kind of attack, which kind of likely in
39 case of regional contingency.

40 In the part for missile defense, the cooperation against missile
41 defense, there is a line saying that U.S. would consider the use of offensive strike
42 power. That particular sense was proposed by -- strongly proposed by the U.S. side
43 to assure U.S. deterrence in case of such a sort of lower intensity threat.

44 MR. NYE: In the guidelines, I think it was extremely important
45 that something be in place so that if an event occurred, say in North Korea or on the
46 Korean Peninsula, that the Americans did begin to respond and then you wound up
47 having a debate in the Japanese Diet. That would be really shaking to the U.S.-Japan
48 alliance, if essentially we were so unprepared that we wound up the U.S. doing
49 something and the Japanese side saying sorry, we have to go and discuss this first. So

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1 I think the guidelines actually have played a very important role in that sense.

2 As for the prospect of a missile attack on Tokyo, not having a
3 response, obviously the United States has to consult with Japan. I would find it very
4 unlikely that there would be no response. In fact, I would bet you a very large
5 amount of money that there would be a response.

6 I Burma, I'll let Mike answer that.

7 AMBASSADOR OWADA: I have just two quick points to
8 make. First of all, let me say that as a preface, let me say that the person who
9 contributed most on the U.S. side to the achievement in defense guidelines is no other
10 person than Joe Nye. I think without his initiative, that would not have been possible.
11 We should appreciate what he has done on that score.

12 I think that -- two things that I would like to say. First, in the
13 institutional framework of the devised defense guidelines, under the security treaty,
14 the guidelines should be understood to be operative within the framework of U.S.-
15 Japan Security Treaty. This is not something new. It's something in addition to the
16 Security Treaty. In that sense, the criticism that the guidelines is a de facto division of
17 the Security Treaty is totally wrong.

18 Now on that basis, what it has done is to make the implementation
19 or to make article 6 situation implementable under the guidelines. The question is
20 what happens if Japan is the target and under attack. This is a situation under article
21 5 of the Security Treaty, and not under article 6 of the Security Treaty which the
22 defense guidelines focuses on.

23 Article 5 situation was already dealt with earlier in 1978. I don't
24 mean to say that was sufficient. I don't mean to say that was adequate. But
25 nevertheless, that was dealt with. The article 6 situation, namely, the situation which
26 allies is in the vicinity of Japan which could affect the security of Japan, had been left
27 unattended since 1978. Therefore, it is only natural that the new defense guidelines
28 tended to focus on a situation where Japan was not the target of a direct attack
29 against Japan, but that does not mean that the defense guidelines is meaningless or
30 useless. I think it has its validity, and as General Yamaguchi said, the two situations
31 are closely linked with each other.

32 The second question about the missiles, I think it's a question of
33 credibility or credibility gap. The situation is very much the same kind of situation as
34 arose in 1980s with Europe at the time of the controversy involving SS 20 and the
35 Pershing II. Therefore, you cannot have 100 percent assurance that something will
36 happen because the very nature of the deterrence is such that you have to leave a
37 degree of ambiguity, a constructive ambiguity which will be useful in the military
38 strategy.

39 Nevertheless, I think the conclusion that Joe Nye has referred to is
40 something that one can be reassured of in the sense that whatever may be the
41 measures to be taken, you should accept that there will be a reaction to it which
42 would make the guarantee credible.

43 MR. GREEN: I will do Burma briefly. The Burma case is
44 actually quite interesting because it appears that there is a divergence between the
45 U.S. and Japan. The ironic thing is that the divergence is in part what you would
46 expect where the U.S. is emphasizing human rights more than Japan, and Japan is
47 emphasizing economic stability more. But it is also a case where Japan is far more
48 attuned to Chinese influence, as your question suggests.

49 My own personal feeling is that without losing sight of its human

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rights priorities, the U.S. should be taking more of a strategic view of Burma, the influence on ASEAN solidarity. That is my admonition for the U.S. Government.

I also worry that the Japanese government has taken Burma as such an example of independent diplomacy that in some conversations I have had, some of my Japanese friends are often defending the regime, the junta in Rangoon because of the dynamics of U.S.-Japan relations. So it is a case where we could probably be moving a little closer together.

MR. KATO: Yoichi Kato with Sahishi Boon. I think the call for the reduction of the host nation support this time around on Japan part is very significant in the sense because the threat perception among the Japanese people has just renewed by the launch of Taepo Dong a couple years ago.

I think the reason for this call for the reduction is not just because of economic downturn of Japan. But there is, if I use the term Ambassador Owada used, the national psyche among the Japanese people, which questions the significance of the U.S. presence in terms of protecting the national interest and the security of Japan.

My question is, I was wondering whether Dr. Nye feels any need to recap what they call Nye Initiative which redefined the significance of alliance and probably make a second round of a Nye Initiative at this time around.

MR. NYE: I think this goes to Ambassador Owada's point also about depth as well as breadth. If you look at public opinion polls, you see what, two-thirds or more of the Japanese people saying support for the U.S.-Japan security treaty. When you get to questions about bases or things that are awkward or inconvenient, the numbers can go down in the polls. That might suggest some question about depth versus breadth.

But I don't think what we need now is another deep look at the relationship, as much as we need to pursue the path we have been on, which is to get these kinds of frank discussions and consultations so that we both have policies which are pretty closely aligned.

We also need political leaders in Japan who are able to explain to the public why something like host nation support is a good investment for Japan. You know, I go back to my phrase which you have heard a number of times about security being like oxygen. You don't miss it until you find that you are losing it. But once you begin to miss it, you are not going to think about anything else.

I mean what Taepo Dong did is essentially remind much of the Japanese public that certain things can happen quite quickly, and that Japan will definitely want and need the American presence.

So I don't think it is a need for a new initiative as much as a deepening of the policy coordination and the willingness on the part of some Japanese political leaders to explain to the public why this is important.

I do feel, as I said earlier, that cutting back on host nation support is not a good economy for Japan. In other words, I know it's a large chunk of the defense budget, but it's also a pretty good investment of what you are getting for it. I think it should be explained to the public in those terms.

Ironically, perhaps the best communication to the Japanese public about the importance of this was not from any Japanese politician, but was from Kim Jung Il. It was the firing of the missile I think which caught more attention than anything else.

CHAIRMAN BREER: Thank you. We have time for one last

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1 question.

2 MR. ANTSEY: Chris Ansty with TV Asahi. I have a question on
3 something more short-term than some of the longer term issues that you were dealing
4 with before. That is, I wonder if anybody on the panel might share some ideas on
5 how they see the 15-year time limit question being resolved regarding the successor
6 to Fatemo in Nago. How might you think that might be resolved? Do you think that
7 this question and the other basic questions regarding a move of the base will be
8 resolved by the time of the summit in Okinawa? Perhaps if any of you could put
9 Secretary Cohen's upcoming trip to Japan in the context of some of the longer-term
10 goals for U.S./Japan relations that you were discussing.

11 MR. GREEN: I thought I would have a plane flight to figure out
12 the answer to this before I got to Okinawa. I think that strong consensus view
13 certainly in Washington is that you cannot predict what a security environment will
14 look like in 15 years. Therefore, it would not make sense to premise this base
15 relocation on the return automatically in 15 years. We may have a much more
16 dangerous Asia. We may have a different Asia. The revolution and military affairs
17 may give us different options technologically.

18 So the consensus you probably, I think it's safe to say is even for
19 those who have different views about how necessary the Marines are, that a 15-year
20 time limit doesn't really make strategic sense.

21 On the other hand, there is obviously some political need in
22 Okinawa to demonstrate that this doesn't represent a concrete, immobile, permanent
23 century-long presence of U.S. bases on the island. My answer to your question is I
24 don't think it's going to be cleanly resolved before the summit. I think there is going
25 to be some muddling through because the two positions I just described are hard.

26 But I would say that the principle behind Governor Yamenai and
27 Mayor Kishimoto's request for a 15-year limit, the principle that the U.S. and Japan
28 should be consulting about the strategic environment and the nature of U.S. forces is
29 right. I certainly hope and expect that in the bilateral regular consultations, that this is
30 a regular feature of discussion. Is that a good evasion?

31 PROFESSOR TANAKA: Mike knows the situation much better
32 than I myself, so my response is really I don't know.

33 Then I tend to agree with Mike about this somehow unlikeliness
34 of a clear-cut result by the summit. I feel that strategically it is hard for the United
35 States to commit a certain time limit. But then on the other hand, I think Okinawans
36 are persuaded that the sort of relocation of the Fatemo base is not simply another way
37 to permanent continuation of the situation.

38 But then I think some sort of compromise may be reached by
39 emphasizing the sort of attitudinal ways, as Mike said. I think one of the first
40 questions I think of the Okinawans is that somehow always the Japanese are dictated
41 by Americans, and then the Japanese are not really saying anything to the American
42 decision.

43 So I think somehow creating an atmosphere that Okinawans have
44 a sort of some sense of say in the future of the bases, and some sense of involvement.
45 I think that that could somehow lead to a certain kind of way.

46 GENERAL YAMAGUCHI: Just a short comment. As to the
47 U.S.-Japan security alliance, we have a number of agenda items. We have a number
48 of milestones. So even though Fatemo issue is important, but that is not the only
49 issue. We need to discuss other issues. Also, we need to discuss broader issues in

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1 the broader context, like strategic discussions which my colleagues have raised.

2 Also, Secretary Cohen's visit this spring or this coming summer,
3 the G-8, are not the only milestones. So we might have to make a kind of roadmap
4 for a couple of years.

5 CHAIRMAN BREER: I want to thank our panel for a very rich
6 discussion this afternoon. Please join me in a round of applause. They didn't solve all
7 the issues, but they certainly put them well on their way to solution.

8 Our final speaker today, our wrap-up speaker is General Brent
9 Scowcroft, the president of the Scowcroft Group, former National Security Advisor.
10 You have his biography in hand. I won't recite everything that he has done. But he is
11 also a director of CSIS. He will give us his views on the situation.

12 GENERAL SCOWCROFT: Thank you very much. It's a great
13 pleasure to be here, but not as the summary and wrap-up speaker. In as much as I
14 have been unable to attend any of the sessions, it is a little difficult to wrap them up.

15 CHAIRMAN BREER: Not to worry. Every speaker said what
16 he had in mind anyway.

17 GENERAL SCOWCROFT: So that's what you are going to get,
18 what I have in mind. Maybe I can be provocative enough to avoid what inevitably
19 will be plowing the same furrow that has been plowed before today. The little bit I've
20 heard was a fascinating discussion.

21 I want to talk mostly about security of course, but those of you
22 who don't know me, I am not an economist by any stretch of the imagination. But I
23 want to say just a few words about the economic relationship because I think it tells a
24 lot about the nature of the U.S.-Japanese relationship. My sense is that we are not
25 naturally comfortable with each other. That we tend to talk past each other rather
26 than to each other, and that we have a difficult time in engaging and having frank,
27 honest discussions.

28 In economic matters, for example, it is my sense, you go clear
29 back to the late 1940s, we're almost constantly out of phase with each other and
30 quarreling who is up, who is down, whose fault, and were we not allies, I believe we
31 would be almost constantly at serious odds economically.

32 Strategically, however, we are somewhat better off. We do
33 recognize and accept how important we are to each other. It is still difficult
34 frequently for us to act on the basis of that assumption, but we do recognize it. We
35 accept more gracefully, I think, than we do in the economic field the different roles
36 that the two of us play.

37 Japan, as has been mentioned, has never played a strategic role in
38 the world commensurate with its inherent strength, power, however you want to
39 describe it as a nation. That partly stems from the constitution which the United
40 States was instrumental in inserting the clause about the use of force.

41 The United States for its part, having urged the Japanese to such a
42 constitution, has for years pushed for a larger security role for Japan. But
43 unfortunately, largely for relief to the U.S. defense budget rather than some thorough-
44 going concept of a strategic partnership in the region. Even here, we still talk past
45 each other a lot.

46 Nonetheless, I think that the Japanese-U.S. security relationship,
47 the treaty, is perhaps more important now than it was during the Cold War. During
48 the Cold War, the imperatives of the situation helped smooth the relationship. Now
49 we have a different situation in Asia. I think that without a significant presence, there

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is no balance in the Asian region, and that the U.S. plays a key role in the stability and in prosperity for that region.

I am sure you have all talked about all of the problems there are from Korea to India, and in almost all areas, North Korea of course being an exception, everyone sees benefit at the present time from U.S. presence. Many from very different perspectives, but it is the United States which helps preserve a stability and a kind of balance under which the nations of the region, many of which would be severely at odds, can get along, prosper, do business with each other.

At the north, in the Korean Peninsula, which has been a extremely sensitive spot for all of the last century, indeed, it's the only area I can think of where all of the great powers involved in Asia, Japan, China, Soviet Union and the United States, have fought at least one war over that peninsula. We have severe problems now. Even if they all work out and even if Korea is unified, many problems, maybe very different problems, are likely to remain.

One of the problems that unification would bring is the issue of U.S. troop presence. I will come back to that in just a moment.

China-Japan, this is not a healthy relationship. It is unlikely to be a healthy relationship for well into the 21st century. There is great suspicion on each side, deep-seeded suspicion, that Chinese tend to look at the triangular relationship as a zero-sum game. Things like the guidelines recently agreed arouse the instincts of China to feel put upon and persecuted. I think this relationship, China and Japan, benefits enormously by the U.S. presence.

Taiwan is a particular issue which is more prominently U.S.-China than it is triangular, but the Chinese have taken the guidelines incorrectly to point toward Japanese involvement in the Taiwan problem, despite comments to the Chinese from people like Joe Nye, who was responsible for the treaty, explaining its background. So it is a deep-seeded psychological kind of a presence.

Farther south, I think in Southeast Asia, the U.S. presence gives the countries of Southeast Asia breathing room from an otherwise perhaps suffocating nearness or presence of China or a China-Japanese competition over the region itself.

So the U.S. plays an important role in the region. But the U.S. presence is not possible without Japan and the security relationship without Japan. It is the anchor for the U.S. presence. Without it, the United States would be hard put, even if it was possible somehow to retain the kind of presence in Asia which is seen as comforting by most.

Japan, through the generous host nation support, plays a great role in enabling the United States to remain in Japan besides hosting the U.S. military presence itself. That gets us back to Korea. If the time comes when U.S. troops are no longer in Korea, my guess is it will be extremely difficult to maintain U.S. troops in Japan as the only host in the Asian region for such troops.

I would point out also the Japanese role outside the region in cooperation with the United States, and that is, in the Gulf War, when the Japanese financial contributions to that war were enormously helpful. Frankly, they were more helpful than a Japanese military force would have been. We really did not need the military force, but it was an extremely expensive operation. What we needed was exactly the kind of support that Japan provided, and for which I am afraid they have gotten very little credit as credits are handed out for that successful venture.

It is my sense that it is the existence of the treaty, and therefore the

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1 alliance, which is key rather than what the treaty specifically does, except for Korea.
2 There, I think it was the motive for the guidelines and their development.

3 When the crisis arose in Korea in 1994 and we started thinking
4 about contingencies and so on, and it turned out that we had not had a dialogue with
5 the Japanese, we didn't know what they would be able to grant and what they
6 wouldn't be able to grant. They had not gone through that thinking themselves. I
7 think that was the genesis of the guidelines.

8 I guess I would say in conclusion that the U.S. and Japan are not
9 natural allies either economically or militarily, and that we have to work at it. There,
10 it comes down importantly to strategic dialogue. We all talk about it. Everybody is
11 in favor of it, but it is hard to do. It is hard to be frank. It is hard to put cards on the
12 table. I think between no two societies is it harder than between the Americans and
13 Japanese. Therefore, it takes a lot of effort.

14 Fortunately, I think there still is that recognition that we need each
15 other badly. On the U.S. side, I think for our part, we need to become less unilateral
16 and unpredictable, or some would say reliable in our actions, and more consultative in
17 our policy deliberations. Hopefully, we can take some of the negative trends to heart
18 and reverse our tendencies toward ignoring consultation and dialogue until a crisis
19 upon us.

20 But anyway, I am optimistic, not pessimistic because it is so
21 important. The relationship is so important. Without it, if the United States, for
22 example, were tomorrow to load all its troops, equipment on ships and sail back to
23 Hawaii, you would have a very, very different Asia in a very short period of time to
24 no one's benefit. It is a key one, both for our two countries, for the region, and for
25 the world. Thank you.

26 CHAIRMAN BREER: Thank you very much, General
27 Scowcroft. We appreciate your remarks. I want to thank everybody for coming
28 today. I especially want to thank our panel. I think their presentations were
29 tremendous. The discussion and their answers to questions, I think really shed a lot
30 of light on the issues. I think it achieved my objective of underscoring the importance
31 of this relationship between the United States and Japan. I think General Scowcroft
32 added just the right note at the end in confirming my beliefs in the relationship.

33 Thank you very much for coming. I would like to thank our staff
34 at CSIS too for putting this together. I would like to invite you now to join us in a
35 reception which is at the rear of this room. So thank you very much.

36 (Whereupon, at 4:54 p.m., the proceedings were concluded.)
37