

U.S. JAPAN COOPERATION IN IRAQ
Experts to Discuss Implications for Bilateral Relations

May 26, 2004

William Breer: Good morning, ladies and gentlemen. We're delighted to welcome you to CSIS this morning for this conference jointly sponsored by the Japan Economic Foundation and CSIS. Noboru Hatakeyama and I have, and others in CSIS, have talked about this for some time and thought this would be a very timely subject. Well it is, indeed.

I'm not going to say any more right now but I'd like to invite John Hamre to say some words of welcome on behalf of CSIS.

[Applause]

John Hamre: Thank you, Bill. Thank you all. Welcome. I'm delighted you're here.

In no small measure I have a chance to welcome back very good friends here. Hatakeyamason, it's always a great pleasure to work with you and I am delighted to have you back. You were such a pillar of the work we did on global aging. I'll always remember fondly first meeting you in Zurich, Switzerland and being able to stay connected with you. Thank you for this and for working today with us.

We're very grateful to see Ambassador Yanai back. He did just tremendous work when he was posted here in Washington at a very important time, and he comes back as a revered friend in Washington, many many friends. We're very pleased that this event brought him back to town. Thank you.

The subject of our conference is reconstruction of Iraq, U.S. relations with Japan and the future of the alliance, I think we've got four conferences in there. This is not a single conference when you think about it. Each one of these issues on its own is really a breathtaking question. And they are really now quite inextricably related.

When we see and think about what's happened over the last two years, it's very hard to think about this new and very dynamic, important evolving role of Japan in the world and Japan's relationship with the United States without putting it in the context of these global changes that have been underway and the central role that the war in Iraq played and the very pivotal

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role that Prime Minister Koizumi took and played in Japan to reshape the public perception.

We're now in the middle of a very difficult situation in Iraq, and much to my surprise it isn't going very well. This is not a problem that we can walk away from. This is not a problem that we can choose to ignore. Any one that thinks that the world would be better or safer to let Iraq spiral into chaos and anarchy or break apart as a country, they're crazy. We are all deeply committed to finding a successful solution to Iraq.

The focus, rightly, has been in the last weeks on finding a structure for the governance of Iraq. Obviously there will be no sustainable long-term solution in Iraq until we get the governance picture right.

But no matter who comes to become the government, initially provisionally in July and later on next year, when a full government is elected they are going to inherit 30 years of decay and neglect. Not just the violence of the last year which has done a great deal of damage to the infrastructure of Iraq. But it was damage done to a very fragile economy.

This was a country that had, for all practical purposes, its infrastructure modernization stopped in the mid '60s. The only thing that Iraq really continued by way of infrastructure development past the mid '60s was a highway network which was really designed to get military units to borders to fight wars. That's not the basis of a healthy economy and it was badly distorted by mismanagement and a failed economic formula.

So we're dealing with as deeply fractured a problem as one can imagine, and unfortunately overlaying that is a very difficult and now partly a violent struggle.

So this is a complicated problem. America, of course, is deeply invested in it but so too is Japan. Japan has been deeply invested. Political commitment of Japan as well as an economic commitment.

We're not free to fail here. American power has historically been composed of two pieces -- powers of intimidation and powers of inspiration. Our powers of intimidation are unmatched in the world. We have a military capability that is just unmatched. But if we fail on the reconstruction effort we undermine that power of intimidation. If we fail to live up to I think our inherent ability to be an inspiring power as well.

So much rides on this. It's very important for us then to

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bring together our very strongest allies to join us to think through the very tough problem, very very tough problem about Iraqi reconstruction.

So I'm delighted you're here not just because it brings friends -- very valued friends -- back to Washington. But that we bring a perspective that we need to have and share together as we work through I think the most important issue on our agenda. I'm grateful for that.

Musicians have this term vamping, which is it's kind of background noise until the primary act shows up. The primary act just walked in the door and that's Al Larson so I'm going to get off the stage.

But I am here to say thank you. Thank you all for coming. Thank you Al, for being here. We're much looking forward to hearing you.

I'll turn it back to Bill, but I want to tell you, this is a very important conference, and what you're here for is extraordinarily important for us collectively, not just for America, not just for Japan, but frankly for a much better world and we're going to need to work together on it.

Thank you for coming today.

[Applause]

William Breer: I'd like to call on Mr. Hatakeyama for a few words of welcome.

Noboru Hatakeyama: Thank you Mr. Breer, good morning.

I'd like to express my heartfelt gratitude to Dr. Hamre and CSIS for co-organizing this conference entitled Reconstruction of Iraq, U.S.-Japan Cooperation and the Implications for Future Bilateral Relations with the Japan Economic Foundation, JEF.

Also I'd like to extend my gratitude to the participants and audience in this conference. Participants include, for example, Ambassador Samadi [ph] from Indonesia to Washington, D.C. He used to be the Ambassador to Japan. I enjoyed a very good friendship with him.

Also Mr. McCormick is here, Ambassador McCormick is here. He has been a long-time friend of mine and our relationship started a common experience at not CSIS but SII -- Structure Impediment Initiative. [Laughter]

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So I'd like to extend my gratitude to them.

JEF is a non-profit organization whose mission is to disseminate information regarding Japan. For this purpose JEF has been publishing a bi-monthly English magazine by the name of Japan Spotlight since 1980 and co-organizing international conferences like this with other organizations of foreign countries.

Today the conference is one of them, and this is the second such conference co-organized by CSIS and JEF in Washington, D.C.. The first one was held last October to discuss the Chinese economy including the issue of the [RMB].

To reconstruct Iraq Japan has been and will be implementing three measures. Firstly, the JOG has committed to give ODA, official development assistance, to Iraq. The amount of ODA will total \$5 billion between 2003 and 2006, with \$1.5 billion in grants and \$3.5 billion in very low interest rate loans. Roughly two-thirds of the grants have already been implemented.

The second measures is debt forgiveness, debt relief Japan will offer to Iraq. Among developed countries that have outstanding official credits to Iraq, Japan has the biggest arrear the amount of which is \$4.1 billion, excluding compensation claims for delayed repayments. If we include that amount the amount will double.

Prime Minister Koizumi told Mr. James Baker, Jim Baker, Special Envoy to the President of the U.S., that Japan would commit to substantially curtailing its official credits to Iraq in [inaudible] creditors meeting if other countries like Russia and France are prepared to do the same.

The third measure is the dispatch of JDF to Iraq.

The fact that Japan has engaged in the three issues is itself clear evidence that Japan is cooperating with the U.S. in the Iraqi war.

The purpose of this conference is to find how we can cooperate with each other in implementing these measures and what else Japan and the U.S. can do to rebuild Iraq.

For example, if the U.S. can improve the security situation in Iraq Japanese companies will be able to help reconstruct Iraq and may be able to bid as subcontractors for U.S. projects. Likewise there may be scope for American companies to participate

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in Japanese projects.

If we can come up with some specific ideas like this through our discussion today it would be highly appreciated.

Once again, thank you very much indeed for co-organizing and participating in this conference, and especially my gratitude goes to Ambassador Yanai who has come all the way from Tokyo with me yesterday and he is now a professor at the Chu University. Thank you very much indeed.

[Applause]

William Breer: Thank you, Mr. Hatakeyama for your very kind words.

I'd like now to call upon Al Larson, the Under Secretary of State for Economic, Business, and Agriculture. It used to be just economics when I was there. Welcome, Al.

KEYNOTE ADDRESS

Alan Larson: Thank you very much, Bill. Good morning everyone. Dr. Hamre, Mr. Hatakeyama, Ambassador Yanai and friends like Rust Deming. I'm very pleased to be able to be here today. I'm very very pleased that CSIS and the Japan Economic Forum are hosting this conference on the very important question of how Japan and the United States can work together even more effectively for peace and for a better future for the people of Iraq.

It is very encouraging to be able to see what Japan and the United States have been doing over the last year. This is an excellent example of the dynamic partnership that our two countries have as forces for change, for stability, and for progress in today's world.

We began a new phase of our longstanding cooperation in Air Force. We have carried that forward into Iraq and it's added a new important and lasting dimension to this very important bilateral partnership.

Last year building on some work that Patrick Cronin of CSIS launched we were able to have a strategic assistance dialogue with Japan. This dialogue is helping our two countries really focus on our shared interests and priorities in many important

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parts of the world including South Asia, what we're now calling the broader Middle East, as well as Iraq.

In Iraq itself, despite the challenges that the coalition is now facing, Iraq is making progress. It's making progress towards the future as a united sovereign state at peace with its neighbors. Together Japan and the United States have helped the Iraqis accomplish a lot over the course of the last year.

For example, we have a country that has an independent central bank and a stable currency. We have a country where two-thirds of Iraqis have potable water and where electricity production has increased four-fold over the last year. We have oil production above pre-war levels, and the revenues from oil sales are helping to finance the building of a new and free Iraq.

We have 5.5 million Iraqi children back in school and 2600 schools that have been rehabilitated by the coalition. We have over three million Iraqi children that have been vaccinated against polio and other childhood diseases and we've been able to increase health care spending 30-fold.

We have community action groups working with NGOs to complete 18,000 individual construction projects around the country and there are now 680 democratically elected councils that are allowing the Iraqis for the first time in decades to engage in building democracy.

Earlier this week President Bush outlined the main elements of the road ahead. That includes, first of all, the transfer of sovereignty to Iraq at the end of June. Secondly, the strengthening of security in the country. Third, the continued work to rehabilitate the economic infrastructure. Fourth, the building out of international support for the effort, both through the United National Security Council Resolution and through continued cooperation on economic reconstruction. And finally, elections early next year to have the first democratically elected Iraqi government in decades.

As you all know, the Coalition Provisional Authority will cease to exist on June 30th. It will be replaced by a sovereign Iraqi government. This does not mark the end of the coalition's efforts to support the success of the Iraqi people, it marks a new phase. All of us recognize that we will have a very important obligation to work with the Iraqi people to manage the transformation of their country into a more prosperous and more democratic nation.

Prime Minister Koizumi has been steadfast in his commitment

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to help the people of Iraq. His administration has provided unwavering diplomatic and political support to the coalition from the very beginning and Japan is a staunch participant in the coalition's mission in post-war Iraq.

As Mr. Hatakeyama mentioned, Japan's key role on Iraq reconstruction became clear at the Madrid Donors Conference last year when Japan pledged \$5 billion in reconstruction funds. Japan was very thoughtful in making sure that its contribution would contribute both to short run and to medium term stability. It pledged \$1.5 billion in grants that could be dispersed through March 2005, and it pledged \$3.5 billion in soft loans that could make an ongoing contribution to reconstruction over the next couple of years.

Iraq is a very highly indebted nation. It has an external debt of over \$120 billion which is anywhere from five to eight times its gross national product. Paris Club creditors hold about \$42 billion of that debt, and Japan is the largest creditor with about \$8 billion.

We've had a very important cooperation with Japan on the issue of Iraq's indebtedness, and as has been mentioned during a visit by Special Presidential Envoy James Baker, Prime Minister Koizumi pledged to eliminate the vast majority of claims on Iraq provided that other Paris Club creditors reached agreement on debt reduction. This was a courageous decision. Frankly it went against the grain of some of the more conservative instincts of some in Japan, but it was an excellent example of imaginative and determined leadership on Iraq.

Japan is continuing to play a leading role in the international donor efforts in support of Iraq. It is the largest donor by far to the World Bank and United Nations trust funds. Japan also has demonstrated its leadership by chairing the donors group that is helping to provide guidance for the World Bank and the UN trust funds.

A meeting of this group has been taking place this very week in Doha. In that meeting Japan is encouraging the United Nations, the World Bank and others to move from commitment to action. And by its own actions Japan is leading the way in mobilizing about 260 million of its UN trust fund contributions as well as 40 million of the 130 million that it's already paid into the World Bank holding account.

Japan's financial contributions are critical to the success of the reconstruction effort in Iraq, but no less important has been Prime Minister Koizumi's historic and politically bold step

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of deploying Self Defense Forces on a humanitarian mission to Iraq. This decision challenged a post-war taboo of almost 60 years and it signaled a new era of Japan's role in the world.

Today there are over 550 SDF troops on the ground conducting humanitarian and reconstruction activities. Beyond their role in building a new Iraq these troops have sent an important signal in the Middle East and beyond, that Japan is ready to contribute in every possible way to the benefit of the international community.

Prime Minister Koizumi has repeatedly affirmed his government's intention to stay the course in Iraq, even in the face of the cowardly murders of two Japanese diplomats last year and more recently the abduction of Japanese civilians.

The United States admires and is grateful for the unwavering support from the Prime Minister of Japan and his government

Japan has also lent wise counsel to the United States. In preparing for the G8 Sea Island Summit this year I've had the opportunity to travel all around the Middle East to elicit ideas and suggestions from the countries of the region about how we can best support the forces of democratic change and of reform and of freedom and of greater opportunity in this very important part of the world.

My Japanese colleagues have had their own experiences in this part of the world and they provided their insights on how best to prepare the region for a brighter future. They have stressed patience and responsiveness. They've stressed the importance of education. They've stressed the importance of working with civil society. We have incorporated these Japanese suggestions into the work that we're doing, the proposed plan of support for reform in the broader Middle East and North Africa.

But what makes Japanese suggestions and Japan's voice so powerful at this particular moment in history is Japan's willingness to put its own values on the line as never before in the post-World War II era.

The people of Japan and the people of the United States share many core values and this has never been clearer than at this moment on the 150th Anniversary year of the formal establishment of treaty relations between our two countries. Those values include respect for democracy, for human dignity and for fundamental economic liberties. Our two cultures have a rich diversity in the way that we express these values but in each of our countries they spring from similar and profound human aspirations.

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Our 50-year alliance with Japan is growing and it's evolving. Our relationship is mature enough that we now expect and welcome a more vigorous Japan to assert itself strategically in the international stage. This can be seen in Japan's new strategic approach to foreign assistance as well as its willingness to join in coalitions to protect its broader interests.

Iraq can have a very bright future and Japan and the United States are working together to help make sure that it does. I'm supremely confident that the U.S.-Japan alliance will emerge from our joint efforts in Iraq even stronger and even more purposeful than before.

The goal of this conference is to discuss that future and I look forward with anticipation to the results of your deliberations.

Thank you very much.

[Applause]

William Breer: Al's agreed to take some questions if people have them for five minutes or so.

Al Larson: On the other hand I'm very happy not to take questions. [Laughter]

We've got one, go ahead.

Question: [inaudible], Financial Times.

Al Larson: I can hear you.

Question: I'll speak louder. [Inaudible] Moore with Financial Times.

In the relationship between the U.S. and Japan Iran has sometimes figured as something of a problem and it's been widely reported that the U.S. was putting pressure on Japan not to complete the Azidian oil field contract with Iran. Can you comment on that and whether this is a problem between the two countries and how Iran, Japanese involvement in Iran might impact upon the relationship involving Iraq? Thank you.

Al Larson: Japan and the United States have the sort of relationship that we have very deep and candid discussions about every major issue on the international agenda. With respect to

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Iran it's clear to me based on the discussions that I and others have had with the Japanese government that we share a profound view, profoundly held view that it's important for Iran to live up to its obligations to the international community with respect to weapons of mass destruction, with respect to its obligations in the International Atomic Energy Agency.

We believe based on those ongoing consultations that the government of Japan together with the government of the United States will be working very very hard to make sure that Iran does live up to those obligations and we welcome the fact that we've been able to have those types of discussions with this close ally.

Seeing no other hands I'm going to leave it at that. But I really welcome this conference, Bill. I think it comes at a very important time and it really does signal there's something new going on.

We've had a strong relationship with Japan for at least the last 50 years but the type of cooperation that I have seen first-hand in my relationships with the Japanese government is unprecedented in my 30 year career in the Foreign Service. It extends to economic issues, to assistance issues, and to strategic cooperation on issues like Afghanistan and Iraq.

We have the closest of personal relations. I'm on the phone at all times of day and night with my Japanese counterparts. Just this morning I was trying to track down Deputy Foreign Minister Fujisaki.

This is a very very welcome development from the standpoint of someone like myself that's been working with the Japanese government on a range of issues over most of my career.

So good luck in your deliberations and thank you for inviting me to be here with you this morning.

[Applause]

William Breer: Thank you very much Under Secretary Larson for those very stimulating words. I think that sets a very strong tone for the remainder of our conference.

Without further ado, please help yourself to coffee at any time, I'd like to call upon Ambassador Yanai to make his presentation.

SESSION I

Evolving U.S.-Japan Relationship

Shunji Yanai: Thank you very much.

I'd like to thank Dr. Hamre, Mr. Hatakeyama, Under Secretary Larson, Mr. Breer, for their very kind words of welcome to this JEF-CSIS conference.

I'm delighted to be here again to see my old friends and to make new friends. While I was leaving home yesterday my wife asked me, "Where are you going to speak?" So I said, "At CSIS." She complained, "You speak to them more than you speak to me." [Laughter] So I said, "Well, they listen." [Laughter]

I'm asked to speak about U.S.-Japan alliance and I think there are two ways of looking at our alliance. One is to talk about the bilateral efforts to strengthen the alliance. For instance we adopted the Joint Declaration on Security in 1996, and in the following year we adopted also the new guidelines for defense cooperation, and we are now cooperating on missile defense.

Another way to look at this is to go through the major crises in the last decade. So today since Iraq is on the agenda I would like to take the second way of looking at this.

I would like to take up the major issues, major crises during the last decade and how Japan reacted to them.

First of all I would like to take up Gulf War and Japan's reaction. Saddam Hussein's aggression into Kuwait caught Japan off guard. After a long period of peace after World War II, Japan was not at all prepared to take any effective and timely actions for cooperating with the international community in its collective efforts to liberate Kuwait and restore peace in the Gulf area. The then [Kaifu] government and the LDP decided to take several actions in order to contribute to the international efforts for restoring peace in the Gulf. This policy package included such measures as repatriating Asian workers from occupied Kuwait, helping its neighboring countries minimize the adverse effects of the aggression, and the enactment of a new law authorizing the government to dispatch Japan's Self Defense Forces to the Gulf to provide the coalition forces with logistical support if not sending combat troops, which was considered unconstitutional.

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The government presented a bill called the UN Peace Cooperation Bill, but the socialists and the communists fiercely opposed it. In those days the LDP had a majority in the lower house with a small margin but was a minority in the upper house, so in the face of very strong opposition in the lower house the government and the LDP withdrew the bill.

As a result, financial assistance of \$13 billion U.S. dollars to the coalition forces was the main pillar of Japan's contribution at that time to the international efforts for restoring peace in the Gulf.

The government of Japan prepared this large amount of money by raising taxes, but the international community did not duly appreciate this financial contribution since there was no physical presence of the Japanese in the Gulf during the war.

Although the said bill was withdrawn, the Japanese people became increasingly aware that Japan should contribute more actively to the [mentness] of international peace and security, especially by sending personnel to conflict areas instead of just making financial contributions.

On the basis of this public awareness the LDP and two moderate opposition parties, namely the Komato and the Democratic Socialist Party, agreed to enact a new law to authorize the government to participate in UN peacekeeping operations. In 1992 for the first time Japan participated in peacekeeping operations in a big way in Cambodia by sending Japan Self Defense Forces and other personnel.

Now I would like to turn to the 50th Anniversary of Japan-U.S. alliance and September 11th.

On September 8, 2001, many Americans and Japanese gathered in San Francisco to celebrate the 50th Anniversary of the signing of the peace treaty and the Japan-U.S. security treaty. They agreed that the Japan-U.S. alliance contributed to the maintenance of peace and security not only in Northeast Asia but in the Asia Pacific region as a whole.

They also agreed that the alliance should be strengthened so that Japan and the United States can cope with uncertainties in the world since the end of the Cold War.

Only three days after the celebration in San Francisco the 9/11 terrorist attacks occurred. In the context of the Japan-U.S. alliance these attacks meant the reconfirmation of the importance of the alliance and also a test to know whether or not the

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alliance could function in a crisis like September 11th. In my view the alliance passed the test.

Prime Minister Koizumi immediately supported President Bush's fight against terrorism and announced a seven point package of anti-terrorist measures including strengthening the protection of U.S. facilities in Japan, tightening immigration checks, and among other things the possibility of dispatching the JSDF through the Indian Ocean to give the coalition forces logistical support.

Prime Minister Koizumi flew to Washington and expressed his support in person to President Bush. He explained the measures he intended to take in the fight against terrorism. A new law concerning special measures on terrorism was enacted in the fall of 2001 and Maritime Self Defense Forces ships started providing the coalition forces with logistical support in the Indian Ocean.

This is the type of contribution Japan had tried and failed to make during the Gulf War.

Thirdly, I would like to refer to the war in Iraq and Japan's position.

Last year Prime Minister Koizumi supported the use of force against Iraq by the United States. Unlike in the case of the 1991 Gulf War and the bombing of Afghanistan after September 11th, the legal ground for the use of force in Iraq was not explicit and unclear under the United Nations charter.

In my understanding the United States and the United Kingdom concluded that a fresh Security Council Resolution was not necessary based on the argument that the 1990 Security Council Resolution 678 authorizing the use of force by the coalition forces against Iraq is still in effect, and Saddam Hussein's Iraq repeatedly violated a series of Security Council resolutions including Resolution 687 which provided for the ceasefire in 1991.

These resolutions demanded that Iraq cooperated with the IAEA and the United Nations for the effective implementation of inspections for weapons of mass destruction and resolution 1441 of last year warned Iraq that continued violations would lead to serious consequences, expressions equivalent to ultimatum in classic diplomatic terminology.

Many people around the world including in Japan cast doubt on this interpretation but the government of Japan supported the legal position taken by the United States.

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From a political point of view the majority of Japanese approved of Prime Minister Koizumi's support of the use of force by the United States against Iraq. One opinion poll even showed that as many as 70 percent of respondents appreciated the removal of Saddam Hussein. The government explained that in light of the fact that the North Korean nuclear development program threatens Japan, the government could not overlook the doubt about the development of weapons of mass destruction in Iraq.

It seems that this explanation convinced public opinion of the tenability of the Japanese government's position regarding the use of force on Iraq by the United States.

Currently in Sumawah, southern Iraq, JSDF troops are providing the Iraqi people with humanitarian and reconstruction assistance such as the rehabilitation of hospitals, schools and other infrastructure facilities.

With respect to the dispatch of the ground force to Iraq with the above-mentioned mission, Japanese public opinion seems to be divided by 50/50. While those who support the dispatch of troops think that Japan should make this kind of contribution to the international efforts for the stabilization of Iraq, those who are against it consider that the situation in Iraq is still too dangerous.

According to one opinion poll a majority of the respondents think that the JSDF troops should be withdrawn if it is involved in an armed conflict and sustains casualties.

My fourth point is concerned with the evolution of Japan's contribution to the maintenance of international peace and security. The awareness of the Japanese people of the need for more active contributions to the maintenance of international peace and security has gradually grown through the following four stages.

At the first stage the government of Japan and the LDP tried to send the JSDF to the Gulf area in order to provide coalition forces with logistical support. But as previously explained this endeavor failed in the face of strong opposition from the leftist opposition parties. So as a result, as I said, Japan's contribution had to be limited to a financial contribution and humanitarian and reconstruction assistance in the form of ODA.

At the second stage Japan decided to participate in UN peacekeeping operations and as also stated previously, public opinion became aware that Japan should make more active

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contributions to the maintenance of international peace and security, especially by sending personnel to conflict areas including in the military field instead of just making financial contributions.

In 1992 the Diet passed the International Peace Cooperation Law which enabled the government to participate in UN peacekeeping operations. This law is based on so-called five-point PKO, peacekeeping operations, principles. Point five of these principles states that the use of weapons shall be limited to the minimum necessary to protect personnel's lives and persons.

This is more limited than the scope of the rules of engagement of conventional UN peacekeeping operations, but under the International Peace Cooperation law, JSDF have participated in the UN peacekeeping operations in Cambodia, Mozambique, East Timor, and on the Goat Heights and carried out international humanitarian relief operations in Zaire in support of Rwandan refugees.

The third stage of Japan's contribution in the military field is the logistical support given by the Maritime Self Defense Forces ships to the coalition forces in the Indian Ocean. As I said, this is a type of operations that Japan had tried and failed during the Gulf War.

The fourth stage in the current is the JSDF operations in Iraq for humanitarian and reconstruction assistance. As mentioned, JSDF provided Rwandan refugees with humanitarian relief in Zaire in 1994 but at that time there was no armed conflict in that country. It was the first time JSDF had operated in an unstable country where armed conflict had not completely ended, although Sumawah in southern Iraq is not considered a battle area.

In connection with these new contributions by the Japanese Self Defense Forces, my good friend Rich Armitage was reported to have said in connection with the September 11th attacks, [show of like], and in connection with the operation in Iraq boots on the ground. And these expressions became very popular in Japan and I am very curious about what he is going to say next. [Laughter]

So in conclusion, let me add just one more thing. We are now trying to review the national defense program outline which was adopted about ten years ago. The current outline which lays down the basic features of the national defense program was adopted in November 1995. Significant changes have taken place since then in international relations and the security environment surrounding

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Japan, the government of Japan decided to review the outline and adopt a new one which will be applied from next year.

For this purpose Prime Minister Koizumi established an advisory committee consisting of ten individuals with different backgrounds. They are scholars, businessmen, former government officials including myself, and a retired general. The committee was asked to examine international relations and the security environment of the world in Northeast Asia and to make recommendations on what defense capabilities Japan should acquire in order to cope with new security challenges.

The committee started its work in April and plans to make recommendations sometime in September so I look forward to reporting to you on the work of the committee sometime in the fall.

Thank you very much for your attention.

[Applause]

William Breer: Thank you very much, Ambassador Yanai. We'll take you up on that. And before the day is over we'll set a date for your reporting to us here at CSIS.

Now I'd like to turn it over to Rust Deming for his presentation.

Rust Deming: Thank you very much, Bill. Thanks to Dr. Hamre and Patrick Cronin and Bill for organizing this and for allowing me to participate. It's a great pleasure and it's a great pleasure to be on the panel with Ambassador Yanai.

Ambassador Yanai and I did not have a chance to coordinate our approaches, but amazingly, we both I think did take essentially the same conceptual approach of contrasting the Japanese response to the first Gulf War with how different it has been since. I won't go through all the events that he listed, I'll focus more on what I think are the challenges ahead and the agenda for both of us, but a few comments on the period before.

I was in Tokyo during the first Gulf War and I well remember the agony that Japan went through and the tremendous expectations from the American side that Iraq's invasion of Kuwait was a fundamental challenge to the international system and Japan had as much stake in this as any other country and Japan should, to use Rich Armitage's expression again, to put boots on the ground to have a human face. And even though Japan responded tremendously generously with \$13 billion there was very little

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appreciation. Indeed, we got into an argument about exchange rates which was demeaning to both countries, and it left a sour taste, frankly, in the relationship.

We got over the crisis because the Gulf War was successful and Americans basked in that success, but there was a lingering feeling in the U.S. that Japan was more of a taker than a giver in the international system and this was fed by trade disputes at the time and so on.

So we had a lot of work to do. In the years since Ambassador Yanai has outlined the many things Japan has done. Let me just add a couple.

I think that one of the real lessons of the Gulf War to us was we could not allow this kind of disconnect to take place between the U.S. and Japan in response to a crisis in Asia, particularly in Korea. We then had the 1994 nuclear crisis in South Korea and the U.S. was on the verge of moving troops through Japan into Korea. It turned out that we had none of the mechanisms in the alliance to make use of Japanese ports and airports outside of the military bases that we had. No provisions, no agreement to use hospitals or other things. This was a tremendous wakeup call. Fortunately the crisis was averted at the time. Jimmy Carter went to Pyongyang and there was no need to carry through on these things but we were all on both sides I think very alarmed about how ill prepared we were. From that flowed the guidelines review, the putting in place of the new guidelines. Also the recognition of a need to put a new Cold War justification for the alliance out there and Joe Nye with his initial report on East Asian Security Initiative with the idea of the alliance being oxygen in the region that allowed the area to prosper. Then the Security Declaration when President Clinton came to Japan in 1996. All of these things sort of laid the framework and the basis for what happened in 2001 after September 11th.

One other event, again Rich Armitage, another man who has played a prominent role in the alliance. The Armitage/Nye report in 2000 which was put together by a group of people seven of whom I think showed up in major positions in this Administration, recommended basically that the alliance be modeled after the U.S./UK alliance that we tried to achieve, a new level of intimacy. And indeed Rich Armitage in that report said that it was important for Japan to deal with the prohibition on collective self defense and that I think helped stimulate debate in Japan and moved things forward.

So a lot of different things were in place after September

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11th that were not in place during the first Gulf War. It would have been almost impossible for any political leader in 1991 and 1992 to respond dramatically the way Prime Minister Koizumi did in 2001, but I think it really was a matter of political leadership as well.

The Prime Minister moved quickly, with unprecedented speed in a very tricky domestic political environment and a very tricky international political environment, and we could have had a very different response from a different Japanese leader. So I think tremendous credit goes to the personality and person of Prime Minister Koizumi for making use of the tools that were then in place to move Japan forward and to change fundamentally the perception of Japan in the United States.

When I was in Tokyo last month one of my [Guy Musho] friends took me aside and said let me just ask you privately did we do the right thing by sending troops to Iraq? And this was during a period when the hostages had just been taken, when the situation in Iraq was deteriorating and lots of agony about what was going on. I said absolutely. I said irrespective of whether you think the war in Iraq is a good idea or a bad idea, the fact that Japan stepped up to this, the fact that Japan put its own citizens in harm's way, the fact that Japanese leaders overcame strong public opposition and misgivings has changed fundamentally the perception of Japan in the United States. I think that it's been a historic decision and it's changed the character of the alliance for the better. We went on to talk about the things that lay ahead. But I really believe that and I really believe that decision has changed the way we look at Japan and indeed the way Japan looks at itself.

I was struck by the response to the hostage situation when I was in Tokyo, the initial responses with great alarm, but then a very hardening of Japanese attitudes, of not giving in to this kind of blackmail, and I think it shows a real maturity and a real commitment to play a much more assertive international role.

Let me just talk a little bit about the road ahead. I think we're in a very good position right now between the U.S. and Japan in the alliance overall. It is widely said in Washington and in Tokyo that the alliance has never been stronger. That there's never been a better, closer, personal relationship between an American President and a Japanese Prime Minister including the [Ron Yasu] relationship of 15 years ago. I think that's true. And as Al Larson said this morning, we are cooperating on economic areas, strategic cooperation across the board that's never been deeper. And Japan is putting its own values on the line in an unprecedented way.

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The Japanese are moving forward to expand there, as Ambassador Yanai mentioned, the NPDO, the National Defense Program Outline, will put forward some new ideas. Emergency legislation is probably going to be introduced in the Diet session which will give the government added powers to deal with the crisis. In the next Diet session I understand next year there's likely to be legislation introduced for generic peacekeeping, in other words to give Japan the authority to send Jieitai abroad for peacekeeping, humanitarian activities without having to have a special law each time and that will certainly be a step forward. And as you all know, I'm sure, there is a debate in Japan about the Constitution, Article 9, about the issue of collective self defense. I think that will play out over a number of years, but will not result in anything terribly dramatic. But I think, again, it's a sign that Japan is taking on more responsibility and it's very healthy for the alliance.

But I think there are some challenges that we have to watch carefully. The first is the opposite of the great strength of the personal relationship between Prime Minister Koizumi and President Bush, is that the relationship has become, I think, overly dependent upon those personal connections. Any new leadership -- There would be no fundamental change in policy with new leaders in either the U.S. or Japan, but that special chemistry would be gone and we'd have to recreate that kind of intimacy which has been so special and so unusual.

So I think we have a challenge to broaden out the ties and not have it quite so centered at the very top.

Second, of course, is the outcome of the war in Iraq. Having said how important I think Japan's decision to join us was, that obviously if we don't succeed in Iraq, and I mean in a big way, if the whole venture there is seen as a failure, as a mistake, that will impact on the alliance. IT will certainly impact on the fortunes of Prime Minister Koizumi, and I think it will make Japan more cautious about future cooperative activities with the U.S. in this area and probably increase pressure for Japan to orient its overseas activities more directly under UN offices if not a UN Security Council Resolution.

On the other hand if we are successful in creating a stable and representative Iraq and leaving a situation behind that is clearly much better than the one before, that will be a great source of strength to the alliance that we both took chances, we both took risks, had a very difficult time, and those risks turned out to be good decisions.

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So I think we have quite a stake. Not beyond all the stake we have in essentially Iraq more broadly, that has been talked about and we'll talk about it later this afternoon. There is an important alliance stake in how this comes out.

Another issue we need to manage very carefully is of course Korea. Our cooperation has been excellent there both bilaterally and the trilateral [TCOG] -- U.S., ROK, Japan; and in the six-party talks. And Prime Minister Koizumi's recent visit to Pyongyang I think is taking place in a context of close cooperation and consultation with us so things are moving well in that direction, but it's always, we have slightly different national perspectives, different domestic politics, and if either a bad news scenario or a good news scenario on the Korean Peninsula can create tensions in the alliance. Bad news -- if the six-party talks fail, there's a North Korean nuclear test or something like that. On the one hand that would solidify our defense cooperation. On the other hand it would create delicate political issues of how we respond including with the ROK and with the Chinese. It would take a lot of work to be sure that we're all pulling in the same direction.

In a good news scenario, we'd solve the nuclear issues and a reduction of tensions on the Korean Peninsula, movement toward unification That is welcomed by all of us. It's the outcome we want, but it would also create a new situation where the "Korean threat" would be removed as sort of the organizing principle for the alliance and it would create pressure in Japan I think for a reduction of American forces, the whole issue of how a united Korea would behave in terms of its relations with China, Japan and the U.S.. We'd have a new dynamic there.

So again, a good, a welcome challenge or one that would be a challenge in terms of managing all of these things so that it wouldn't have any damaging impact on our overall strategic cooperation.

China of course, right now a period of unprecedented good relations between the U.S.-China, U.S.-Japan, Japan-China. But again, different histories, different domestic politics, slightly different perspectives on Taiwan. I think we both want to see the Taiwan issue solved peacefully, that's very clear, and we both are very supportive of the development, economic and political, that we've seen in Taiwan. AT the same time we have different perspectives, I think, on the potential use of force in a crisis and that again is an issue that would need to be talked through and managed very carefully because that could create tensions.

Finally, an issue that I became even more aware of when I

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was in Tokyo last month is the growing, and I'll be interested Ambassador Yanai's take in on this. I found a growing discomfort in Japan with the perception of American unilateralism. It's very subtle. There's clearly a new maturity in Japan about the limits of the UN and the need to have ways of addressing issues that don't involve formal UN approval.

At the same time the UN is extremely important in Japan. It's an important source of legitimacy. And a little bit of the European disease I saw in Japan in the sense that they're not quite sure whether the United States was committed to full consultation with its allies of whether we were valuing, putting our own interests ahead of broader interests. One person said to me that you have to recognize that the American President is the President of all of us, of all of the democratic countries in the world. We would like to see the U.S. act more in that way rather than be seen as pursuing its own interests.

Now all of these things I think can be transitory, and indeed, it's clear that the Administration is moving back in the Iraq context toward the UN and toward international cooperation. We have a whole series of summit coming up -- Sea Island, the USEU's summit, the NATO summit, and I hope this will all reinvigorate the multilateralism and the broad approach to international issues. But if this perception continues in Japan it could damage the alliance because it's coupled with growing nationalism in Japan anyway, a healthy nationalism I think. But there is an appetite for a slightly more independent Japanese approach to the world, among many elements there. Both conservative and on the opposition side.

I think the real agenda for us is to shore up the excellent coordination we have on the whole range of issues. It's going well. We need to continue to work together on that. China, Taiwan, Korea, military realignment, that's in the works now. We're in consultation with the Japanese. We need to be sure we avoid any surprises there. And in our adjustments we address their concerns as well as ours.

Southeast Asia, tremendous opportunities for us to try to reinvigorate some of the regional forums there. There is more and more dynamism among the Asians themselves, the so-called 10+3 or the ASEANS plus Japan, Korea, China, has taken on a real life, and this Administration has been very relaxed about that which I think it should be. But at the same time we need to be sure that the U.S. and Japan are working together on the Asian regional framework, whether it's ARF, the ASEAN post-ministerial, APEC, et cetera.

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South Asia, a new area for U.S.-Japan cooperation. Tremendous potential. We've already begun in Afghanistan. Now with India emerging as a real player in particular, and good relations between India and Japan, India and the U.S.. We have opportunities to look at things to do there.

The Middle East, we've always talked about Japan's role in the broader Middle East initiative. Al Larson discussed that. I think frankly, my own personal view, is Japan should be added to the quartet in dealing with the Israeli-Palestinian issue. We need their advice, their political influence, their wise counsel on that.

And then more broadly, I think we both need to do a better job of trying to build support in a new generation of Americans and Japanese and understanding for the alliance. We need to get younger political leaders together. There's a whole new generation in Japan that some know the United States very well, some have studied here, some don't. There's a whole American generation that by virtue of the [JET] program has been exposed to Japan but they have not really emerged in positions of leadership and we have a big task, I think, to try to bring people together.

I think that it would be very useful to have some kind of a high profile event in the next few years. I'm thinking of something like a visit by the Crown Prince and Princess. Of course she was educated in the U.S.. In the next two or three or four years to have something like that, of a couple of weeks visit with a lot of exposure could really be a symbol here of the importance of Japan and be used very effectively. The same thing next year with the reelection of the President or election of a new President, to put a visit to Japan very high on the agenda of the new Administration.

Let me stop there, thanks.

[Applause]

William Breer: Thank you very much, Rust. We have time for questions and discussion now so the floor is open. Please identify yourself and wait for the microphone.

Bill Clark?

Question: You identified me. [Laughter]

A quick question on the possible response. You're moving Japanese forces into harm's way again. If we go back and look at

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earlier experiences, Ambassador Yanai, you mentioned Cambodia. And indeed when there was a fatality in Cambodia there was a reaction. You've also mentioned the three hostages and the reaction there was quite different this time. The initial reaction was concern. The second reaction was why did you go there and why did you cause all this trouble?

You can't have that with the Self Defense Forces because why they're going there is because the government is telling them to go.

It is apparent that in Iraq today the opposition is targeting the coalition of the willing, if you will, to try and move forces out. We've seen the explosions in Spain, Spanish forces are now out. Others are thinking about it. Could both of you speak to the fact that now, putting the Jieitai into a dangerous situation, what happens if?

Shunji Yanai: I said in my presentation that if the JSDF sustains casualties then perhaps a lot of Japanese would say that they should be withdrawn, but according to one opinion poll, there are a lot of people within the leading party, that is LDP, that even in that case Jieitai should stay in Iraq. But I don't know. This is a new experience and the case is quite different from peacekeeping operations and the operation Indian Ocean. Indian Ocean, they operated very far from the battlefield on the sea, but as Rich Armitage said, now in Iraq boots are on the ground, so this is an entirely new experience.

But I think gradually Japanese people became to understand that any such operations run certain risks. We are not just going to picnic or tourism. But of course I keep my fingers crossed that nothing happens.

Rust Deming: I agree, just from the basis of my conversations in Tokyo last month, that you remember in 1994 was it when a policeman was killed in Cambodia?

Shunji Yanai: 1993.

Rust Deming: 1993. That that almost brought about the withdrawal of the Japanese forces.

Now we've had the tragic death of two Japanese diplomats there. That did not change the resolve at all in Japan. And I would certainly hope there will be no casualties, but I think if there are that Japan, as Ambassador Yanai says, understands the risks that are involved in doing these things. So it's a very different public attitude I think right now.

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Question: Peter Yupser, American Near East Refugee Aid.

I appreciated the presentations by both speakers on the relationship between the United States and Japan. Is there a consideration of having a free trade agreement negotiated between Japan and the United States? And if there is not, should there be one?

Shunji Yanai: Perhaps Mr. Hatakeyama who is a very strong promoter of free trade agreements is in a better position to respond to that question. Mr. Hatakeyama, please help me.
[Laughter]

Noboru Hatakeyama: Last week my friend Fred Berstan visited with my organization soliciting our experts to elaborate on FTA between Japan and the USA. According to him in the '60s and '70s Japanese economy was too strong for the U.S. to have FTA with Japan. In '90s U.S. economy was too strong for Japan to have FTA. So now is the time -- [Laughter] -- for Japan and the USA to have FTA with each other. Especially in light of the fact that there are many FTAs proliferating all over the world and according to [inaudible], this time he didn't say so. He said before that if two of us, the USA and Japan, are involved in FTA then the other APEC members would jump on this bandwagon thereby making possible the FTA among APEC countries which might be good. And I am not too ready for FTA between Japan and the USA at this particular moment because Japan has entered into FTA for the first time with Singapore just in 2002, and then now we managed to have fundamental agreement with Mexico to have FTA. FTA between Japan and Mexico would become the second FTA and this would be signed in August. I hope.

In the discussion to have FTA with Mexico there were strong oppositions coming from LDP, LDP's agriculture factions. We swallowed this big issue with Mexico barely. Therefore, it might be a bit premature at this stage to swallow another big pill by the name of USA/Japan FTA, especially in terms of agriculture. We have been now negotiating with Thailand, Malaysia and Philippines for possible FTAs by the end of this year. We entered into also negotiation with Korea. Our target is to conclude this within next year. And within next year as well, we might conclude the negotiation on FTA with ASEAN as a whole.

So these are the set schedules as of now. So maybe after this we might be able to enter into that FTA between Japan and the USA which you mentioned. Thank you.

Rust Deming: If I could just add one thing. I think if Al

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Larson were still here he might say that while an FTA is something over the long term we should look at, that right now the best thing the U.S. and Japan can do is put their energies into a successful Doha Round on the multilateral side. And since the U.S. and Japan are the two biggest trading economies in the world we have a tremendous responsibility together to make this work and we're going into a very difficult period so that's where the focus of our effort should be right now.

Question: My name is [Nan Perites] from SEIS, John Hopkins University. Thank you very much for the overview of the Japan and U.S. relationship.

I would like to ask a question to Ambassador Yanai about the problem of the connection between the problem of Palestinian and Israel and the problem of Iraq.

The one think tank in England came out and said that about 18,000 new al Qaida is being formed and al Qaida has changed in organization, become much more fluid and difficult to discern. On the other hand, Mr., I think the Bureau Chief of Newsweek also said that the overwhelming majority of opinion in the Muslim world and especially in the Arab world, the thing that the U.S. is fighting the war in the Middle East for two reasons. One is for oil control. The other one is defend Israel.

What is the opinion of Ambassador Yanai on that? Thank you.

Shunji Yanai: Thank you very much for the very important question.

I don't think that the United States is trying to wage a war for oil. You don't have to do that to get access to oil fields. That is one thing.

Japan has, frankly speaking, no influence on Israel nor on Palestinian except for economic assistance to the Palestinian people which we have been extending in large amounts. And we expect very much that the United States influence Israel so that agreement be reached between Israel and Palestinians.

We are very concerned that the continued prolonging conflict between Israel and Palestinians would create more terrorists which would be sent to many places in the world.

William Breer: Mr. Ambassador?

Question: Thank you very much. Two quick questions.

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The first is that we often hurt the cooperation between Japan and for that matter also Germany and Iraq. The experience of democratizing Japan after the 2nd World War, and now the intent to democratize Iraq as a result of this operation. May I learn from Mr. Yanai and also perhaps from Mr. Deming, is the ingredients existing in Iraq now more or less similar with the one in Japan? So that this cooperation is warranted?

The second is very small technical things. I listened carefully on the briefing or the remarks of Under Secretary Larson on Iraqi debt and the forgiveness by Japan of Iraqi debt. I still remember in my previous capacity Japan is the government, and by law Japan is the most difficult in forgiving debt because of the legal constraint in Japan. How this could be done in Japan with regard for the forgiveness of debt in Iraq? Thank you.

Shunji Yanai: Thank you very much.

As to the first question, Ambassador [Smulli], I think every country is different and if I compare the post-war Japan immediately after the end of World War II and present Iraq, I should say that there are many differences between the two countries.

First of all, in Japan although not so many people are aware of that, but under the [major] constitution when the Emperor had a much bigger role, still during the [Tishell] period democracy developed in Japan, even under the old constitution. So in 1945 the Japanese people had already a certain experiences in democracy. So that is one thing.

Another thing is that unlike in Iraq, fortunately we had no ethnic conflicts within the country, and that is the second thing.

The third thing is that, as you know, there is no religious conflicts either in Japan. So these are the three differences I notice. There may be many more, but the situations are quite different from one another.

As to the second question, I must confess that which method is going to be taken to forgive debt in favor of Iraq, but I don't think they have changed the system, so as you know, we, whatever we cancel debt for heavily indebted countries we ask them to pay the outstanding debts but instead we give them the same amount of grant aid to cancel the debt. So that is the same thing, that has the same economic effect without changing the system.

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I think it has certain value in that if you cancel the debt outright that would create so-called moral hazard for the borrowers and will make that borrower country more difficult to get new loans in the future.

Rust Deming: I agree completely with Ambassador Yanai, that each country needs to be looked at independently and I believe that democracy really needs to grow from within. It cannot be imposed. In Japan and Germany there was this pre-war structure already in place.

I think a more useful comparison, perhaps, is with Southeast Asia where in my career, my experience, I have seen for example Taiwan, South Korea, Thailand move from military dictatorships, essentially, to essentially healthy democracies. My own view is that that is largely a result of economic growth, development of a middle class that demanded participation in a political system. So I think it's a mistake to look at the Arab world and say it's just completely unsuited for democratic development. I don't think that's true. In Iraq you have some of the elements there. You have an educated population, women traditionally have played a fairly important role in society compared to other Arab countries. The economy is a mess thanks to Saddam Hussein so you don't have that kind of economic infrastructure. But I think when those things are in place you will see in the Arab world internal movement toward more open political systems. Whether you call them democracies or not, I'm not quite sure. But I think that will come.

Question: Thank you very much. My name is Washir from [inaudible] Chicago.

A question would be addressed to Ambassador Deming. There was an article in the latest issue of the [Balance], a weekly investment magazine by Dow Jones, and in that article there was international symposium, and in the symposium the one panelist emphasized that the placing Bush sentiment is very strong in European countries but very rare in Asian countries. One of the conclusions of that symposium say that if the Kerry Administration comes up Japan's position, Japan's [weight] in American foreign policy will be reduced. How would you respond to this sort of analysis?

Rust Deming: I think it's simplistic to say the least, but I did notice that when I was in Tokyo there were a number of people that wondered -- There's always a fascination as there should be in Japan about the American political process and what the implications are for Japan. And frankly, there is a certain, among certain leadership groups in Japan, a feeling that

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Republican Administrations tend to take Japan more seriously, place more emphasis on the alliance, and are not quite as hectoring on trade issues, whereas Democratic Administrations make trade the main focus and it's a more difficult environment.

That's, again, a very simplistic interpretation I think. My response in Tokyo and here is that the fundamentals of U.S.-Japan relations are remarkably constant through political change in the U.S. and indeed through political change in Japan. Our relations are based on national interests, not upon the political party in power. There are obviously nuanced differences. There are different constituencies and different political pressures, but the fundamentals will remain the same. And no matter how the American election comes out this year I am absolutely confident that Japan will remain at the very top of the agenda for any new Administration or renewed Administration and that there will not be any fundamental shift.

Question: I'm Jifon from [inaudible] Peking University now, [inaudible] CSIS. Can I ask a question about China, China-U.S. or China-Japan relations.

As Ambassador say, I think U.S.-Japan relations is the best in history and it's also the same in China-U.S. relations. But the problem is I think that China-Japan relations is the worst in the past three decades in terms of political dimensions of our relations.

My question is, is there any way for three countries or at least China and Japan to get out of such a critical impasse? That's the first question.

My second question is China now is I think pioneering the FTA-based regional economic cooperation. Actually Japan is more [adventurous] than China to I think lead such a regionalization process. But also it's a controversy now that Japan is in a very weaker position than China to push for regional economic cooperation. So my question is, why not now? Japan is, it seems to me, lagging behind China to push for such regional economic cooperation. Thanks.

Shunji Yanai: As to the first question I think there are many ways by which we can improve relationship among our three countries. I can speak of Japan-China relations. And as you know, our bilateral relations very good in the field of economic or business, but perhaps not so good in political field. So economics are hot, politics are cold perhaps. But I think there are still many ways to improve political relationship. I think the best way is to increase exchange of people and especially

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young people between our two countries.

I studied in France when I was very young in early '60s, at the time of General DeGaulle and Chancellor Adenauer, and they took very strong initiative and leadership to promote the reconciliation between France and Germany. And I think we should do the same thing between China and Japan.

One of my colleagues who is a Chinese professor at Chu University has just taken the presidency of a new research institute in Beijing and now we are talking about how to promote this kind of exchange between our two countries.

Could you repeat the second question?

Question: My second question is why Japan is not as passionate as China --

Shunji Yanai: Economic cooperation.

I don't know if Japan is lagging behind China. Perhaps China has taken a very visible initiatives in promoting free trade agreement or network of free trade agreements with Asian countries. But as Mr. Hatakeyama just explained, we have been also trying to promote free trade agreements and as Mr. Hatakeyama said we already signed an agreement with Singapore which was perhaps the easiest one, and fortunately we reached a basic agreement with Mexico. And always there are problems involved in how to treat agricultural sector. Because I must confess that Japan's agriculture is not competitive internationally, so we have to do something about that.

But I think generally speaking we are moving toward that direction and if we can agree on some other free trade agreement with countries like South Korea or Thailand or even in the future with China and the United States, we will be able to create more closer economic cooperation system in Asia.

I think, as I said earlier, we have to do two things. One is to promote reconciliation among Asian nations, and another thing is to give our people a future vision of economic, not only economic but regional cooperation which is very important.

Question: My name is Matt Atayanaka of Bank of Tokyo, Mitsubishi.

The abuse by American soldiers to Iraqi soldiers caused very negative sensation not only in the United States but also in Japan. The Bush Administration explained that this is just a

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crime by some American soldiers and there was not any involvement of institutional [inaudible] making. So I would like to believe such explanation but I cannot deny some doubt in my mind because we are already once betrayed by the story about mass destruction weapons.

So my question is do you believe the explanation on the abuse or do you share some doubt in this point? Thank you.
[Laughter]

Rust Deming: I'm not an expert on this issue, but I have great confidence in I think one of the greatest strengths of the American system is that the facts will come out on this. There is a whole series of investigations. All the major media are looking into this, so I think we will know the true extent of what happened there and that American society is incapable of trying to cover up something like this which I think is one of our greatest strengths. And indeed, even in the Arab world, I've been reading the Arab press, for all of the anger and outrage justified about these things, there are a number of newspapers that remarked that at least the Americans are dealing with this and looking at it. This would not happen in our societies. So the truth will come out.

Question: Stanley Cobra with the CATO Institute for Yanai.

Recently the Japanese Ambassador to India suggested that Japan, China and India should have a closer relationship. The word axis was used and then they backed off that. I've seen very little discussion of this triangular relationship here so I was wondering if you know anything about this, what this is all about, or what prompted this proposal.

Shunji Yanai: Thank you very much. My view is that we should promote Japan-China-India relations in the future, but in the recent past we had a lot of difficulties with India, mainly because of their nuclear weapons development.

But India has been changing, especially in the economic field, and it is now emerging as economic power with a lot of potentials. So I think now we can start talks about long-term strategic relations with India.

First of all, I think we have to do this kind of exercise between our two countries, between Japan and India first before embark upon trilateral relations. That must come later.

Question: Nabi Watanabe, CSIS. Thank you very much, both ambassadors. Actually I have question, actually I don't have

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answer. [Laughter]

Following up the [inaudible] question in Self Defense Forces, as observer of civil/military issues in Japan my sense is that the Self Defense Forces, Ground Self Defense Forces, [inaudible] there and they [inaudible] because somehow it's a very difficult mission. One thing is probably the mission is for the humanitarian relief to Iraqi people, but at the same time the major reason of course, the alliance management with United States. So [inaudible].

In that case I think the two accomplished the mission I think a little bit very difficult situation if [inaudible] situation continues. That means that no following up good humanitarian relief to Iraq didn't come because of the security situation. Probably Session 2 going to discuss this, but I direct it here.

What is, one thing is the agenda or challenge of Japan's Self Defense Forces and the government on this situation?

Shunji Yanai: Thank you. If Mr. Watanabe has no answer I have no answer either. [Laughter]

I think we can achieve these two purposes at the same time. I don't think it is easy but it is very clear that the activities by the Self Defense Forces in Samawah accepted by the local people to large extent. I think they should and the government should make more PRs to the local people.

The problem is that terrorists who are not local people could attack the defense forces, so the security situation on the ground is very important so that they can continue to carry out humanitarian and reconstruction assistance. But I am not that pessimistic and I think the two missions can be achieved.

Question: Robin White, Foreign Service Institute.

I'd like to ask Ambassador Deming and Ambassador Yanai to comment on the relationship of Iraq to North Korea. You have some specifics such as troop withdrawals that are going to Iraq, but also intangibles. On the positive side a great degree of trust between the two leaders, but on the negative side perhaps less than impressive planning by some U.S. officials for unexpected contingencies. How does that affect thinking in Japan about the U.S. and North Korea?

Rust Deming: There's a perception in Japan I think that one of the reasons why Japan chose to send troops to Iraq was to be

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sure that the alliance with the U.S. was in good shape because of the uncertainties about what was happening on the Korean Peninsula. I'm not sure how big a factor that was, but obviously it is a factor.

But I have seen no, in my week-long discussions in Tokyo no one touched on the idea that somehow the perception of poor American planning in the after-war in Iraq somehow undermined our credibility with respect to the Korean Peninsula. That connection, as far as I know, has not been and I don't think will be made.

Shunji Yanai: I think the reason why Japan decided to send troops to Iraq is not just one reason. Of course there is the aspect of strengthening Japan-U.S. alliance, but separately from that there is a growing awareness that the Gulf region is very important to us. As you know, we depend on the oil supply from that region as high as, more than 80 percent. That was not stressed during the Gulf War. But I think nowadays people are more aware of the fact.

So the sending of troops to Iraq is at least two of these aspects and perhaps another general purpose is to make more active contribution to the [inaudible] of peace and security in the world.

William Breer: Al Sulliman?

Question: Already identified. Retired FSO.

My question is a real question born of ignorance for failure to do my homework, but I have the impression, and it has to do with public opinion in general, returning to the theme of U.S.-Japan relations in the broadest sense.

Certainly from the U.S. perspective for very good reasons, some of which have been addressed, I believe the media and public opinion in general have become gradually, over a period of years, not just recently much more benign in attitudes toward Japan to the point that people have complained from time to time, though I haven't heard it recently, of Japan passing. The fact that our trade issues are principally with other countries at the moment. They're not focused on Japan at all, and certainly Japan's support in our major foreign policy crisis areas have been major factors.

But the question is on the Japan side, is this equally true -- when I say failure to do homework, I used to read my newspapers on the internet daily and it becomes every few days,

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every week, and I don't keep up with it. Is it fair to say that that is also true on the Japanese side, that public opinion is more accepting of the United States? Certainly historically in the post-war period, leaving governments out, it was not. It was very critical.

Here you have an American press vigorously attacking the Administration and even articles appearing now by some major papers. You can't generalize about media in the U.S., saying they haven't been self-searching enough, haven't been vigorous enough, there was a story in one major paper to that effect today. But has there been the kind of criticism in Japan, following up on an earlier question perhaps, that you certainly find throughout Europe? And in the broadest sense, how do you read the trend in opinion toward the United States?

Shunji Yanai: That is a very good question that is very difficult to answer. But in my view we cannot really generalize the attitude of Japanese public towards the United States. Of course there are criticisms toward the United States concerning what happened recently in Iraq as to the abuse by soldiers concerning Iraqi prisoners, for instance. There are criticism on U.S. unilateralism. But these are always issue wise, and there is no general feeling against the United States. I don't think so. But as to international affairs, it is true that many Japanese think and hope that the United States views the United Nations more positively. And I understand that the U.S. has just tabled a new resolution to the Security Council. This is a good opportunity to restore better relationship between the United States and the United Nations.

Whenever we talk about the relations between the United States and the United Nations I always think of the Japanese history as Mr. Sulliman knows history very well. For many centuries there was the Emperor's Authority in Kyoto, and we had several military governments in Tokyo. It's like that.

In Japan the Imperial authority had no real power but it had certain legitimacy in Japanese politics. On the other hand the Shoguns in Tokyo or Kamikura had power, but no legitimacy. But in Japanese history there has been always some kind of combination between the power in Tokyo or Kamikura and the powerless authority in Kyoto. Perhaps you can do the same thing with the United Nations. [Laughter]

William Breer: I'm sorry. We're right on the dot of time here, but I would like to first thank the audience for some really extremely good questions, and please join me in a round of applause for our excellent panel here.

[Applause]

SESSION 2

Political and Security Challenges in Iraq

William Breer: I think Al Larson's keynote address followed by Ambassador Yanai and Ambassador Deming's discussion of the state and the evolution of U.S.-Japan relations has set the stage very well for our next session on the political and security challenges facing all of us in Iraq.

I've asked Jon Alterman, the Director of the Middle East Program at CSIS, to open the discussion for us on that issue. Jon?

Jon Alterman: Thank you very much. I'm in a little bit of a strange position because I've been asked to talk about what's happening in Iraq and I want to start with a warning, which is we don't know what's happening in Iraq and it's increasingly difficult to figure out what's happening in Iraq.

It's partly because a worsening security environment makes it increasingly difficult to go out and do the kind of work that informs you about what's happening on the ground. As we increasingly feel that we have to put people inside a security perimeter as people need heavier and heavier escort to go here or there, it changes the nature of our interaction with Iraqis. Iraqis interact with us differently and different kinds of Iraqis want to be seen near us.

We are also becoming increasingly aware that Iraqis have different reactions to things than we anticipate them to have, that Iraqis come with a peculiar burden of living under 30 years of dictatorship, of being suspicious, of an overlay of loyalties and relationships which are very hard for us as outsiders who really have been cut off from Iraq for many, many years to figure out.

We haven't had a lot of knowledge about Iraq for a long time and trying to understand what's happening and why it's happening is increasingly difficult and is likely to grow more difficult over the next six months.

What we do know about Iraq is generally that things are getting worse. In April, Iraqis polled by a three-to-two margin said we'd be better off if coalition forces left. There's an increasing sense of Iraqis they don't want foreign troops in Iraq. Eight-eight and a half percent of Iraqis polled in April

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said they viewed coalition forces there as occupiers.

Anecdotally, it seems that the situation on the ground is changing. There's a rise in Islamic rhetoric and an apparent rise in Islamic orientation and I think perhaps most disturbingly and perhaps most surprisingly to many people the U.S. has really failed to inspire a lot of Iraqis at least visibly toward the U.S. vision of Iraq's future.

There is no broad support for the kind of future that the United States believed that Iraqis not only would want but would embrace almost instantly.

I think the third thing is that it's distressing to see so many signs that we're still learning as we go in this process. The U.S. has had forces in Iraq for a year and in order to untie the siege of Fallujah we named a general to be the head of an Iraqi force, only to pull his name back about 36 hours later because people didn't understand his history.

Well, how can you be occupying a country for a year with a primary need to have some sort of indigenous political force come forward to take over the country and not have done sufficient background checks on sufficiently prominent people that you wouldn't know who had troublesome backgrounds and who didn't?

That stunning lack of coordination and research suggests, I think, some very troublesome things about how the CPA is working and how the CPA and various organs of the U.S. government are coordinating in Iraq.

I think the other sign of this is six weeks ago Lakhdar Brahimi announced at a CPA news conference that we're going to have a transitional government and this is going to be the structure and for six weeks we have no idea who these people are going to be.

How can you announce a structure that you're going to have a prime minister and two vice prime ministers and the whole structure of the government and not have a clear idea who you're going to put into those positions?

My sense initially would be that this would be a matter of days and the whole thing would unfold and instead we see an ever-lengthening deadline. Now they're saying Lakhdar Brahimi is going to announce the names next week. That gives people less than a month to prepare to run the country.

I think also if you look at where we're going, there is a

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sense that the way to deal with the poison politics of Iraq is to have apolitical people.

Well, there's something about politics that's very important which is political people know how to inspire people to follow them and when the problem in Iraq is you feel that the polity is aimless and people aren't going in the right direction, having people who neither have experience nor skills leading other people to follow them may not be the best way forward.

If we look forward into the security environment in Iraq over the next six months, it seems to me that there are a wide array of people who don't have a great interest in U.S. success.

Partly surrounding states and especially Iran don't want Iraq to threaten the status quo in the region. They would rather have a weak and internally conflicted Iraq than a strong one which is destabilizing.

Sunni extremists are clearly afraid of being left out of the future of Iraq and some have an ideological opposition to a strong U.S. presence in the country.

There are other people, and I think we'll hear more, who are generally part of groups in Iraq who believe that greater autonomy will serve them better than a strong central government. The idea that Iraq should have a strong central government is not universally accepted in Iraq, especially from people who would have to surrender authority to a strong central government, and there are groups of people, either in the south or the north and other places, who believe that they can control their own resources and why should they pay a tax to a central government to do it?

As others have suggested as well, when people start playing for keeps, people's willingness to accept risk will increase. The level of violence we've seen in Iraq up to this point has generally been positioning, but when people start thinking that decisions will be taken which will determine the winners and losers for the next half century in Iraq, either your family will be wealthy or your family will be impoverished; either you will have access to government or the government will oppress you; people's willingness to take risks will increase. That partly will happen around the June 30th hand-over date and I think it will increasingly happen in the fall, leading up to the hoped-for elections in January.

But there is another dynamic, and I think a more encouraging one, which is that surrounding states, while they don't want Iraq

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to destabilize the region by being a strong and inspirational democratic bulwark, they also don't want chaos in Iraq and they're starting to feel that chaos in Iraq would threaten their interests, either because an Iraqi government wouldn't be able to control the territory of Iraq, that extremist groups would be able to set up there, that people would pass through Iraq and an Iraqi government wouldn't have control over its borders; that extremists will find pockets of opportunity and this has led, I think, most of the surrounding states to come to the conclusion that they want to keep the whole thing from coming undone.

They don't want the strong Iraq, the beacon of freedom that the President has described as our goal, but they also don't want a weak Iraq, an Afghanistan which is not isolated in the mountains, but is instead in possession of huge amounts of oil reserves and bordering a number of countries on the Persian Gulf who remain concerned about their security.

Up to now, the international agreement about the desire to force Saddam Hussein from power, which I think was a fairly broad consensus in the international community, has not been matched by a consensus about what our goals should be in a post-Saddam Iraq.

Partly, as I said, it was because the Administration had a very bold plan which ultimately all of Iraq's neighbors believed to be destabilizing, but I think also there was a marked reluctance on the part of the international community to get very involved in post-conflict Iraq, a sense that we shouldn't meddle in internal affairs, a sense among many that a strong military regime was okay as long as they didn't have weapons of mass destruction, that we could deal with that, and the problem became how you coordinate efforts when we don't agree that we're all trying to get to the same place.

We have reached a point, I think, where the international community feels that it's staring into the abyss, that things in Iraq not only aren't going to go so well as being destabilizing, but they could go so poorly as to be destabilizing, and that creates a new opportunity.

UN involvement is a promising way forward, but it's neither a panacea nor is it guaranteed to work, and I think one thing that people have not given sufficient thought to is the possibility that we may deal with a failed effort by Lakhdar Brahimi and then where do we go from there?

A successful effort by Lakhdar Brahimi could reassert the UN's ability to mediate and resolve international conflict and that will be very important for the UN, which in many ways was

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sidelined in the lead-up to the Iraq war.

But we are still far from understanding what deal Brahimi is going to strike and Brahimi is actually striking two deals and negotiating for two deals right now. One is a deal between the various parties in Iraq and who will have what power, who will have what authority, who will have what access to what resources, and the second is he's negotiating with the United States because he's certainly sophisticated enough to understand that the one thing you never want to have is responsibility without authority and for the UN to have responsibility for the handover and responsibility for the future of politics in Iraq but not have the authority to determine what happens is a losing situation.

We don't know yet whether the UN will go in fully and what kind of UN presence there will be and, as I said, we also don't know if it will work. The deadlines have been pushed off and off and off and there is still some way to go to figure out whether it will work.

I think on the national level, on the level of other countries in the international community thinking about Iraq, two things have to happen. The first is we really do have to come to much greater agreement on what we're trying to do. We have put off having agreement. We've said it's too hard, we've said we have multiple goals. We really all have to get on the same page and this refers to the U.S. and Europe, the U.S. and Asia, the U.S. and the Middle East. We cannot achieve even our minimal goals unless there is much broader agreement on what those goals should be.

The second thing is it strikes me that members of the international community have to do a much better job defining what tasks need to be done in Iraq and what they can do to help achieve them.

One of the things that I think is very hard for foreign countries to get used to is the way Washington often works by bureaucratic battles and people fighting for a place at the table and people in the international community, it's been my experience, often ask to be asked and Washington, as I think many of you know, is not a city that spends a lot of time asking people to do things. People have to put themselves forward, people have to identify where their core competencies are, where their special advantages are, where their comparative advantages are, and argue and fight for a way to the table.

One of the things that's been missing, to my mind, in the last year are enough countries coming forward and saying here is

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the overall task, here's how we can contribute to the task, here is our special ability to do it, you're not making a concession to us by allowing us to be involved, we're helping you achieve your goals.

There are a lot of countries with a lot of different capabilities and I think moving forward both in Iraq and in other cases countries have to understand that as part of their relationship and part of deepening their relationship with the U.S. they have to have a role, they have to fight for their place at the table and they have to contribute to overall goals, which, once they have a place at the table they can also help define as well.

This all sounds, I think, a bit pessimistic, but there's part of me that's very much like a banker and I'm much happier with happy surprises than bad ones. We are at a time of remarkable peril. An Iraq which really collapses, an Iraq which really forms a base for all sorts of negative outcomes, an Iraq which could break up into enclaves and start looking like Somalia and not a Somalia that is resource poor but a Somalia where some factions are resource rich, is a serious threat and that threat holds out the promise of an opportunity to do a much better job coordinating than we've done so far and it's an opportunity that I hope not only we will be successful taking advantage of but you will be successful in driving us toward making the kinds of understandings and agreements that we need to make.

Thank you.

[Applause]

William Breer: Thank you very much Jon.

Now, Ms. Keiko Sakai.

Keiko Sakai: Thank you very much, Mr. Breer. I am very pleased to join you today in a quite interesting and stimulating conference on reconstruction of Iraq, especially after listening to President Bush's new five-point plan for the future of Iraq.

In order to ensure the stability of the new Iraqi regime after the transfer of power, the most crucial issue is whether the new government will be able to represent domestic social groups in Iraq. To make sure that they are represented properly, we have to understand the actual social situation there.

What is important here is that people who worked under the previous regime in Iraq may be now using other social

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affiliations and identities to claim their rights in the new post-war circumstances. We need to carry out a precise analysis to clarify what kind of social networks are mobilized in Iraq now.

To understand the current situation, we have to reconsider three principal positions that have been taken for granted: the first, the accuracy of the use of the term the remnants of Saddam's regime; second, the modification of the notion of the Sunni triangle; third, the preconceived equation of the Shiite identity with political Islamism.

First, we have to cast away the perception that all those who rise up against the coalition forces are led by remnants of Saddam's regime. Many, in fact, are ordinary residents who have been angered and enraged by the U.S. intrusion into their daily lives. We have to distinguish the local people's demand from the general anti-American feeling in Iraq. Most of the residents who want withdrawal of the non-local forces from their residential areas, no matter whether they are American troops, Iraqi civil defense corps or even [mediami], which is a [inaudible] of the radical mukda [ph][inaudible]. This is especially true in the case of Fallujah.

It can be safely stated that the insurgents in Fallujah differs from that in Tikrit. Fallujah or the upper Euphrates area, which is inhabited by the Dami tribes, was not well represented during Saddam's rule. Although the upper Euphrates accounted for a certain share of the nominal posts such as ministers, few people from the area were recruited into the leadership of the Baath party.

As can be seen from Table 1, local groups from the upper Euphrates once accounted for a large share of the government and party leaderships, but their presence declined sharply after 1982, when Saddam consolidated his power.

I'm sorry, it's too small, the table. The table is too small. I can give you the data when I go back to Japan, if you want. [Laughter]

This frustration among the Dami erupted in 1995 when several Dami officers of the Republican Guard were executed on a charge of promoting a coup attempt. The Dami tribe initiated liberating Abu Ghraib and it was the most serious anti-Saddam uprising since the Gulf War.

Nevertheless, the Dami tribe were not adequately recognized in the West as an opposition force to the former regime. It seems

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that the prejudice on the Dami tribe led to careless treatment of the local residents on the very day of the occupation.

On April 28th last year, 17 people were killed by the U.S. Army at a school in Fallujah. This incident left a strong image of the U.S. Army as an occupier rather than liberator.

In addition, it is important to understand the basic nature of the militant tradition of the tribal society in Iraq. Famed Iraqi sociologist Dr. Ari Alwalidi [ph] pointed out that tribalism was not limited to the tribal rural areas, but was also inherited within the civil society.

Military autonomy and the defense mechanism of the tribal society which diminished after the development of the national armed forces reemerged to maintain local security after the collapse of the centralized army after the Iraq war. This led to the reemergence of the tribal groups as military champions of the local community.

The second point I wanted to raise regards the elasticity of the sphere of the so-called Sunni triangle. Scholars of Iraqi studies once used the term for the large area surrounded by the Tigris, the Euphrates and Syrian border which is mostly inhabited by Sunni Arabs. The new Sunni triangle, however, which seems to consist of Tikrit, Bakuba and Fallujah, does not coincide with what was originally the area of Sunni Arabs, but rather suggests an amalgamation of the cities with strong anti-U.S. resistance.

This is not a simple mistake or oversimplification. The reduction in the size of the sphere reflects the coalition's anticipation that the resistance will not expand out of it. It is obvious, considering the exclusion of Mosul which the coalition forces did not want to recognize as a part of the potential anti-coalition areas, that the Sunni triangle has been transformed from the sheer geographic notion to a political perception of friend versus foe.

The old Sunni triangle consisted of several major local political and military groups. Among them are three major local groups: those from Mosul and other cities in the upper Tigris, those from the upper Euphrates, mainly from the Dami tribe, and those from the middle Tigris such as Tikrit, Samarra and Dur. These military groups preceded the local kingship networks upon which Saddam created his power base. It is in fact a tradition of the Iraqi army to recruit young officers from the local Sunni townships. In other words, people from the upper Euphrates as well as from Mosul do not feel they are indebted to Saddam but rather they are rivals politically and militarily.

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The original Sunni triangle was just a sort of loose coalition among the three rather than an aggregation of Saddam's supporters.

Moreover, throughout history Sunni and Shiite have not built up a geographical integrity based on sectarian identity. Sectarian divergences are not a major source of the conflict in Iraqi daily life and should not be premised as a call for their political cohesion. Again, Fallujah can be a good example.

Fallujah plays a symbolic role for solidarity between Sunni and Shiite on the eve of this foundation of modern Iraq. The Zubi tribe of Fallujah was the only tribal group which responded to the call from the Shiite religious scholars in Najaf to rise up against British in 1920.

Sunnis in Baghdad also have a long experience of existence with Shiites. Shiites in Kalamiyah clearly promoted the mutual exchange with Sunnis in Alamia across the river and this made a [inaudible] family, just notables in Kalamiyah, more sensitive to the trend among the neighboring Sunnis down to Najaf's orientation.

There are indeed differences between the two and their political demands today. Shiites insist the elections as a first priority and Sunnis say that the withdrawal of the foreign forces should come first.

What we have to emphasize is that this difference does not result from differences of political taste, but rather is an issue of the political priority generated by inconsistency of the post-war administration, especially by its way of treating local people.

The coalition forces paid full respect to the holy city in Shiite as seen today, in stark contrast to their heedlessness in attacking Sunni mosques. We should remind ourselves that the sectarian policy itself encourages social cleavage between local communities.

How should we [inaudible] the sectarian community in Iraq now? First of all, we have to distinguish between the Shiite or Sunnis as a local community and Shiite or Sunnis Islamic political thought. We should not attach ourselves to the idea that Shiite by birth automatically prefer the leadership of the religious scholars. We should not simply assume that the Shiites are strongly unified in their policies and [sustaining] the supreme Shiite jurisprudent, even if he is Fatwah religious

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order, recently increase the political importance. His worth did lead to an unexpected mobilization of the mass after the war. This does not indicate, however, that he wants to be a political mastermind of the Shiite society in the future.

Basically, he and his master teacher, the late Abul Al Kassem Hoi [ph], have been critical of the [inaudible] intervention into politics. They have taken a completely opposite stance from Khomeni or Mohammed Bakka Sadu or other active Islamists in Iraq. The [inaudible] ramah increased after the war because they turned out to be the sole source of the social notion of morality and order, compensating the lack of secular apparatus.

In the absence of the formal legislative body, ordinary people have no alternative than to use their religious networks to make demands and have their opinion represented.

On the other hand, we need to shed light on the rise of the Islamic political organizations that have taken advantage of their close relationship whereas Sistani suggests a Dauer party and Supreme Council.

I think it is better to change to Table 2.

The post-war circumstances prepared excellent conditions for these political Islamists to play up their political laws and demonstrate their ability to negotiate between the regional authorities and the CBA. The same is true for the local tribal forces.

We must not lose sight of the fact that the policy of the coalition forces paved the way for these traditional social forces to become major actors in solving conflicts. The recent military action against Fallujah and against that southern movement in the south obviously encouraged the politicians with ties to the traditional social networks to play the greater role.

In Fallujah, this role was played by the Sunni Muslim Orama [ph] council and tribal notables. In the south, the Dauer party and the supreme council have been active in taming the southern movement.

Here, two questions arise: First, should we continue to encourage these traditional social forces to be the major actors in the post-war period in Iraq? Second, if we don't want them, should we rely on the former Baathists to counterbalance the politicized Islam?

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There are still significant risks from the reemployment of the security and military officers from Saddam's regime. Essentially, we have to get rid of the idea of choice between Islamists and the Baathists. We have to start from the fundamental question of why these traditional forces gained power. It is because of the lack of the state apparatus.

Iraq suffered from the absence of the modern state apparatus, not because of the presence of the Islamic or tribal social functions, but because of the war and post-war policy.

The Islamic and tribal social function became a last resort for the people when the state apparatus became dysfunctional. In other words, these traditional ties will be gradually less significant once Iraqi nationals obtain the institutional method to express their views and participate in politics.

The early implementation of the elections will contribute not to consolidating the Shiite majority in the political field, but rather to putting the brakes on the excessive politicization of Islam and tribal society.

Furthermore, we may be able to contain the extremists and radicals who are the part of the Iraqi society into an institutional system for co-existence once they are offered and challenged to join it. Already in Nasariyah, local people have succeeded in electing a number of members of the town council peacefully using existing resident registers.

Today, we have no choice but to depend on the social mediating functions of local communities, but we must institutionalize this function as soon as possible before it generates the soil for further [inaudible] type of control.

Thank you very much.

[Applause]

William Breer: Thank you very much.

We'll move on now to Mr. Takesada for the final presentation and then we'll have a discussion.

Hideshi Takesada: Thank you, Chairman. Thank you for coming today. I found that instantly after Session 2 started TV camera went out. I know who I am, but I feel very much relaxed now.

Last night, I got a phone call from a TV company in Tokyo and he asked me to have an interview. The subject was

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Mr. Koizumi's visit of Pyongyang. Actually, my major is North Korea and the Japan defense issue as a member of Japan's Self Defense Forces for 29 years, so the title of my talk today is the political and security challenges of Iraq, but I would like to speak about the political and security programs of Iraq and the role of the United Nations and the Japan Self Defense Force's role and what is the alternative of Japan, et cetera.

Now, the Iraqi situation is impacting on the Northeast Asia issue. Recently the U.S. Government decided to send 4000 infantry brigade to Iraq to support U.S. operation in Iraq and now in Republic of Korea. This decision and the process of this decision are very much controversial among ROK people, the U.S. 2nd or 1st Infantry Brigade will return ROK or not, or the U.S. Government decided already to reduce the number of U.S. forces in Korea or not? So this decision is very much controversial in ROK.

So now the situation in Iraq is impacting on the Korean issue, so the first thing which I would like to say is there is little doubt that the stabilization of Iraq constitutes the most pressing issue in current Iraqi affairs.

The United Nations is poised to play a much greater and important role in Iraq. I think it seems probable that an increased role for the United Nations would lead to greater contributions by Japan and other states, especially we need to take account of the special attachment among Japan's people to the role of the United Nations in post-war era.

I would like to speak about secondly Japan's aid. Please see page one and page two, but in the afternoon session, Ms. Morimotosan will speak about the complete figure as to Japan's aid in Iraq, so I would like to cut to my explanation. On page one and page two. I explained active in Samurah and the southwestern state, humanitarian aid, what is items, et cetera, and also I explained the concrete [inaudible] as to other aid for Iraq, financial aid, internal security contribution, the contribution on the construction, et cetera.

Please see at page three what is Japan's basic Iraq policies. Japan's government and ruling party of Japan believe that greater United Nations participation is essential to prevent the coalition partners from pulling out of Iraq as Spain did. Prime Minister Koizumi for his part has also expressed that he would encourage the U.S. to provide a better environment for cooperation within the international community.

Now, my question is why did Japan send the Japan Self Defense Forces to Iraq? As Ambassador Yanai explained in the

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first session, there are a number of motives behind Japan's sending of the JSDF.

Firstly, there is the issue of international cooperation. It is only natural that a sovereign state wishes to attain prestige within the international community, so the first factor for Japan to decide to send the Japan Self Defense Forces to Iraq is prestige as a sovereign state.

The second factor or motivation is Japan places top priority on its alliance with the United Nations. Also as Ambassador Yanai talked this morning. The second reason stems from the importance Japan continues to place on its relations with [inaudible] nations. At the time when the proliferation of weapons of mass destruction is accelerating, Japan believes that there are repercussions that arise from the Iraqi issue.

Japan's neighbor, North Korea, is currently developing WMDs. I think North Korea will not abandon this program to develop weapons of mass destruction until they got intercontinental ballistic missiles with which they can attack Washington or New York in order to stop U.S. intervention into the inner program of the Korean peninsula. So North Korea's WMD is the weapon with which North Korea needs to fight with the U.S. so I think North Korea will continue to develop interballistic [PH] missiles and nuclear devices. This is my understanding.

So it is a very difficult issue and the important issue for Japan, not only for Japan but also for the U.S.-Japan relations. As states increasingly cooperate in preventing the proliferation of WMDs, Japan feels it must collaborate closely with the United States and other states. There are implicit fears that failure to do so will jeopardize future U.S.-Japanese cooperation with regard to the Korean Peninsula issue. The Japanese believe that the two states need to work closely together in the event of a crisis in Northeast Asia, particularly the Korean Peninsula, I think.

A third factor is as a country lacking in natural resources, Japan wishes to secure a steady supply of natural resources, as we discussed in the morning in the first session, so next I would like to speak about the current situation of Japan's assistance. Please open page four and also see the tables which I explained in the page one and page two.

I have six minutes more and 30 seconds and as conclusion, we discussed about the unilateralism of the United States. Among Japanese people recently some discussions or arguments or some dissatisfactions about the U.S.'s unilateralism recently in the

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Middle East.

When I traveled in March and April and May to Beijing, Seoul, Xiantao, Jehring [ph], and also last week I was in London when I discussed this, I realized that there are many people who are discussing about the unilateralism of the United States a little bit is becoming harmful for the stabilization of the Middle East. And also in Beijing and in Seoul I got the question from audiences, at the National Defense University where I had a talk before students and graduate students of National Defense University, he said why Japan follow after the U.S.? Japan can be more independent.

My answer was please persuade North Korea, Mr. Kim Jung Il. Firstly, Kim Jung Il's program to develop to WMD and we decided to strengthen U.S.-Japan security relations and also we strengthen the capability of Japan's Self Defense Forces. If China, Korea feel some anxiety or some dissatisfaction about the reason for Japan's effort to strengthen U.S.-Japan security relations and the capability of Japan's Self Defense Forces, Korean people and Chinese people should say directly to Mr. Kim Jung Il stop to develop WMD. You take a wrong direction when you say this. This was my answer at the Defense University, in Seoul and in Beijing.

And considering the recent atmosphere regarding to the unilateralism of the United States, I think we need to take into account the importance of multilateral cooperation. It is necessary for Japan to play a more active role in diversified corporate regimes. One example of this came on 27th April when Foreign Minister Yuriko Kawaguchi [ph] announced that the Japanese government was to carry out a training program for Iraqi employees of the electric power sector in conjunction with Jordan. Forty Iraqis are to take part in the program which will be held in Aman, Jordan. Japan needed to steer a middle course between the United Nations and the U.S.-led aid to reconstruct Iraq.

Diverse forms of multilateral cooperation must be considered if there is a lack of skilled Iraqi personnel. Education and training could also be provided for other nationals sent into Iraq.

So Korea case is the same, I think. We can promote the multilateral cooperation or multilateral dialogue in order to solve the North Korean nuclear issue. The relations between the U.S. and Japan is being strengthened day by day. I think we need not make hard efforts to strengthen U.S.-Japan security relations because it's a natural for us, the relations is being strengthened. We decided to introduce missile defensive system in

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December of last year and also we are supporting the U.S. efforts in Iraq.

So my idea is we need a mixed way of multilateralism and bilateralism, in other words, to strengthen U.S.-Japan security relations of course and at the same time we need to promote or strengthen multilateral cooperation or dialogue. For example, in Korea's case, we can have multilateral security dialogue among People's Republic of China, Republic of Korea and Japan at the same time we should make efforts to strengthen the U.S.-Japan security relations.

Thank you very much.

[Applause]

William Breer: Thank you very much, Mr. Takesada, and thank the panel for their very penetrating discussion.

We're now open for questions.

Chris Nelson?

Question: Thanks. Can I get away with two questions?

William Breer: Sure.

Question: Thanks. Something that Takesada makes me want to ask, in his travels in China and Korea and London and perhaps other places, do you get a sense that there is a reluctance in the international community to help bail out the Bush Administration because of this resentment at unilateralism and that perhaps -- they may not be saying it that way or even having thought it through, but the reaction to unilateralism is an emotional one, not necessarily a calculated political self-interest one. That was my first question.

The question I would like to ask Jonathan Alterman and Sakaisan, is it possible to know if the insurgent violence can be separated from terrorist violence in terms of goals? Specifically, presumably insurgents are resisting U.S. occupation and may be satisfied over time by the transition, but presumably terrorists make no distinction between U.S. occupation and some post-June 30 government and for them instability and collapse is their goal.

Is my suggested framework correct or incorrect and, if so, how do you see the outcomes of that?

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Thank you for both questions.

Hideshi Takesada: Thank you. Very good question. Yes. While I traveled ROK, China, London, Xiantao, and I had several talks at the universities and think tanks, yes, as I said, I realized there are some feeling among the people, some negative feeling among the international community as to the U.S.'s unilateralism, but the feeling is very much diverse.

China has their own feeling about the U.S.'s unilateralism, Korean people have other, different feelings, so Chinese people -- from the beginning, Chinese people is very much critical of the U.S.'s effort in Iraq from last year, so Chinese feeling is very much different from those in European people. Chinese people is very much critical and Chinese people are, I think, in heart Chinese people want to say to Japanese please stop sending the Japan Self Defense Force and please do not discuss the role of the United Nations. Maybe this is what the Chinese people want to say.

Secondly, Korean people, yes, Korean people decided to send 3000 Korean additional military personnel to Iraq and already 600 Korean military personnel are working in Iraq so the Korean people want to say the U.S. should have more close consultations with allied countries, including Republic of Korea, when the U.S. devises the Iraqi policy.

And also in Europe, last week I was in London and I attended the roundtable between DPLK and the EU and I got also the impression that European people is a little bit critical to U.S. unilateralism. But I think European people want to say that the United States should take more account of the role of the United Nations. Basically, I think the European people wants to keep the peace and stability in the Middle East, so the three arguments among China, Korea and Europe are very much different.

Thank you.

Jon Alterman: First of all, I think there's evidence of a lot of marriages of convenience between different people who are opposed to American troop presence or coalition troop presence in Iraq, but I think another very important part of this equation is the presence of a lot of people who aren't actively involved in the insurgency but passively support the insurgency who cross all sorts of ethnic and other kinds of divides.

Again, this sense that 88.5 percent of Iraqis think this is an occupation means that you don't report something that's out of place, you don't report a foreign fighter who is there. If

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somebody says I need a place to sleep, you let the person sleep. I mean, that ultimately can be just as important and just as large an obstacle to containing and controlling the insurgency, and it strikes me that that sort of support up to now has been growing rather than diminishing.

Just on this issue of international support, I agree on the desirability of international support, but I think while the U.S. has had failings in not being sufficiently open to international support I think the international community has also had failings in not making clear how their participation would help to lead to better achievement of American goals and we each are responsible for not doing a good enough job of coordinating our goals, but I think that, as I suggested in my talk, consultations for consultation's sake end up being a luxury when there's a lot of work to do and I think what the international community has a burden to do is to be much more explicit about how specific efforts can contribute to achieving specific goals that the U.S. has on the ground because ultimately that's the environment in which Americans are working in Washington and the environment ultimately in which decisions are made about what happens on the ground.

Keiko Sakai: Well, I think that you asked about the persons that are terrorists and insurgents in Iraq, well actually I agree with you that as there are several terrorists who want instability in Iraq, I think it is better to separate these terrorists from the local uprising who are against the occupation in general as an intrusion of armed forces into their community, the small sector of the community. So in two points I think it is better to think about the way of preventing the terrorist activities in Iraq.

The first, we can say that I think that it is necessary to prevent foreign terrorists to enter Iraq through the border. I think the border security is quite low level now, especially the Iran-Iraq border, so I think it is better to strengthen the defense at the border in order to prevent the entering of terrorists from Iran and also from Jordan or Saudi Arabia.

Also, it is true that Fallujah is kind of the hotbed for the terrorist activities, foreign terrorist activities, and the serious thing is that they are against Americans but at the same time they are against Shiites. Most of the foreign terrorists came from the Sunni areas, originally the Wahabis, and the Wahabis hate the Shiite and they recognize the Shiite as an infidel sect. So while they don't want instability in Iraq and U.S. control, at the same time they don't want the Shiite majority in Iraq. So we have to think about the characteristics

of the Wahabis.

The second point is that also settle movement is also giving a good opportunity for the terrorist movement and many of the supporters of the settle movement from the poor social strata and they are easily degraded by the foreign terrorists. So it's an issue of the economic problem. If the coalition forces can offer enough chance of employment and the certain level of life, well, maybe we can prevent them to be the supporter for the foreign terrorist or can be the soldier for the terrorist.

So we better prevent the terrorists or separate the terrorist activities from the local communities in two ways: prevent foreign terrorists from the outside and then eliminate the possibility of the local community to be degraded by the terrorists. That's two points.

Did I answer your question?

Question: (Inaudible.)

Keiko Sakai: No. Well, it's not a complete paper, so I just don't want you to be quoted as kind of the paper, but if you mention my point of view, it's okay.

Question: Takasi Koyama, SEIS. I'd like to address this Mr. Alterman.

Do you think the U.S. can succeed in Iraq? If not, do you think Iran will become the predominant power in that area and what will its relation be with Syria, Saudi Arabia? Do you foresee any kind of a power which could balance Iran?

Jon Alterman: Whether the U.S. can succeed in Iraq depends on what you define success to be. Fouad Ajami has a very interesting piece in the New York Times today in which he says we've put away the dreams of what Iraq might be for the region and now we're basically doing damage control. Iraq can certainly be more stable and more of a force for stability in the region than it has been in the past. I think that's clear. There are opportunities for Iraqis to step forward and make their country more or less like another country in the Middle East. I think that's certainly achievable.

What the relationship of Iraq to its neighbors would be partly depends on what the nature of its neighbors are. There has been a lot of speculation, at least in the U.S. government, about regime stability in Iran and Syria and that would certainly influence that.

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There's also the possibility that Iraq would not be a cohesive political entity and that, I think, the fear of that begins to change the way some of the surrounding states would deal with Iraq. For instance, Turkey might want Kurdistan as a buffer state against chaos in Iraq, so the idea that the Turks might actually be supportive of Kurdish separatism is a sign of just how much change there has been and how much fear of instability there is.

My guess is that Iraq would stand to be a reasonably powerful state in the region, but not an overwhelming one, that it would continue to have some internal conflict and that surrounding states would do with Iraq what they continue to do with most of the other powerful states, which is partly to try to appease it and partly to try to oppose it in subtle ways.

The whole role of the future of the Irani-Iraqi relationship is hard to predict but I think that the most interesting aspect of it is the way in which the role of clerics in Iraq could actually be part of the undoing of clerics in Iran. It was when clerics in Iraq left Iraq because of persecution by Saddam Hussein that they were exposed to all the anti-clerical rule ideas in Iranian seminaries who said that after the clerics came to power in Iran we didn't sanctify politics, we politicized religion, and there should be a different role, much more like the role of Ali Sistani, that he is playing in Iraq.

So rather than Iraq being sort of an outpost of Iranian clerical thought, what we could instead see is a different civil-religious relationship in Iraq changing the way power works in Iran. I think that's probably a more likely outcome.

Question: I would like to ask Mr. Alterman and Mr. Takesada about the United States unilateral intervention in Iraq.

Now, it's clear that there are differences among Europeans, for instance, Britain supports the United States whereas the rest of Europe seems to be a little bit more reluctant to do so.

The issue with that is with regard not only to unilateral intervention by the United States in the Middle East, but also with regard to the main cause of the Middle East instability, that is, the Palestinian issue. So the question I'm asking, do you see any connection between the Palestinian issue and instability and the United States unilateral intervention in the Middle East? That's the first question.

The second question is by intervention in Iraq by the United

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States and Britain, does this create an increase in terrorism potential?

Jon Alterman: I've spent a bunch of time traveling in the Middle East in the last three months and one of the things that I've found surprising is much as we see the focus of instability being what's happening in Iraq and the focus of attention being what's happening in Iraq, overwhelmingly in the Middle East, Iraq is seen through the prism of the Arab-Israeli conflict because the Arab-Israeli conflict, I think especially in the last several years, has become the metaphor through which many Arabs see the Arab world in connection to the rest of the world.

As you know, there is some hope that a successful effort in Iraq would help make Arab-Israeli peace easier. There's also, I think, a fundamental divide between many American policymakers and many European policy makers. Whereas many Europeans says the key is the Arab-Israeli conflict and once you solve that you can solve everything else, and the inclination among many Americans to say that, well, we're going to solve everything else and the Arab-Israeli conflict will cease to become so central and thus become easier to solve. I don't see any prospect of that difference going away in the near term, nor do I see a very clear American understanding of the way in which Arabs are seen in Iraq, sort of reinforcing what they know about the United States through the Arab-Israeli conflict.

What I think it is means, though, is that the prospect of people looking to the U.S. for moral leadership, which I think is something Americans sort of innately feel would be natural, seems much less likely than it would have been a year ago and therefore coordinating Asian, European and American efforts on reform are going to be much harder.

I think one of the interesting things is the extent to which on the reform agenda there really is very broad international consensus on what needs to be done in the Middle East and even in many cases on to get there. But on what each of us should do I think much of that still does have to be worked out and it's something where, again, there are specific ways in which Asian and European partners can be much more effective than the United States and I think it's incumbent upon them to explain that, to suggest roles, and to earn a full place at the table which ultimately would make a lot of different kinds of coordination on a wide range of issues easier to do.

Hideshi Takesada: Yes. The efforts by UK and the U.S. in Iraq should be successful, but I am rather pessimistic about the future of terrorism, so in the sense the UK and the U.S.'s

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efforts should be successful but in order to cope with the future terrorism, the future of the terrorism, I think we should strengthen the role and the scale of proliferation security initiative and still already we have the proliferation security initiative framework among 11 countries, including the UK, U.S., Australia, Japan, et cetera.

And also our government is doing a kind of Japan version of proliferation security initiative in Asia to cooperate with ROK, Singapore, Malaysia, Hong Kong, Thailand and China in order to cooperate the proliferation of weapons of mass destruction. So we have this idea to establish proliferation security initiative framework in Middle East. Islamic countries should be the party when PSI-Middle East version starts, I think.

William Breer: Nabisan?

Question: Two questions. One is, I think, to the Japanese specialist, the second one is to the two Middle East specialists. One is the macro question again, the situation in the Self Defense Forces in Samawah. I've heard the people in the local community are expecting Japan's involvement as stimulating economy or employment. However, because of the situation, one thing is Japanese public or private and the NGO cannot be involved in drastic development right now, especially after hostage issues, so probably in this unstable timing, what Japan should do exactly? Some people suggested more money on the Self Defense Forces to employ more local people help as a relief. How do you think? That's one question.

And the second question is a general issue of Japan, Arabic and the Middle East country relations, involvement of Japan in these military activity. It's not seriously combatant activity, however, the Self Defense Forces presence in Iraq, how seriously negative impact to not only Iraqi people but Middle East world? And to how. I am very curious to hear the two Middle East specialists.

Thank you.

Hideshi Takesada: Thank you, my good friend. Yes. I think that the efforts in Iraq by Japan Self Defense Forces should be more effective but, as you know, Japan Self Defense Force and Japan's government on Iraq are facing dilemmas, like how to use our money, \$1.5 billion U.S. dollars we will pay for the reconstruction of Iraq, how to use this money efficiently. This is the important issue.

At the same time, we should not have casualties of Japan

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Self Defense Forces. When I had a talk at the base of Japan Ground Self Defense Forces in Ashikawa Hokaida, I got this [inaudible], all of the members of the base of Japan Ground Self Defense Forces in Ashikawa Hokaida war this chief [ph]. This means good luck and please return safely. So today I wear this chief [ph]. But if there is some casualties in Iraq among Japan Ground Self Defense Force member, we cannot foresee the result of this incident. Japan's people may say please return, so Japan Self Defense Forces should be returned to Japan. Or we can continue our effort. I don't know which one results. But anyway, the casualties of Japan Self Defense Forces that is out of the casualties or how to use efficiently our money and also how to support U.S. efforts without fighting with militaristic persons in Iraq.

It's very difficult effort for Japan, so we need to use our money more efficiently in order to contribute economically to the Iraqi people, but I want to know the answer from Watanabisa and this is my answer.

Keiko Sakai: I will answer both questions together. First, I must say that the Self Defense Forces in Samawah is doing well. Doing well means that they don't do anything to harm the Iraqi people there. They don't abuse Iraqis and they don't kill the Iraqis but I don't know whether we can keep on doing like that in the future also. But anyhow, it's better than other foreign troops, actually. But it doesn't mean that the people in Samawah are so much satisfied with the activities of the Self Defense Forces or the activities is not enough, as you said.

While mainly the people there in Samawah are waiting for their farther economic cooperation, economic aid, support from the private company, the Japanese private companies, not from the Self Defense Forces because Self Defense Forces is not the specialist on the reconstruction or economic development. And there is one interesting episode I heard. The people in Samawah, well, actually, the subtle movement, subtle group, subtle office there in Samawah once tried to organize one demonstration, anti-American demonstration, there but at the time other local notables persuaded them not to demonstrate, make a demonstration against the Americans because they felt that maybe if they do such kind of a demonstration it will affect the Self Defense Forces and the Self Defense Forces will come back to Japan, so it will be the end of the future possibility of the economic cooperation with Japan. So it means that they are ready to wait for another step. Maybe they cannot expect more cooperation, more support from the Self Defense Forces now, but they expect future, they expect that the private company will come in the future, in the near future, or that more support from the government will

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arrive in Samawah.

So this is big item for our government, I think. There is a big gap between the expectation and reality. Actually, we are not ready to send -- I think the government is not ready to send a private company to work inside Iraq territories in such kind of bad security situation.

So anyway, I think the Self Defense Forces situation or the Self Defense Forces is not so bad in Samawah, up to now, but the problem is that those who saw what the Self Defense Force is doing in Samawah can't understand the difference between the Self Defense Forces and other foreign troops.

But as for the people in Baghdad or in Fallujah or in Mosul and the other areas in Iraq, never understand which is the difference between Japanese forces and other foreign troops, so they may recognize the sort of different forces, the part of the foreign occupier, and they may imagine that the Japanese Army will kill the Iraqis as American soldiers are doing now. So the gap between the perception of the people in Baghdad or Fallujah and outside of Samawah and the perception of the people in Samawah are very big and it is not a matter of advertisement. The contribution of the Self Defense Forces to Samawah is not big enough to let local people in Samawah to persuade the others saying that, well, the Japanese forces are doing very well so please do not attack them even in Baghdad or Fallujah or any other countries. No. They are not there to say that. So this is a problem.

And the same thing can be said to the Arab people. Arab people also don't understand what is different between the Japanese forces and maybe the other foreign troops, so maybe there might be a lot of terrorists, anti-American terrorists, who recognize Japan as a part of the occupiers, but at the same time there is another risk for Japan.

Traditionally, as I experienced in the Arab countries, which is in Egypt or Jordan or other, Syria, so often I felt that people in Arab countries prefer to recognize Japan as an alternative to the United States. Many of the Arab people believe that Japan can be alternative for the United States even in the political law, so they want Japan to be the major actor, politically also, not only economically, in the economic field, but also in the political field. So I'm afraid despite you have different forces, there is a kind of expectation among the Iraqi people that Japan can be a political actor in international politics, but I'm afraid also Japanese government is not ready for response of kind of [inaudible] from the people. This might

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be another dilemma and risk for Japan.

Jon Alterman: Very quickly, let me just add a couple of words. I think it's important to draw a distinction between Arab governments and Arab populations. I mean, Arab populations, I think, are generally thinking that this whole Iraq adventure is a mistake and I assume would broadly share the view that some people have expressed to me, which is in for a dime, in for a dollar, if you're part of this then you're part of the problem.

But I think on the side of Arab governments, which often think about who they want to cooperate with how, it represents an opportunity for Japan to distinguish itself, much the way that Ms. Sakai was describing were doing a different kind of job, we have different capabilities. I think a successful Japanese effort in Samawah can be marketed as a sign of what Japan can do on both a policing level and on other levels as well, so certainly in bilateral relations with Middle Eastern governments a successful experience in Iraq can work to Japan's advantage.

Question: My question is about the Kurdish people in Northern Iraq. I remember a little over ten winters ago there were scenes on the television of large number of people in the cold of the mountains heading into Turkey and then being stopped and I was told that those were Kurdish people escaping from attacks by Saddam's forces and the Turkish people were not allowing them to come in. So I am a little surprised now that Mr. Alterman says that Turkey might want to have a buffer state in Iraq of Kurdish people without the fear perhaps of that buffer state extending into Turkey and also into Iran, because if there were a people that deserve perhaps national identity and national boundaries these were the Kurdish people.

My question perhaps is what is the position of Japan towards Kurdish let's say autonomous state and what do you see the implications?

Thank you.

Keiko Sakai: That's a quite difficult question. I am not representing the Japanese policy towards Iraq, but as far as I understand Japanese government does not have a special policy towards Kurdish autonomy. I think the government believes that this is an internal issue and a domestic issue for the Iraqi people so it's up to the Iraqis whether they decide they prefer autonomy, the Kurdish autonomy, or [inaudible] states between the Kurds and Arabs or the integrated state of the Iraq including Arabs and Kurdish. I think Japan doesn't care. I mean, there is no specific policy on that point, I'm afraid. Is that enough of

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an answer? I think it's better that you ask another, Mr. Yanai for that question, I think.

Jon Alterman: Let me also just clarify. I don't think Turkey is seeking a Kurdish state, but in the event that things in Iraq turn toward chaos that Turkey might seek defensively to have some sort of buffer and could use the Kurdish area to do that. Since the time you described, the Kurdish areas have been administered separately from the rest of Iraq and have their own sort of internal governance and internal logic which has been separate from Iraq and I think in the eyes of some Kurds should remain separate from the rest of Iraq and just how that works out.

The sense is the Turks would automatically try to veto that, which I have had for a long time. I spoke to people who have spoken a lot with the Turks and said you have to reexamine that assumption because they've reexamined that assumption.

Question: You say they have reexamined that position?

Jon Alterman: Yes, and it depends on what happens to the rest of Iraq.

William Breer: I'm afraid we're out of time now, but I'd like to thank our panel very much for a very illuminating presentation, so please join me.

[Applause]

SESSION 3

Challenges for Economic Reform and Development

Richard Fairbanks: We would appreciate it if you would come forward because we're lonesome up here; and please depopulate the back of the room and join us here in the front of the room so we can see you and know that you're awake. Those of you who are awake.

This is our final panel of the day entitled Challenges for Economic Reform and Development. As we have heard from our overview of the U.S.-Japan relationship and how the Middle East situation fits into it and the security and political challenges, obviously whatever the security circumstances, however the politics work out they'll be grounded on the economics and how people are doing in the country of Iraq and how that translates into a feeling of unity and hope for the future. We see very large numbers running around about how much the United States specifically and the world community in general has pledged to Iraq. The actual amount of dollars getting through on the ground, as we will hear I'm sure, is much lower. And we're

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dealing with a command economy. The fall-over from 35 years of Saddam Hussein and top-down rule. And most of the major corporations, companies, over there are still state-owned. We have this feeling in the United States and around the world, I think, that the salvation of the Iraqi economy will be oil. Bob Ebel will tell us about that but as a matter of fact only one-third of the current state budget of Iraq derives from oil revenue.

So it's a complex picture, a complicated picture, and we have three very different and I think insightful comments to hear on this. As it says on your agenda, the first comment will be from Dr. Patrick Cronin who is Senior Vice President of CSIS, and also our Director of Studies. After him we will follow with our other two panelists and then questions and answers.

Dr. Cronin?

Patrick Cronin: Thank you, Dick. Ambassador Fairbanks has played such a critical role here at CSIS over the years, and it's a great honor to be here on this panel with my distinguished colleagues.

I want to thank Mr. Hatakeyama, Ambassador Yanai and others from JEF in particular for co-sponsoring this very important conference. And I want to thank Bill Breer and the staff of the Japan Chair for all the hard work they have put into this meeting here today.

Let me make three broad points. The fact that there's so much caught up right now in the security issues surrounding Iraq make a discussion about the economic challenges very challenging, but let me begin by at least noting the importance of some of the progress that has been made economically in Iraq. It is fairly brief, but nonetheless it's important.

The first point was one that Dick Fairbanks just alluded to which is that Saddam Hussein's devastation to this once prosperous Iraqi economy is no longer here.

The second point I would make is simply to note the significant aid resources that have been pledged and allocated from the United States, Japan and other donors to help during this costly transition. Meanwhile we have also noted this morning the political will that seems to be building for debt forgiveness which will be critical to the economic viability of Iraq.

A third point to note about progress is simply that the on-

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the-ground results are indeed tangible even while they're overshadowed by the violence. It is possible for both of these to exist in the same place, and they do. Under Secretary Larson I think ticked off some of the critical accomplishments on the ground in terms of where Iraqis are today with respect to pre-war standards of electricity, water, schools, hospitals, local governance, as well as the oil production back on-line.

A fourth and final point of progress, sort of hitting the optimistic notes here first before I get more critical, it would be truly remiss if I didn't note how deep the U.S.-Japan alliance has really become in large part. First because of Afghanistan, but then because of Iraq. Ambassadors Yanai and Deming touched on this I think very well in this morning's session. And Under Secretary Larson also talked about how this could be part of a much larger strategic dialogue with the U.S. and Japan working on a range of issues extending to Pakistan, Indonesia and other areas that are critically important.

Let me now switch to a second point which is to say that notwithstanding those gains, which again are not trivial, the reconstruction challenges have been exacerbated by both the security and political realities on the ground and also by flawed planning and flawed implementation. All right? So this is the critical portion of my brief remarks here to set up this discussion.

Some of the flaws we saw in pre-war planning I saw up front as a government official regarding the potential level and the duration of violent opposition, essentially it was assumed it would be very little and of very short duration. Also we saw this kind of flawed assumptions with respect to oil revenues covering most of the reconstruction costs and Bob Ebel I'm sure will put this in a greater perspective.

I think secondly we saw implementation shortcomings, and still see shortcomings on the implementation of assistance in Iraq that are very important to learn from. We saw it very early on in the planning on the economic transformation of Iraq, a very narrow identification of the issues. That is Treasury essentially was given the lead role within the interagency. Treasury, thinking of the Afghan experience in particular, focused fairly narrowly on monetary policy, on a stable currency without Saddam Hussein's picture. It only subsequently started to think about some of the longer-term issues including who was going to control the revenues after the oil-for-food program that the UN had been running went away. It didn't give any time, really, to thinking about the longer-term issues of going from a command economy to a market economy.

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I think this was only belatedly brought up within the interagency finally. Peter McPherson did a great job on what he had on the ground when he finally was over there, but he focused and had to focus mostly on an initial Iraqi budget under very difficult circumstances. So it wasn't a lack of good people trying to do this, but it was mostly by dint of the decisionmaking in Baghdad and Washington which included a defense department perspective and prism on these issues which was always going to subordinate the economic issues, the security issues, and put these off to the future.

Sometimes out of necessity, obviously, but also at some cost as well to long-term planning.

I think it needs to be said in terms of the challenges that we have right now, again, the security challenge, it's a high-risk enterprise. There's no certainty right now that we can curb guerrilla warfare, prevent the outbreak of civil war. There is no certainty of that. I don't think failure is fore-ordained at this point either, but clearly there are doubts.

I think related to that, again, before you can talk about economic recovery and reform, the political vacuum is also just a huge uncertainty and that's of course garnering a great deal of attention understandably as we head toward a June 30th deadline for the transfer of sovereignty. Yet the President has acknowledge there would be no permanent Iraqi government until 2006. So that timeline is a lengthy period of time in which much has to happen and we may not have that much time to produce results.

The bottom line here is simply again to remind you that a successful economy of Iraq has to be predicated on stability and security and that security situation can only come from some kind of legitimate political entity and that still has to be built out.

Those are the larger contextual questions that are going to have to be addressed if we're also going to help Iraqis rebuild a successful economy post-Saddam.

Let me switch to a third final set of brief points here and turn it over to my colleagues, to say that the challenges for economic reform and development I believe could be reduced to, again, three key issues in my mind. One of them I'll call economic governance and establishing effective institutional capacity within Iraq.

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Secondly, trying to still find the way for sustainable economic growth, and that does largely come down to oil, and again I will be deferring to Bob Ebel here soon on the oil outlook. Third, the adaptation of international supports, that it is timely and yet still strong in a supporting rather than a leading role increasingly as we go out I think will be the key issues, or three of the key issues we will face in trying to support Iraqis as they build an economy.

Let me just elaborate very briefly on each one of these points.

The economic governance. For me, again, I'm left with a series of questions not answers here for you and very much would appreciate your insights and ideas on these issues. But it does seem to me a question about whether the Iraqis now can create viable economic institutions capable of managing a federal budget, managing an independent central bank, managing the currency, but also more generally a fundamental rule of law in respect to property rights. Can we help the Iraqis move again from this command market economy built on open trade and investment which will entail basic commercial law in support for new enterprises -- small, medium and large. And presumably, privatization, even if small-scale at first, will presumably be part of a market economy if this is where Iraq's future is heading.

Right now all of this I have to say does seem a distant prospect. I'm not saying we're on the cusp of this, but if we're looking now over the long term we needn't necessarily just be bogged down in the political security quagmire that we seem to be facing right now.

I think the second point here about economic recovery and growth has several facets as well. Again, starting with something that we at least have some control over, it's the Iraqi aid program, essentially. Here we have not done a good job at getting money into the hands of Iraqis, something that my colleague Tony Cordesman has pointed out with great tenacity, as Tony does on almost every issue.

The money has flowed at a pace that you'd expect more from a long-term development assistance program and yet clearly we're faced here with a national emergency with only 15 percent of the emergency supplemental from this past year, about \$18 million total, allocated from the government, only 15 percent of that has been obligated which doesn't really mean it's spent on the ground. A much lower percentage has been actually spent on Iraqis so far. So this pace is just trickling and it's just far

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too slow. And while there's no one reason for it, there are multiple reasons, the results are what are hurting us in part on this issue. We're not getting more into the hands of Iraqis.

Part of it does stem from confusing and overlapping decisionmaking on our part -- both here in Washington and in the Coalition Provisional Authority. We've exported some of our bureaucratic politics to Baghdad.

We have, for instance, just as we did with the wartime planning, in the post-war economic assistance we've had essentially state and AID poised against the Defense Department, poised against the Defense Department led CPA officials in Baghdad, which would countermand recommendations that would come from the interagency.

So you had hundreds of millions of dollars of supplemental assistance programs agreed to in Washington, considering the best information, countermanded in the field, almost driving out some of the key contractors who are implementing this on the ground. And instead of leading to a successful implementation on either side, again, maybe there was a good reason for the commander on the ground to overturn it. But rather than actually make sound decisions, instead what would happen is it would just be gridlock so nothing got done. That's one of the reasons why we've been at a standstill.

Then coupled with that is the past couple of months of growing insecurity which has only made it more difficult.

Let me just move toward an end here and talk about the oil production questions. It really is a question for me about whether we can keep expanding the oil production without major disruption and that this can become hopefully a politically harmonious kind of instrument for Iraq's future economy. That is to say you don't just fuel a new autocracy, that this doesn't fuel a greater bitterness among the ethnic divisions but actually becomes fused not just with economic and energy success but also politically viable and sustainable over time in a more participatory government. Again, very hard to see right now, but that's the challenge that's going to have to be worked out over the next five to ten years if Iraq is going to be a better government than what we saw in the past 30 years.

I think the debt issue is critical. Again, it cannot hang over Iraq's head, but again I'm fairly optimistic that this could be managed. Jobs have to be created, especially in the non-military sector. This was 40 percent of the jobs in Iraq under Saddam Hussein were in defense-related fields and in support of

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the security apparatus. Clearly there should be less percentage in a post-Saddam government.

Third and finally on this key issue ahead is how international support will adapt to the greater Iraqi sovereignty issue and leadership presumably on Iraqis' future, including its economic future.

The U.S. and Japan are going to have to continue to take a leading role and hopefully the Europeans including the British will have taken a leading role. Hopefully other European countries, the ROK, Australia, other countries around the world from the developed world at least, can play a critical role to implement timely assistance, following through on the debt forgiveness, and providing at the same time political and security support for Iraq.

This flip side of international support goes back to maybe things my colleague Jon Alterman was talking about in terms of bolstering regional support at least among Arab governments, for instance, but also avoiding unhelpful regional meddling. Here maybe Iran would be on the top of my list. This is a real litmus test for Iran with respect to its behavior in Iraq.

So all I've tried to say in ten minutes here, Dick, is that Iraq is complex. I hesitate to give you more than a laundry list of some of the challenges, but in a few minutes these are some of the steps I think are going to be critical to economic recovery and reform in Iraq.

Thank you.

[Applause]

Richard Fairbanks: Thank you, Dr. Cronin. We will have a chance to unravel some of those threads that he was weaving together there in questions.

Next we will hear from Bob Ebel. Mr. Ebel was involved with virtually every agency of the federal government at one time or another in energy policy. He is a trained geologist, and I'm delighted to say he heads our energy program here at CSIS. Bob?

Robert Ebel: Thank you.

We all understand that rebuilding Iraq revolves in large part around the oil sector of the country, and the urgency to expand oil production and exports in order to provide the financial means to support that rebuilding.

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With that in mind, let me divide my comments to you this afternoon into three parts. First, an evaluation of the Iraqi oil sector as it stood prior to the military intervention. Second, a review of the high hopes for the future of the oil sector as held by the Bush Administration and by the Iraqis themselves. Then third, a more rational assessment of that future now that a certain degree of reality has set in.

I had the pleasure of working on the Department of State Future of Iraq project which allowed me to meet with the senior Iraqi oil people who were no longer of course living in Iraq. Living in Toronto or Geneva or London. And sitting around the table and developing an assessment of the oil sector that we began our work prior to Christmas of 2002.

In early 2003 I put up on the CSIS web site my assessment of the Iraqi oil business. I entitled that Iraqi oil, the morning after. I noted there were three givens when the morning after arrives in Iraq, at least in the eyes of the Iraqi opposition. First, there will be no occupational army. Second, we Iraqis will govern. Third, the oil sector is ours to develop as we envisage. And again, in the eyes of the Iraqi opposition our first task will be to restore law and order and to supply food and fuel to the population. Now this was I think my first putting up on the web site was in January 2003.

But if we're going to better understand the Iraqi oil future we need to take a look at the past. Here's a country that stands second only to Saudi Arabia in terms of oil reserves -- probably on the order of 112 billion barrels. Saktur [ph] was nationalized in 1972. It hit its peak production in 1979 at 3.5 million barrels of oil a day and has not reached that since then.

Before the military intervention the country had the capability to produce between 2.6 and 2.8 million barrels of oil a day, not a major player in the world oil market but important, nevertheless.

Iraq then was consuming about 400,000 barrels of oil a day. They were smuggling out of the country a comparable volume, about 400,000 barrels of oil a day was being smuggled out of Iraq. That left then the Oil for Food program of about two million barrels of oil a day.

How did the Iraqi opposition then view the Iraqi oil sector at that time? They said we have the capability to be one of the top three oil exporters in the world. Indeed, in the next two decades we could lead the world and we could replace Saudi

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Arabia, in fact we're the only country that could do so. We can export and avoid the Straits of Hormuz which is a choke point, providing additional security of supply. We could be the leading factor in world oil supply and demand and we want to region at least our past share of OPEC production which is about 13 percent. So they had a very optimistic view of what lay ahead for the Iraqi oil sector, the potential of that sector.

But how might we describe the health of that oil sector before the war? Any industry neglected and underfunded for more than 20 years, bearing the impact of three wars and 12 years of UN sanctions would suffer greatly, and the Iraqi oil sector is no exception. The Iraqis had what we call over-produced Rumaylah and the other major fields. That is you pull it too hard to get as much oil out as you can and that in effect leads to early ruination of the fields which means that as you bring liquids to the surface more and more is water and less and less is oil. They had very high production decline rates. Pipelines were in poor shape. The refineries needed major upgrading. The level of technology in these refineries was very low.

But what was really holding back the Iraqi recovery most of all was the loss of electricity. Without electricity you can't pump the oil wells, you can't move the oil to refineries, you can't operate the refineries, and it slows down your loading of export tankers. That's just on the oil side.

On the every day side, you can't provide water to the people; you can't provide them air conditioning; the lack of night illumination encourages crime. It's tough on hospitals, schools, factories and shops where your supply of electricity is intermittent. Finally, it leads to popular discontent.

You look at the U.S. as the occupying force in Iraq. What can you do as an occupying force under the Geneva Convention? You have the right to sell the oil and to use the income for the restoration of order, and for the benefit of the Iraqi people. Not everybody agrees with that, but this is what you can do. That means that you have to accept that we have been an occupying power in Iraq.

We can't damage the oil wells of Iraq. We have to return them in proper order. We can increase the production from these wells but we could not drill any new wells. So as an occupying power there is an associated question. What is the status of those contracts that had been signed, particularly with China and with Russia? Will they be honored? Under international law it would seem that these rights should be protected and that contract sanctity is maintained in the event of a change in

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government.

Russia's been very vocal, said this is our contract and we want it honored. It's a very important contract not only for Russia but for Iraq because the field that they want to develop would at its peak produce about 600,000 barrels of oil a day. That's a major, major field.

Iraq over the years had set out some long-term goals for itself and they set out these goals in 1995. First they wanted to bring production to 4.2 million barrels of oil a day. Then we're going to step it up to five million barrels of oil a day by the year 2000, and by 2010 we're going to hit six million barrels of oil a day. That would have allowed Iraq to maintain its market share.

But you know, the early output forecasts for Iraq have been extremely optimistic. In April 2003, one month after the military intervention, Vice President Cheney said that Iraq would be exporting as much as three million barrels of oil a day by the end of 2003. We're not there yet. We may not make it by the end of this year.

Post-war destruction from continued looting, from sabotage, has really brought more damage to the oil sector than many people realized. Oil field documentation has been stolen. You can't protect your pipelines against terrorists or sabotage or just plain old looting. There's a difference between sabotage and stealing. If you're intent just to sabotage a pipeline you blow a hole in it and you walk away. If you're looting, you blow a hole in it and you collect the oil or petroleum products.

If you're out to, on the electric power sector, you bring down a power line and walk away, that means that's just sabotage. But if you're looting, you bring down the power line and you steal the copper wire in the power lines. So you have to make that distinction. But both of them end up with the same result, putting you out of business.

There have been voices of reason. We have to recognize that. A very senior former Iraqi official by the name of Isam Challabi, he said in mid-2003 that it would take Iraq at least three years to reach an oil production level of 3.5 million barrels a day, and many more years to exceed it. There's a problem in the northern fields, the Kirkuk fields are extremely old. The pipelines are old. They've been producing for 60, 70, 80 years. It's really old. And in the south the problem is a bit different. The infrastructure, the pipelines are basically above ground which makes them very easy targets for sabotage.

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We're beginning to see that, the blowing up of pipelines that bring oil to the port of Basra for loading.

If your pipelines are down you can't produce. If your pipelines are down you can't export. So if you want to do damage to the country, just blow up a pipeline. Any one of you in this room by yourself can blow up a pipeline. Come in and repair it and you wait until it's repaired and the pipeline is full of oil and you blow it up again. So we can see this pattern developing.

We seem to think that by the year 2010, the end of this decade, that even a production goal of four to 4.5 million barrels per day is unrealistic considering the state of affairs in the country today. The pipelines, as I said, are in terrible shape. If the pipelines aren't operating the oil sector isn't operating either.

The Iraqi draft budget which is revealed in late April of this year, noted that Iraq expects to export 2.1 million barrels of oil a day next year. They're currently exporting about 1.8, so they themselves don't anticipate much growth in exports.

A senior independent engineer later commented that Iraqis' ability to raise output sharply was questionable. Problems in maintaining production in the coming months are really going to hold the growth down.

Let me give you a little insight provided by a Dutch international firm by the name of Sabolt International. This firm was asked by the United Nations to go into Iraq and make an assessment of the state of health of the oil fields. They went in in March 1998 and they went in again in January 2000. Their findings in both instances -- and remember, this is four years ago now -- findings in both instances underscored one word when it came to describing the state of health of the Iraqi oil sector. That one word was lamentable.

Let me quote from the January 2000 report. "The group has to report that previously noted lamentable state of the Iraqi oil sector has not improved. It's apparent that the decline in the condition of all sectors continues and is accelerating in some cases. This trend will continue and the ability to maintain the current reduced production levels will be seriously compromised until effective action is taken to reverse that situation.

What would be effective action? You have to go in and make a detailed study of each field, of each reservoir, and determine what it's going to take in terms of time and money to restore their health? If you continue to pull these fields, to maximize

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exports so as to maximize income, you're going to further damage it.

So we're not doing the country any favor by continually pressing for higher and higher goals in terms of production in exports.

At the same time, where's the money going to come from? There's really no hope of rebuilding Iraq if substantial foreign capital is not forthcoming, but who is going to invest in Iraq today? There's no major oil companies going to invest. They're going to wait until you have a popularly elected government, a government that is recognized internationally. Then you'll be prepared to sit down at the table to negotiate.

The negotiating terms are going to be very difficult. Iraq oil is very good quality, it's cheap to produce, easy access to ports of export. We know the reserves are there. That's not the problem. So the line forms to the left when conditions are ripe. But Iraq knows the value of its oil, so I would guess that the negotiating terms are going to be very difficult.

Let me leave you then with a series of questions as we ponder the future of the Iraqi oil sector.

What level of oil production and exports is sustainable?

Who's right when we look at the future? Those who think they can hit six million barrels of oil a day or the more pessimistic level of four million barrels of oil a day?

Can sabotage, looting and stealing, threats to personnel security, can all these be brought under control?

Can pipelines be adequately protected?

When Iraq's interim government takes over on 1 July, will it be given control over oil revenues?

Can a means be devised whereby citizens of Iraq will be able to share immediately in the oil wealth of the country?

That's a very serious question.

Can they devise some means so that the people will share in the wealth?

How do you avoid Iraq catching what we call a resource curse where you export, you maximize oil exports. That becomes a major

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source of funding for your national budget. It overvalues your local currency. It's easier then to import goods and services than it is to develop your own. You become overly dependent on that oil income. What happens when prices go down? And prices will go down. High prices aren't going to be forever. Could Iraq survive financially if oil-derived income was to substantially decline?

Finally, where does Japan fit in all of this? Japan is a country that's almost totally dependent on oil imports. Japan, like other oil-importing countries including the United States, it seeks security of supply through diversity of supply. They've tried to develop equity oil around the world but have been famously unsuccessful. But you keep trying as it really has no other choice. Why not Iraq? As I said, the reserves are there, the quality of the crude is good, cost of production is low. Why not Iraq?

Iraq has a substantial natural gas resource base that could be of interest to Japan. At the same time we're watching Japan commit very large resources or prepare to commit very large resources to developing oil production and pipelines to bring oil from Eastern Siberia to the Pacific Ocean port of Nahutka. The issue of Russia versus Iraq as attractive oil suppliers should be revisited against the background of U.S.-Japan cooperation in both countries. After all, as oil importing countries we have the same concerns and the same understanding as how best to respond to these concerns.

Thank you.

[Applause]

Richard Fairbanks: Thank you, Bob. Our final presentation in this panel will be by Mr. Kazuhiro Morimoto. It says on your sheet here that he was the Former Director of Middle East-Africa Office of the Trade Policy Bureau of MIETI, and that's true, I found out at dinner last night, but it sounded like he had retired, saying he was formerly that. He still has a job today, I'm happy to say, and he is currently the Director of the Gas Market Division, Electricity and Gas Industry Department. So he has covered the waterfront both regionally and in terms of supply, and we look forward to your remarks.

Kazuhiro Morimoto: Thank you, Ambassador Fairbanks.

I assume that I'm out of the old economists, I'm the only incumbent government official except for the keynote speaker, and that's why I have to say that the opinion expressed here does not

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necessarily represent the position of either Japanese government or MIETI.

Bear me to begin with a short story. In the summer of year 2002 when the United States was claiming to owe Saddam Hussein by a possible military attack to Iraq. I was appointed to Director of the Middle East and African Division of MITI. At that time we were carefully following the development of U.S. diplomacy and preparation for the coming attack toward Iraq.

[Bob Otenday], a man from big trade company visited my office. He happened to have experience working in Iraq in its golden days. He explained to us the history of the activities of many Japanese companies in the construction, social and industrial infrastructure in Iraq. He said if the United States attacked Iraq and the Saddam Hussein regime collapsed there would be a lot of things that Japanese companies could do to contribute to the reconstruction of Iraq economy. Let's be prepared.

Meanwhile, the famous Baghdad International Trade Fair was to be held in November. A good opportunity. So I visited there, taking ten hours drive from Jordan to Baghdad. Although few Japanese companies were present at the trade show itself, I was able to observe some traces of the works down by the Japanese companies during 1970s and through '80s around the city of Baghdad. Those included major roads such as the one I took from Jordan. Hospitals, power plants, underground sewage system, et cetera.

In the trade fair, amongst the industrialized countries -- France, Germany, Russia and Korea had big presence. Of course neighbor countries like Turkey and Syria were installed in large pavilions, but Japan didn't have a pavilion.

Coming back from Iraq I contacted a number of Japanese businessmen who once worked in Iraq. They all regretted the interruption of Japanese engagement in that nation due to the intensifying Iran/Iraq War in the late '80s and the Gulf crisis in 1990. I asked them if they would want to go back and work in Iraq to rehabilitate those plants they built, had it happened that a new regime established. Most of them said they would love to. To my surprise, even those who were held hostage by Saddam at the Gulf crisis in 1990 said yes.

Their response was to some extent contradicted to the cautiousness of the top management people of their companies. While such positive attitude remains, Japanese Iraqi-schooled, if I may call them so. There are perhaps two reasons for that. The first reason, the Japanese companies and engineers enjoyed high

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respect by the Iraq bureaucrats and engineers owing to their high quality work and punctuality. Later on I came to know that this reputation was shared by a wide range of Iraqi people.

Secondly, Japanese engineers also highly evaluated the professionalism of Iraqi engineers. Most of them had memories of good cooperative experience. Iraqi engineers absorbed the technologies that the Japanese brought in and developed the expertise that enabled them to maintain the facilities for a long time.

Last year I have seen several plants in various parts in Iraq. Those including power plants, cement factories and refineries. Most of them have kept operating almost 30 years and the severe constraints of current supply and without the help of foreign engineers. In some cases cannibalization was seen. I mean they stopped two of four generators, for example, and used the parts for the other two to keep working. In other Middle Eastern countries this would not be seen. There a large part of the physical labor force consists of foreigners. As soon as they acquire new expertise by [inaudible] technology transfer, they tended to hop jobs to get higher pay.

Japanese companies were not very active in the Oil For Food program in Iraq, they were quite prudent not to be engaged with Saddam Hussein regime after the Gulf crisis. We didn't, therefore, have detailed knowledge of the operating conditions of the old plants and factories. Still, we found out that many Japanese companies still keep the original [block] plans which were very valuable for the rehabilitation of all the plants.

In addition, some of them had kept contact with their counterparts, old counterparts, and could monitor the situation of their interested facilities.

Listening to all those stories we had become quite confident that Japan would be quite effectively able to contribute to the reconstruction of Iraq economy and society by helping them rehabilitate such vital sectors as electricity, water, and sanitation. I should mention that [inaudible] here today was also a good advisor for us.

This idea was shared with the Ministry of Foreign Affairs which was responsible to implement the official [inaudible] policy. So probably that's how we are here now.

Two parts of Japanese assistance to Iraq are firstly on the ground, humanitarian activities currently led by the Self Defense Force; and secondly, economic assistance made available by off-

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shore development aid.

The handout probably you should have a handout. If you don't, you can pick it up at the gate when you leave. The handout shows a list of the projects that we have seen, we have been implementing. Although I don't go through it, I will touch upon some elements of it as I go ahead.

Firstly, Japan recognizes smooth recovery of Iraq is imperative for the stability of the whole Middle Eastern region.

That's why Japan implemented humanitarian aid program from the very early stage of the military operation by the coalition. This first aid program includes the assistance in the field of food medical supply, education, job creation, and the dredging of Um Qasr Port that was a key transport facility for humanitarian aid. In order to arrange for the coordination with the CPA and Iraqi local governments, Japan sent government officials to Baghdad and Basra and also set up its embassy as early as the beginning of May.

Among them were Ambassador [Oak] and First Secretary [Novair] who regrettably were shot to death in Tikrit last autumn.

In order to utilize the expertise of Japanese private sector related to Iraq industry METI sent soon after the major combat ended civil engineers from companies that have the experience working in Iraq before. They stayed in Basra to work with British-led CPA South. They were engaged in such daily activities as on-site monitoring of their supply of electricity, liquified petroleum gas, et cetera, and also helping Iraqis set up local offices of related ministries.

They also worked hard to develop regional and nationwide rehabilitation plans in such key areas as electric substations or [inaudible] communication systems.

Unfortunately the security condition worsened late in the summer and we decided to retreat in the end of August. Before they leave they submitted their observations and recommendations on the reconstruction plan to the central CPA and [inaudible] Iraqi ministries. They were highly appreciated and some of them were adopted.

In other part with the help of UNDP working in Basra a group of electricity specialists visited Basra area to conduct in-depth study of the transmission system. Based on their recommendation Japanese government decided to finance a project that integrated a restoration of transmission lines around Basra area and the

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rehabilitation of nearby [Hawfla] power plant which is one of the largest power plants in Iraq. This project is expected to improve the electricity supply dramatically to south region.

Last October at the International Conference for the Reconstruction of Iraq in Madrid Japan pledged \$1.5 billion of grants and \$3.5 billion of loans. This amount is by far largest but the United States. Since then Japanese government worked hard to identify the priority projects. Where is the bank most effectively contributed?

As you can see in the handout, the sectors we forecast such vital ones as electricity, education, water and sanitation, health, and employment.

The money flows to Iraq either bilaterally through United Nations organizations or through International Reconstruction Fund facility for Iraq which is now set up. Also now Japan chairs the donor conference.

On the presence of the Self Defense Force, a few speakers already touched upon so I don't mention in detail, but just a team of 100 members stationed in southern Samawah region, and I should stress that they are not working on the security area, but they are working on humanitarian area like drinking water supply, repairment of public institutions, or the consultation of medical institutions in the south region.

Now I will touch up on some elements that I think are important in helping the reconstruction activities in Iraq. I owe this part a lot to the Japanese experts who stayed in Basra last year, in addition to my own observation.

The first is of course security issue. In order for Iraqi government to get support by its people security of safety and improvement of living standard must go hand in hand. We cannot expect perfect security in a country right after a regime change by force. Also the achievement in restoring infrastructure so far clearly shows positive indication.

Still current security situation is not encouraging for private industry. No matter if they are involved in government-aided programs.

It is perceived that the experts who are involved in the reconstruction project could be targeted by terrorists. They have to spend a huge amount of money for their own security rather than the investment to their intended business.

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This is our serious hope that the security situation improves as the process of transferring authority to Iraq moves forward.

The second issue is one that I call ownership issue. As we have seen Iraqi engineers show a high level of expertise. Full utilization of this potential helps accelerate the reconstruction process. Firstly, it is a visible way that Iraqi people are employed in professional vocations. The feeling that Iraqi workers are devoting themselves to save their nation will enhance the confidence of Iraqi people to support their government. And secondly, this will give Iraqis future hope and be incentive to engage in vocational training. That is a key for enabling Iraq to develop immediate and long term prospective.

By the way, CPA claims that foreign company uses Iraqi subcontractors as much as possible, but more than that, to enable this to happen some considerations are necessary. I can mention at least two points. First, do not force them to apply the most advanced technologies. Most experienced and leading Iraqi engineers are accustomed to the old equipments that were in vogue during 1970s or '80s. They successfully maintained all factories for long time but cannot immediately catch up with the latest equipment with advanced IT technology.

In order not to isolate them, gradualism is important. One recommended way is to begin with rehabilitating the old style factories, then as the training of younger generation progresses we recommend introducing more advanced ones.

When we worked on the restoration of propane gas distribution terminal in the south Iraqi engineers clearly showed a preference to introducing the old models which they are accustomed to and they may obtain refreshment parts inside Iraq.

In the case of rehabilitation of a power plant I heard similar voices.

Secondly, we should allocate certain amount of money and time for the training of Iraqi engineers and bureaucrats. The nature of the training should vary from the basic ones such as the handling of replacement parts for the old plant to the introduction and maintenance of brand new equipment. From this viewpoint many Japanese rehabilitation programs include the cost of training local Iraqi engineers. Now it is done outside Iraq. It is too dangerous for Japanese engineers to go into Iraq and train, do on-the-job training. Those training mostly related to the handling of replacement parts and maintenance. Japanese programs also offer stand-alone training curriculums in such

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sectors as electricity and medical services.

One other side of the ownership issue is on the development policy itself. I believe Iraq experts, bureaucrats and technicians, are wise enough to come up with strategies and policies for the reconstruction and development of their own country. We should respect this as much as possible.

Taking the example of the acceptance of foreign investment there existed some dispute inside Iraq on how to handle the liberalization with industry sector to foreign capitals.

Foreign investment policy is a very critical one. International economic policy of any country. I don't think it's wise for outsiders to push for either side. I may be a minority but I am a strong believer that the government should have strong to control foreign investment, particularly when domestic industry sectors have little competitive capability vis-à-vis outsiders.

Iraq has the right to grow its strategic sectors before the market is open for [inaudible] completion. Taking the example of Japan it opened up its capital market to outside after careful deliberation on the competitive advantage for domestic enterprises. Most successful newly immersed industrial countries in Asia did quite similarly, including China and Korea.

I don't have the reason that Iraqis otherwise, however my personal opinion is not relevant here. What is important is to have Iraqi people make choice on its future path.

CPA order number 39 regarding foreign investment has been already in force. The implementation for the sake of long-term Iraqi economic development will be critical of this moment. We should concentrate the facilitation or familiarize with as much information as possible but shouldn't exercise pressure. Given the capability of Iraqi people, assuring their own [inaudible] is the most important in this field too. That's what I feel.

The third point is the importance of improving intersectoral coordination. This is particularly true for the relationship between electricity and petroleum sector. In fact Mr. Ebel touched upon this a little bit. We frequently witnessed in Basra where vicious cycle produced between refineries and power plants. Electricity transmission lines were cut by looters that caused a low operation rate in Basra refinery. That in turn caused a shortage of fuel at the nearby pipelines.

One simple solution was to install independent oil-fired

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power generator at the refinery, however, due to the prior coordination between related authorities that has not been done for a long time. Unfortunately I cannot follow the most updated situation. At least it was so in the beginning of this year. I hope this has been solved already.

The other example, Japanese electricity export together with UNDP team have been developing a pre-master plan for the electricity since this February. They worked closely with Iraq Ministry of Electricity. However, they could gather little information whether or where they could obtain sufficient oil or gas supply once the refabrication of the power equipment is done. It is useless to install a gas-fired generator in a power plant without the prospect of securing a gas supply.

It might be necessary to develop new gas wells or to prepare nearby gas purification facility together with the power plant rehabilitation.

I don't think market will solve this. Resources are too limited. Such coordination will be necessary at the higher level of the government. Ministry of Planning, former Ministry of Planning was [inaudible] for this purpose but it is too much understaffed and there remains cultural issue that [inaudible] free exchange of views as well.

The fourth point is the importance of utilizing the know-how of the United Nations organization. From the beginning of the reconstruction process of Iraq the Japanese government worked very closely with United Nations organization such as UNDP and Unicef. They had had quite intensive operation in Iraq during Oil For Food program. Although major part of temporary staff left after the termination of Oil For Food programs last November, those organizations have accumulated extensive know-how on how best they can operate with Iraqi people. That includes local networks and information on infrastructure. We should take full advantage of that for the recovery of Iraqi economy and society.

I am pleased that now they are coming back as an implementation order of reconstruction fund facility for Iraq. I also hope that current move to give more authority to the United Nations will farther activate the involvement of United Nations organization.

Finally I would like to touch upon the debt reduction issue. Last December former State Secretary James Baker made tour to persuade the leaders of creditor countries to agree on major debt reduction to Iraq. He made remarkable success on this issue. Paris Club is now working on fixing the amount of the debt

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reduction. This will be a relief for Iraqi government as well as a credible message of international community that they have strong will to help Iraqi people to recover from the devastating situation after a long depression by Saddam Hussein.

We should not forget, however, that the real issue is how Iraq can invite international finance after the debt reduction. After the period of grants by international community, Iraq must move to the stage of full-scale economic reconstruction. There a wide range of sectors will gobble huge amount of money. Taking the example of industrial sector which I am most familiar with, restoring a cement factory or a fertilizer plant will need, according to expert estimation, tens of millions of dollars for each.

We all know from experience that the money in-flow shrinks when a country gets debt forgiveness due to the serious financial position. In order for Iraq to raise the investment money it has to show the ability to repay in due course. On one hand international community has to agree that current financial situation of Iraq is as bad as [LODC], otherwise it is technically difficult to agree on a major debt reduction.

On the other hand, investors need to be convinced that investment to Iraq will pay. This I have to say will be a major challenge for international financial community.

Final, final point. About the democracy, democratizing Iraq. Formerly I touched upon the broader, from broader perspective. Iraqis write about [inaudible] in Saudi Arabia are not all of the Middle East. On the other side are the emerging economies such as Dubai, Qatar, Oman, et cetera. We are also witnessing the growth of financial markets and new business leaders there.

I tend to think that we should see how it is and consider this as real business chances.

Now opportunity exists not only in oil businesses but also in wider range of economies. Among them are tourism, medical, education, and financial sectors, et cetera. To identify possible opportunities or business partners it was something I worked for while I was the Director of the Middle East and Africa office.

Although the way will not be totally smooth, I have confidence that the day will come soon when we have real emerging economies from the Middle East. The implication of this is a democratization of Middle East oil giants. The history of

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democracy lies the motivation of human nature. No tax without representation. The growth of taxpayers accompanies the development of democracy.

With this final brief comment I finish my part. Thank you for listening.

[Applause]

Richard Fairbanks: With your final comment about no taxation without representation, I see you have been reading our license plates here in D.C., our slogan. [Laughter]

We have time for a few questions. We will have our usual rule, if you would wait for a microphone and identify yourself.

Question: Joe Grimes.

Let me just make a comment or a question to you, Morimotosan. You talked the importance of investment coming in internationally but you also talked about restrictions on investment. I hope you're not suggesting the Japanese model for 50 years, before they suddenly decided that foreign direct investment was a good idea. Certainly they should be encouraging certain kinds of investment but today the problem is not that somebody's going to go in and buy up Iraq. No sensible company would invest money in foreign direct investment in Japan. So the real problem is going to be to encourage it to come in rather than keeping it out, how do you get it in. Then the money that you're talking about from the loan program is to support that kind of investment, either by Iraqis or by foreign investors.

Kazuhiro Morimoto: Thank you for the question. I somewhat expected that question.

What I was talking about was not restriction per se, but the control on the investment. What I mean? That probably such industries as cement, fertilizers, possibly chemicals could be future industrial base for Iraq. Of course in other part of the sectors such as financial sectors, that's where they need investment most and somewhat urgently. The implication here is that whether it is right for them to open up those industrial sectors immediately for foreign country, and I tend to think that they should have, they should be given some time to develop their own industry by themselves.

So it differs sector by sector. As Mr. Ebel said, probably the petroleum industry, the field, will be a sector where they need foreign investment most. The important thing is that the

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Iraqis judge which sector they need investment.

Question: Nabi Watanabi, CSIS. I have a question to Mr. Morimoto.

My concern is always what is the current bottleneck for the Japanese fabric and energy of private company and energy to go to the economic assistant to Iraq? Of course the general situation is of course the security situation, but I would like to know exactly what is the next step if you see some future cooperation? Thank you very much.

Kazuhiro Morimoto: Thank you for the question.

The bottleneck is of course the security. The Japanese private companies and also NGOs are eager to be present. What they are doing now is first to cooperate with United Nations organization such as we discussed about the economic aid to Samawah [ph] in the morning. There the habitat has quite extensive problem for the Japanese government. They use local stuff, Iraqi stuff, operating in Samawah. In other areas such as education the Unicef local staff present there. So that's one way to continue economic development aid.

The other way to do this is as I mentioned a little bit for the restoration of infrastructure Japanese companies are inviting Iraqi engineers outside Iraq. There they train Iraq engineers for the restoration of replacing the old parts or how to handle new equipment.

Then those engineers will bring back the parts with them. Then they will work on the restoration by themselves. But this process has just begun. It will take some time to manufacture the old parts because they are not making them any more. It is kind of order-made parts.

Richard Fairbanks: Please join me in thanking our final panel.

[Applause]

Richard Fairbanks: Now we turn to the high point of the day which is our two leaders. I don't know how many times I have said now we turn it over to Mr. Breer and Mr. Hatakeyama, but I've said it so many times that they sound like the number one international consulting firm so I will call upon our two leaders to wrap up our conference.

CONCLUSION

Noboru Hatakeyama: I understand that this session was supposed to continue until 3:15, so I am not ready to [inaudible]. [Laughter] However, instead of just summarizing what was said in the session I'd like to avoid redundancy and instead of doing this partly I'd like to respond or comment to what I refrained from doing in some area.

Firstly, Ambassador Somati of Indonesia raised a question about debt forgiveness and he said to his understanding debt forgiveness on the part of Japan would be very difficult due to the law system down there.

Apart from law system down there, I think it is difficult because the amount of outstanding credit on the part of Japan happens to be as high as \$4.1 billion right now, except for compensation or punishment payment for the delay. Now Under Secretary Larson told us that Prime Minister Koizumi has committed to eliminate vast majority of outstanding credit of Japan toward Iraq if the other countries are doing the same in the context of Paris Club.

I don't know his words were correct by using vast majority of outstanding credit. Maybe he might have said, Koizumisan might have said pay amount of outstanding credit, might be relieved.

Anyway, out of this \$4.1 billion, \$3.6 is with Japanese insurance organization, investment insurance, export insurance, and so on. And this is managed by an agency called [NEXUSO].

Now the total revenue of this [NEXI] per year is only \$340 million. Therefore, even if they reduce the outstanding credit by ten percent of \$3.6 billion, it would exceed, which is \$360 million, which is over, which is more than \$360 million which is the annual revenue of entire [NEXI] body. Therefore, even if fair amount of outstanding credit is forgiven, this would be very big amount for this special organization called [NEXI]. That's one point I wanted to make a comment.

The next point is about the initiative taken by China regarding regional integration in that area. As a matter of fact as Ambassador Yanai pointed out, the first initiative was taken by Japan by making free trade area agreement with Singapore. By the way, this initiative per se was taken in the first place by Singapore. But anyway, the first case, first FTA made in that area was the one between Singapore and Japan.

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Then China was provoked to go ahead. But for the initiative taken by Japan and Singapore, China would have been much slower, although I like China.

Then China, thanks to the very decisive decisionmaking process on the part of then Prime Minister Zuranji [ph], China was quick enough to start negotiation with ASEAN as a whole. As a matter of fact the same day I think as the sovereignty of Iraq would be returned to the Iraqi people the first FTA between China and ASEAN as a whole in terms of trade in goods will start. From July 1st also, FTA between China and ASEAN as a whole will start.

So in this regard China was quick, but as Ambassador Yanai pointed out, Japan has been negotiating with ASEAN as a whole, and as I told you before, this agreement will come into force, I hope, by the end of next year.

So although Japan is a bit slow, but not too slow, and in terms of India, which was discussed also, India is a newcomer in this area, but all of a sudden they expressed their interest in having FTA with ASEAN as a whole. And although this matter is a bit complex, China will complete the negotiation by the end of June this year in terms of trade in goods. Then what will happen? Then the tariff rate of China and ASEAN will start being declined, being reduced from January 1st next year with the purpose of completing it, I mean making it zero in principal, by year 2010. This is their target. So gradually from 2005 until 2010 they will keep reducing their tariffs making them zero by year 2010.

In the case of Japan, it will be completed by year 2012. Then where comes India? India is now trying to come in between which means they are trying to complete this system by 2011. Then ASEAN colleagues asked Indian people, are you ready now? You are only newcomer, so are you ready? Ready? Then India said we are ready to do everything China did. So that is their attitude, by the way.

Now the most important issue I think discussed today, according to my understanding, is the role of JTF, I mean Defense Force, SDF. They are, as Ms. Sakai pointed out, they are better than the other, although she didn't specify like this, but in essence they are better than the other militaries. The other countries' militaries because they don't harm Iraqi people. Which means a bit strange because they are military. And their role should include partly at least the security issue.

But since they are involved in reconstruction rather than security, so they don't harm anybody yet.

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However, what is badly needed there is the supply of security or security to secure the security of Iraq. Therefore, SDF should face the reality of the needs down there. What is most necessary there right now is not the reconstruction. Reconstruction is desirable, but they have not reached that fancy status yet. What is badly needed there is security. Therefore, as long as SDF is there they have to be involved in security in some sense. And of course this is very difficult due to the constraint given by the constitution of Japan. But we may have to engage in some efforts to have SDF involved in a part of security supplying business.

Over there in Samawah as was pointed out, Samawah people welcoming Japanese SDF, not because of their current status but because of the future role they may, future role Japan might be playing by dispatching Japanese private companies rather than Japanese SDF.

This is real voice, I think, and as of now even SDF people are saying that ODA is necessary. ODA not necessary provided by SDF but provided by Minister of Foreign Affairs, for example, with the cooperation of private companies. But since there is no security to enable private companies to go into we cannot do so for the time being. But people down there in Samawah, for example, cannot wait forever. So we cannot betray their expectation forever.

That's what I felt through this discussion. In this regard this was a heavy burden, psychological burden to me because this is very difficult.

Thank you very much for listening to my concluding remarks.

[Applause]

William Breer: There isn't much left to be said. I think we covered a great deal of ground today. I appreciate the patience of the audience and I think the excellent questions and discussions that we had during the course of the day.

I think the whole program today underscores the importance of the U.S.-Japan relationship. It's been repeatedly said how well we are working together, and I've felt for years there's no major international undertaking that the United States can take an interest in and have any success with without the support of Japan. I think this conference underscores that feeling.

I won't keep you much longer. I'd like to thank

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Hatakeyamasan and Jeff and his colleagues and Ambassador Yanai for coming all this way. I think as we discussed last fall, Dick Fairbanks was at that first discussion actually when the conference idea came up. I think times have changed since then. The world has changed, Iraq has changed. But I think the conference was still extremely timely.

I'd like also to thank the audience for coming and thank Ms. Hiamisu, Ms. Hirano, and Nabisan for all the real work that went into putting this together at CSIS. I just sort of am here, I show up every day and they do the real work.

At the end I'd like to just make a plug for my other hat as the President of the Japan-America Society of Washington, and make an announcement.

On June 2nd at 4:00 o'clock at the Washington Post we're going to have a colloquium of about five or six former Washington Post Tokyo correspondents to reflect on the last 150 years of the relationship and talk about the next 150. I think that should be an interesting and fun program. I'm not sure anybody's going to be around to make sure, to score their predictions, but nevertheless it should be fun.

But thank you all for coming and stay tuned for further Japan Chair events at CSIS.

Thank you.

[Applause]

(END)