



U.S.-Japan Relations:
Coordination amid Uncertainty

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Most analysts had thought this quarter would begin with the dissolution of the Lower House of the Diet and elections, but Prime Minister Aso Taro put off the election with the hope that additional economic stimulus measures would translate into increased support for his ruling Liberal Democratic Party. The stimulus package helped a bit, but Aso received a real boost when Ozawa Ichiro resigned as opposition leader in May due to a funding scandal. That boost in the polls quickly evaporated when Ozawa was succeeded as head of the Democratic Party of Japan by Hatoyama Yukio. Revelations that an aide had falsified his political funding reports for several years tarnished Hatoyama's image, but did not help Aso and the government raise their support rate beyond the low teens in many polls. As a result, most analysts continued to predict a victory for the DPJ in a general election expected in August and uncertainty continued hanging over the U.S.-Japan relationship because neither political party in Japan is likely to win a landslide – meaning another year or more of parliamentary gridlock.

Japan's political mess did not get in the way of close U.S.-Japan coordination in response to a series of North Korean provocations, including missile tests and the detonation of a nuclear device. President Obama also made progress in nominating key personnel to guide the U.S.-Japan relationship including the nomination of attorney John Roos for ambassador to Japan and the confirmation of Kurt Campbell as assistant secretary of state for East Asia and Pacific affairs. The quarter came to a close with the U.S. Congress gearing up for a budgetary battle with the Obama administration over the future of the *F-22* stealth fighter, which the Aso administration has said it wants to buy, and Secretary of Defense Gates has said he does not intend to sell.

Fluid politics

Neither a steady flow of discouraging economic statistics, an average approval rating close to 20 percent, nor mounting criticism from his own party led Prime Minister Aso Taro to dissolve the Lower House of the Diet and call a general election required by the end of September. Rather, Aso continued to promote his government's efforts to stimulate the economy and instructed his Cabinet to develop the third in a series of stimulus packages introduced since the onset of the financial crisis. This latest measure, passed by the Diet in May at a price tag of approximately \$150 billion or 3 percent of GDP, did little to improve his standing in the eyes of the public. Aso was then beset by a series of problems that hurt his approval rating. He was criticized for being indecisive after a drawn-out spat with his interior minister, who wanted to dismiss the head of the postal service for questionable real estate dealings and eventually resigned after Aso refused.

Other developments also damaged public perceptions of the Aso administration, including allegations of illegal campaign donations against Finance Minister Yosano Kaoru and the resignation of a deputy Cabinet secretary for purportedly visiting his mistress with a free train pass issued to lawmakers. Concerns about the image of the Liberal Democratic Party (LDP) even prompted party leaders to invite comedian-turned-governor Higashikokubaru Hideo, a telegenic figure of the Koizumi mold, to run in the general election, though many within the LDP denounced the offer as desperate.

Luckily for Aso, the Democratic Party of Japan (DPJ) had its own image problems. DPJ President Ozawa Ichiro resigned on May 11 due to mounting public frustration over the arrest of his chief aide for allegedly accepting illegal donations from a construction company. Though eager to realize his vision of destroying the LDP as head of the opposition, Ozawa stepped aside in the name of “solidarity” and opened the door for another leader to mobilize the party for the next election. He was succeeded by his preferred candidate – DPJ Secretary General Hatoyama Yukio, the grandson of a former prime minister – who defeated rival Okada Katsuya 124-95 in a vote among DPJ Diet members. Polls showed Okada as the more popular public figure but members of Parliament reportedly chose Hatoyama for his ability to manage internal divisions that have consistently precluded the DPJ from articulating a coherent policy blueprint. Hatoyama has endorsed offbeat ideas in the past, like the proposal to establish a “no bases alliance,” but he is now seen as a pragmatist who supports the U.S.-Japan alliance. Still, he could face pressure to implement at least some elements of a DPJ manifesto that includes calls to reduce host nation support for U.S. forces and renegotiate the status of forces agreement between the two governments. The extent to which Hatoyama acts on the party’s “equal alliance” rhetoric as prime minister could depend in large part on whether he has to form a governing coalition with socialist parties.

Aso and Hatoyama have previewed themes for the upcoming election campaign that have focused primarily on the economy. They debated each other twice in the Diet with Aso stressing the urgency of economic stimulus and Hatoyama accusing the LDP of wasteful spending. Hatoyama criticized government references to future tax increases but Aso countered by challenging him to explain how the DPJ would pay for its own \$218 billion stimulus plan built around social welfare spending. (The DPJ later backtracked and cut some spending proposals.) Hatoyama developed a comfortable lead in public opinion polls toward the end of the quarter (a June 15 survey by *Kyodo News* had Hatoyama favored over Aso by 50 percent to 21 percent) but will likely face intense scrutiny after admitting on June 30 that one of his aides had listed deceased individuals as donors on funding reports dating back to 2005. This revelation could neutralize Hatoyama’s efforts to move beyond the Ozawa scandal and reestablish momentum for the DPJ.

Aso is expected to dissolve the Lower House in mid-July and call an election for August. A convincing DPJ victory would solidify its strength in the Diet after having won control of the Upper House back in 2007. Another scenario involves the DPJ falling short of the two-thirds majority necessary to control the legislative agenda, thus requiring a coalition government. The LDP is likely to take a hit regardless and would have to form an even larger coalition to stay in power. The outcome is uncertain but political paralysis could persist until the next Upper House election in 2010.

For its part, the Obama administration demonstrated patience, demanding little in terms of military support for Afghanistan and continuing to send signals that Japan is the “cornerstone” of U.S. relations in Asia (in the words of Secretary of State Hillary Clinton). However, questions about the health of the relationship in this period of political flux in Tokyo did come to the surface in the U.S. Congress, where the House International Affairs Committee held hearings on “Japan’s Changing Role” on June 25. The witnesses, Joe Nye, Kent Calder, Arthur Alexander, and Mike Green (co-author of this report) all stressed the challenges caused by the fluidity in Japanese politics and the ongoing economic crisis, but reaffirmed that the Obama administration’s vote of strategic confidence in Japan was well placed.

North Korean provocations

On April 5, North Korea tested a long-range missile that flew over Japan, triggering a flurry of bilateral coordination and multilateral diplomacy over how best to condemn an action that was clearly in violation of United Nations Security Council (UNSC) Resolution 1718, passed in 2006 after North Korea tested a missile and a nuclear device. The U.S. and Japan worked closely in anticipation of the launch and the government of Japan mobilized its missile defense system for the first time, presenting an opportunity to advance cooperation and interoperability with U.S. forces. (Japan was on the UNSC, ensuring a central diplomatic role on the issue.) With the exception of a statement by U.S. Special Envoy Stephen Bosworth suggesting that the U.S. would resume efforts toward dialogue with Pyongyang “once the dust settles,” the Obama and Aso governments sent consistent messages regarding the consequences of any missile test: increased isolation. After the launch, Japan pushed for a new UNSC resolution with the support of the U.S. but could not prevail due to Chinese objections, yielding a short statement of condemnation from the president of the Security Council after a week of negotiations.

North Korea upped the ante by testing a nuclear device on May 25 but failed to create any daylight between Washington and Tokyo. On May 30, Defense Secretary Robert Gates and Defense Minister Hamada Yasukazu met their South Korean counterpart for a trilateral defense ministerial meeting, the first of its kind, on the sidelines of a security conference in Singapore. Deputy Secretary of State James Steinberg then led a delegation to Tokyo, Seoul, and Beijing for consultations. On June 7 in an interview with *ABC News*, Secretary of State Clinton suggested that the Obama administration might consider reinstating North Korea to the list of state sponsors of terrorism, music to Tokyo’s ears after a decision last autumn to rescind that designation caused tension in the alliance. The two governments worked assiduously to negotiate the parameters of UNSC Resolution 1874, passed on June 13, which called on member states to impose additional sanctions against North Korea and support maritime interdiction efforts to prevent proliferation. Though the measures listed were nonbinding, the U.S. and Japan could point to resolution 1874 as a unified response to North Korea’s actions focused on punishing the regime. President Obama’s public comments on this matter, amplifying a decision by his administration not to reward North Korea for its provocative behavior, proved reassuring for Japan, which in recent years stood alone in its steadfast opposition to any concessions absent concrete steps toward denuclearization (and a resolution of the abductee issue).

Developing a bilateral agenda

A broad agenda for bilateral cooperation also was taking shape including nuclear disarmament in general. President Obama's April 5 speech in Prague was well received in Japan, and Foreign Minister Nakasone Hirofumi outlined an 11-point plan for global nuclear disarmament on April 27, emphasizing nonproliferation and the peaceful use of nuclear energy. (Privately, senior security experts within the Japanese government also asked Washington to keep a focus on missile defenses and the credibility of extended U.S. nuclear deterrence.) Treasury Secretary Timothy Geithner and Finance Minister Yosano met on the sidelines of a G8 preparatory meeting in Italy to outline a common approach to implement financial sanctions against North Korea and discuss measures the two countries were taking to recover from the financial crisis. Japan and the U.S. led a commitment to development by each pledging \$1 billion in aid to Pakistan at a donors conference in Tokyo. Climate change also featured prominently as Japan announced a midterm emissions reduction target and the U.S. House of Representatives passed legislation including reduction targets and an outline for a cap-and-trade system.

After months of speculation and anticipation by the Japanese media, President Obama announced his nominee to manage bilateral coordination as ambassador to Japan: attorney John Roos of California. Roos endorsed Obama early in the presidential campaign and was a core fundraiser. Though not previously known as a figure in the U.S.-Japan relationship, Roos is expected to benefit from a close relationship with the president in the way that his predecessor, Tom Schieffer, did with President Bush. Other key personnel including Wallace Gregson, assistant secretary of defense for Asian and Pacific security affairs, and Kurt Campbell, assistant secretary of state for East Asian and Pacific affairs, were confirmed this quarter, rounding out a solid team of officials focused on U.S.-Japan relations.

Defense appropriations

On April 6, Defense Secretary Gates announced recommendations for 2010 defense appropriations including his conclusion that the Pentagon should shut down the production line for Lockheed Martin's *F-22* stealth fighter, which Japan covets but cannot acquire due to U.S. law prohibiting the sale of such technology to foreign countries. However, committees in the House and the Senate voted to add funding to the defense authorization bill for additional *F-22* fighters, setting up a potential showdown with the Obama administration. The House version of the bill included appropriations for materials to build 12 *F-22s* in 2011 but did not include procurement funds for the planes, while the Senate version did include such funds for seven planes in 2010. Both houses also called on the administration to produce a report on a possible export model of the *F-22*. The Office of Management and Budget recommended that President Obama veto any bill that includes funding for the *F-22* but a veto threat is not imminent as the House and Senate must first reconcile the differences between their bills in conference, a process that could extend into fall. The Japanese government watched these developments closely, as the Japan Air Self-Defense Forces and Prime Minister Aso have continued pushing the *F-22* as a strong candidate for Japan's next-generation fighter, despite Pentagon decisions that the jet would not be available for export anywhere.

Coming up: summits and elections

Prime Minister Aso will likely confer with President Obama during the G8 Summit in Italy. The Tokyo Prefectural Assembly election is scheduled for July 12 and widely considered a bellwether for the next Lower House election, which could follow in August. The United Nations General Assembly in September presents another opportunity for bilateral coordination.

Chronology of U.S.-Japan Relations April-June 2009

April 1, 2009: Japan Maritime Self-Defense Force (MSDF) begins an antipiracy mission in the Gulf of Aden.

April 1, 2009: The Japan Automobile Dealers Association announces that domestic new car sales fell 15.6 percent in 2008, a 38-year low.

April 1, 2009: The Bank of Japan's quarterly *tankan* survey index (the percentage of companies saying business conditions are good minus the percentage saying conditions are bad) plunges to minus-58, a record low and a 34-point drop from the December 2008 survey.

April 2, 2009: U.S. Defense Secretary Robert Gates and Defense Minister Hamada Yasukazu agree in a telephone conversation that a test launch of a satellite or missile by North Korea would violate United Nations Security Council (UNSC) sanctions.

April 3, 2009: A survey by *Yomiuri Shimbun* reveals that 51.6 percent of the population supports constitutional revision.

April 5, 2009: North Korea launches a long-range ballistic missile over Japan.

April 5, 2009: A *Yomiuri* poll indicates a 24.3 percent approval rating for the Aso Cabinet.

April 6, 2009: Defense Secretary Gates announces defense budget recommendations for fiscal year 2010, including a suggestion to end production of the *F-22* stealth fighter.

April 7, 2009: The Lower House of the Diet adopts a resolution condemning the North Korean missile launch and calling on the government to impose new sanctions against the regime and call for a new UNSC resolution.

April 8, 2009: Japan's Ministry of Finance announces that the February 2009 current account surplus fell 55.6 percent compared to a year earlier.

April 10, 2009: Japan renews unilateral sanctions against North Korea for one year.

April 10, 2009: PM Aso unveils a stimulus package worth approximately \$150 billion.

April 10, 2009: Democratic Party of Japan (DPJ) President Ozawa Ichiro meets a U.S. congressional delegation including Sen. John McCain (R-AZ).

April 13, 2009: PM Aso's approval rating stands at 30 percent according to a poll by public broadcaster *NHK*.

April 13, 2009: The United Nations releases a statement by the president of the Security Council condemning North Korea's April 5 missile launch.

April 14, 2009: A bilateral agreement on the relocation of U.S. Marines from Okinawa to Guam is passed by the Lower House of the Diet.

April 17, 2009: The U.S. and Japan each pledge \$1 billion in aid to Pakistan at an international donors conference held in Tokyo.

April 17, 2009: A poll by *Jiji Press* shows a 25-percent approval rating for the Aso Cabinet.

April 17, 2009: Defense Minister Hamada orders the dispatch of two *P-C3* aircraft in support of antipiracy operations in the Gulf of Aden.

April 19, 2009: Nakagawa Shoichi, a member of the ruling LDP, reportedly argues in a speech that Japan should possess nuclear weapons to counter the threat from North Korea.

April 20, 2009: Environment Minister Saito Tetsuo unveils an environmental policy dubbed the "Green New Deal" for its focus green technology and reductions in carbon emissions.

April 22, 2009: Japan's Ministry of Finance reports a trade deficit for 2008, the first in 28 years.

April 24, 2009: President Obama and PM Aso agree in a telephone conversation to strengthen bilateral cooperation on North Korea and nuclear nonproliferation.

April 27, 2009: Foreign Minister Nakasone Hirofumi announces an 11-point plan for global nuclear disarmament, including nonproliferation measures, initiatives for the peaceful use of nuclear energy, and an offer to host an international conference in 2010.

April 27, 2009: A *Nikkei Shimbun* survey reports PM Aso's approval rating at 32 percent.

April 28, 2009: Honda reports a 77-percent drop in profit for fiscal year 2008.

April 30, 2009: The Bank of Japan issues an economic outlook and revises its GDP projection for 2009 to minus-3.1 percent, down from a previous projection in January of minus-2 percent.

May 1, 2009: Sixty-four percent of the Japanese population opposes the revision of Article 9 of the constitution, according to an *Asahi Shimbun* poll.

May 1, 2009: Defense Minister Hamada and Defense Secretary Gates meet at the Pentagon in Washington and agree to strengthen bilateral alliance cooperation including missile defense.

May 10, 2009: PM Aso is more popular than opposition leader Ozawa Ichiro by a margin of 40 to 25 percent, according to a *Yomiuri* poll. Aso's approval rating stands at 28 percent.

May 11, 2009: DPJ President Ozawa announces his resignation after fallout from the indictment of his chief aide in a political fundraising scandal.

May 11, 2009: U.S. Special Representative for North Korea Policy Stephen Bosworth confers with Vice Foreign Minister Yabunaka Mitoji, Sasae Kenichiro, deputy minister for foreign affairs, and Saiki Akitaka, director-general, Asian and Oceanian Affairs Bureau, Ministry of Foreign Affairs, regarding North Korea.

May 12, 2009: Keidanren issues a statement calling for a midterm emissions reduction target of 4 percent below 1990 levels by 2020.

May 13, 2009: Deputy Chief Cabinet Secretary Yoshitada Konoike resigns after a magazine exposé accused him of visiting his mistress with a free train pass issued to lawmakers.

May 15, 2009: The Ministry of Defense issues a report on the North Korean missile threat, noting that North Korea had improved its long-range ballistic missile technology and could enhance the accuracy of the *Nodong* medium-range missile.

May 16, 2009: Hatoyama defeats Okada in the DPJ presidential race, capturing 124 out of 219 votes cast by DPJ Diet members.

May 17, 2009: Hatoyama names Okada Secretary General of the DPJ.

May 17, 2009: A joint public opinion poll by *Nikkei Shimbun* and *TV Tokyo* finds Hatoyama more favorable than PM Aso by a margin of 29 percent to 16 percent. Fifty-two percent favored neither. The DPJ was more popular than the LDP by a margin of 38 percent to 33 percent.

May 17, 2009: PM Aso has an approval rating of 27 percent and a disapproval rating of 56 percent, according to a poll by *Asahi Shimbun*.

May 18, 2009: The Ministry of Foreign Affairs releases a poll conducted in the United States, which found that 80 percent of the public trusts Japan as an ally.

May 20, 2009: The Cabinet Office announces that GDP in the first quarter of 2009 fell 4 percent, and at an annual rate of 15.2 percent.

May 22, 2009: PM Aso proposes a Pacific Environment Community at a conference among Asia-Pacific island nations held in Hokkaido and pledges \$680 million in aid for solar power generation and sea water desalination.

May 25, 2009: North Korea conducts a second nuclear test and fires three short-range missiles.

May 25, 2009: President Obama and PM Aso agree to push for a new UNSC resolution condemning North Korea's nuclear test. Obama reiterates the U.S. commitment to defend Japan.

May 26, 2009: North Korea fires two short-range missiles into the Sea of Japan.

May 26, 2009: The Lower House of the Diet passes a resolution condemning North Korea's nuclear test and calling for fresh unilateral sanctions against Pyongyang. The Upper House passes a similar measure the next day.

May 27, 2009: President Obama nominates John Roos for ambassador to Japan.

May 27, 2009: PM Aso and DPJ President Hatoyama square off in their first debate in the Diet with Hatoyama criticizing the government for wasteful spending and Aso highlighting the funding scandal that forced Ozawa Ichiro to resign.

May 29, 2009: North Korea launches a short-range missile from its east coast.

May 29, 2009: The Diet passes the Aso government's \$150 billion stimulus package including spending and tax cuts totaling three percent of GDP.

May 30, 2009: Defense Secretary Gates, Defense Minister Hamada, and South Korean Defense Minister Lee Sang-Hee participate in a trilateral dialogue on the margins of the Shangri-La Security Dialogue in Singapore.

June 1, 2009: Deputy Secretary of State James Steinberg leads a delegation to Tokyo for consultations on North Korea, including meetings with PM Aso, Vice Foreign Minister Yabunaka Mitoji, and DPJ President Hatoyama.

June 2, 2009: The government of Japan approves a space policy including research on the use of space for defense purposes (sensors for early warning satellites).

June 7, 2009: Secretary of State Hillary Clinton suggests that the Obama administration might consider reinstating North Korea to the list of state sponsors of terrorism.

June 9, 2009: Saiki Akitaka, director general, Asian and Oceanian Affairs Bureau, Ministry of Foreign Affairs, meets with Special Envoy Stephen Bosworth and other officials in Washington to discuss the situation with North Korea.

June 9, 2009: An LDP panel adopts proposed changes to Japan's National Defense Program Guidelines (to be issued at the end of 2009) including support for preemptive strike capability, a relaxation of Japan's limits on arms exports, and an increase in the defense budget.

June 9, 2009: A draft economic assessment by the Cabinet Office suggests a 12 percent consumption tax would be required for Japan to reach a primary balance surplus in 10 years.

June 10, 2009: PM Aso announces a midterm emissions reduction target of 15 percent below 2005 levels by the year 2020.

June 11, 2009: Finance Minister Yosano Kaoru expresses confidence in U.S. treasuries, easing concerns about diversification.

June 12, 2009: Minister of Internal Affairs and Communications Hatoyama Kunio resigns after PM Aso rejects his suggestion to fire the head of Japan Post for alleged noncompetitive bidding in the sale of real estate holdings.

June 12, 2009: Treasury Secretary Timothy Geithner and Finance Minister Yosano Kaoru meet on the sidelines of a G8 preparatory meeting in Italy, agreeing to pursue sanctions on North Korea and sharing updates on their respective economies.

June 12, 2009: The UNSC adopts Resolution 1874 condemning North Korea's nuclear and missile tests and outlining measures including financial sanctions and maritime interdiction.

June 16, 2009: The government of Japan bans all exports to North Korea and tightens other unilateral sanctions following the passage of UNSC Resolution 1874.

June 16, 2009: The Bank of Japan upgrades its economic outlook in a monthly report, citing improved export and investment numbers.

June 16, 2009: The House Armed Services Committee votes to add funding in the 2010 defense appropriations bill for the continued production of the *F-22* stealth fighter.

June 17, 2009: PM Aso and DPJ President Hatoyama conduct their second debate in the Diet, sparring over economic policy.

June 19, 2009: The Diet passes an antipiracy bill allowing Japanese Maritime Self-Defense Force (MSDF) vessels to protect Japanese and foreign vessels in the Gulf of Aden.

June 23, 2009: Japan adopts annual economic policy guidelines, abandoning previous proposals to cut social security spending and close the budget deficit by fiscal year 2011.

June 23, 2009: The LDP asks Miyazaki Gov. Higashikokubaru Hideo to run in the upcoming Lower House election.

June 23, 2009: An *Asahi Shimbun* survey finds that 71 percent of local business leaders throughout Japan believe their regional economies are contracting.

June 24, 2009: The Ministry of Finance reports that both exports and imports fell by more than 40 percent in May 2009.

June 24, 2009: The Organization for Economic Cooperation and Development (OECD) projects 0.7 percent growth for the Japanese economy in 2010.

June 24, 2009: The Office of Management and Budget (OMB) recommends President Obama veto the 2010 defense appropriations bill if it contains funding for the *F-22* stealth fighter and an alternative engine for the Joint Strike Fighter *F-35*.

June 25, 2009: Both the U.S. House of Representatives and the Senate move to continue funding the *F-22* stealth fighter and an alternative engine for the Joint Strike Fighter *F-35*. Both houses also include provisions calling for a report on a possible export version of the *F-22*.

June 25, 2009: Under Secretary of Defense for Policy Michele Flournoy meets Vice Defense Minister Masuda Kohei and Defense Minister Hamada in Tokyo to discuss North Korean issues and the realignment plan for U.S. forces in Japan.

June 26, 2009: Japan's Financial Services Agency orders Citibank Japan to suspend sales at its retail banking division for one month due to lax oversight.

June 29, 2009: The government of Japan reports that industrial output rose for the third straight month in May 2009, up 5.9 percent from April.

June 29, 2009: The Japan Automobile Manufacturers Association reports a 55.9 percent decline in car, truck, and bus exports in May 2009 compared to a year earlier, the eighth straight month of decline.

June 29, 2009: Murata Ryohei, a former bureaucrat in the Ministry of Foreign Affairs, states in interviews with Japanese media that Japan and the U.S. reached a secret agreement in 1960 allowing port calls by U.S. vessels carrying nuclear weapons.

June 30, 2009: DPJ President Hatoyama Yukio apologizes after reports that as many as 90 deceased individuals were listed as donors on Hatoyama's funding reports going back to 2005.

June 30, 2009: The government of Japan reports that the unemployment rate rose to 5.2 percent in May 2009, a five-and-a-half year high.