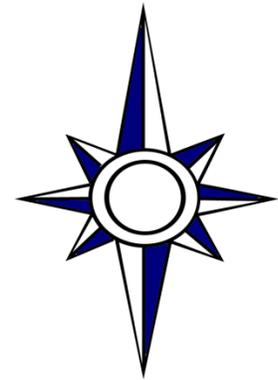


Comparative Connections

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US-Japan Relations: Back on Track

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Prime Minister Abe Shinzo generated a buzz in the media and the markets by introducing a three-pronged economic strategy designed to change expectations for growth as his ruling Liberal Democratic Party (LDP) prepares for a parliamentary election in July. President Obama hosted Abe in Washington for a summit that paved the way for Japan's inclusion in the Trans-Pacific Partnership (TPP) trade negotiations. Bilateral coordination on regional security and defense cooperation accelerated with high-level visits in both capitals to reaffirm the vitality of the alliance. The reemergence this spring of tensions between Japan and its neighbors over history issues was the only wrinkle in an extremely productive period in US-Japan relations.

The Abe agenda

Fresh off a landslide victory in the December 2012 Lower House election, yet mindful of public frustration with his previous term in office in 2006-2007, Prime Minister Abe Shinzo moved quickly to implement his domestic policy agenda with particular emphasis on the economy. He introduced a three-pronged approach, known as the "three arrows," centered on fiscal stimulus, monetary easing, and a "growth strategy," or structural reform. The government passed a \$227 billion stimulus package in January targeting public infrastructure and introduced a record \$1.02 trillion budget for the fiscal year beginning April 2013, a clear repudiation of efforts at fiscal consolidation under the previous government led by Noda Yoshihiko of the Democratic Party of Japan (DPJ). The Abe government also advocated a bold approach to monetary policy and began by issuing an unusual joint statement with the Bank of Japan (BoJ) outlining efforts to combat deflation and achieve sustainable economic growth, including an inflation target of two percent. Kuroda Haruhiko was then appointed governor of the BoJ to pursue aggressive monetary easing in stark contrast to the traditional emphasis on structural reform as the cure to Japan's economic ills. Kuroda wasted no time in changing course and in April announced a package of monetary easing measures to meet the 2 percent inflation target over two years, including plans to double the monetary base and extend the average maturity of Japanese Government Bonds (JGBs). Critics cried foul and accused Japan of deliberately depreciating the yen to boost exports, but the G7 and later the G20 did not single out Japan in statements on economic policy.

Markets reacted positively to the first two "arrows." But many analysts argued that a return to sustainable economic growth would require the government to shoot all three arrows simultaneously. Therefore, the focus has been on whether the Abe government would address structural reforms such as deregulation, trade liberalization, and labor reform, which have been shunned to this point but widely deemed as necessary to round out the strategy. The debate over

Japan's potential participation in the Trans-Pacific Partnership (TPP) trade negotiations featured prominently in this context and Abe would later take steps to suggest that the third arrow might be as forceful as the other two (more below).

The Abe government also outlined other priorities: reviewing its energy policy to return nuclear power in Japan's future energy mix; scrapping the 2010 National Defense Program Guidelines and Midterm Defense Plan issued under DPJ rule to put its own stamp on defense strategy and budgeting, particularly for the maritime domain; reinterpreting the constitution to exercise the right of collective self-defense; and introducing legislation to change the requirements for amending the constitution (Article 96). These initiatives will likely be pursued in the second half of this year, assuming Abe's Liberal Democratic Party (LDP) fares well in Upper House elections in July. Securing a two-thirds majority in that chamber could yield a period of political stability with no elections required before 2016. The prospects for success appear to be quite good as Abe's approval rating has hovered around 70 percent and the LDP was the only political party with double-digit support in public opinion polls. Much of this momentum can be attributed to Abe's economic plan, dubbed "Abenomics" by the media, which changed expectations for economic growth in the short term. But Abe also focused on his diplomatic agenda and sought to follow through on a core objective of his election campaign: shoring up the US-Japan alliance.

Obama-Abe Summit: enter TPP

Prime Minister Abe and President Barack Obama met at the White House on Feb. 22 to address a broad range of issues including Abe's domestic agenda; the realignment of US forces in Japan; developments in China, North Korea, the Middle East and Africa; trilateral cooperation with South Korea; energy security; and climate change. The two governments also issued a joint statement addressing bilateral consultations on Japan's potential participation in TPP negotiations. The carefully worded statement succeeded in allowing the two leaders to alleviate concerns among their respective constituencies. Abe received assurances that Japan would not be required to make a prior commitment to unilaterally eliminate all tariffs upon joining TPP, while the Obama administration reaffirmed the core principle that all goods would be subject to negotiation. Upon returning home and reassuring his base, Abe announced Japan's intention to join TPP on March 15, arguing forcefully that trade liberalization and the competitiveness and efficiency it fosters is in Japan's national interests. Bilateral consultations then intensified and the two governments issued a joint statement on April 12 essentially allowing the US to maintain tariffs on automobiles and announcing a bilateral dialogue on nontariff barriers in Japan that would take place in parallel with TPP negotiations should Japan be formally welcomed to join. The Obama administration then notified Congress on April 24 of its intent to include Japan in TPP negotiations, triggering a 90-day consultation period that could put Japan at the negotiating table as early as July. In a matter of weeks, TPP came to symbolize the Abe government's apparent commitment to the "third arrow" of structural reform, viewed as a "wild card" by skeptics of his economic plan while reinvigorating the economic pillar of the US-Japan alliance. Japan's entry could prolong TPP negotiations and many of the issues on the table have complicated the bilateral relationship for some time, but the potential for two of the world's largest economies to shape rules and norms that will guide the economic integration of the Asia Pacific region is noteworthy.

Shuttle diplomacy

The two governments continued a pattern of high-level shuttle diplomacy mainly to coordinate a response to North Korea's nuclear test in February, centered on increased sanctions and the deployment of missile defense assets for deterrence, and to address tensions between Japan and China over the Senkaku/Diaoyu Islands. Deputy Secretary of Defense Ash Carter, Deputy Secretary of State William Burns, Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey, and several other US officials visited Tokyo to reaffirm close coordination on regional security issues. Foreign Minister Kishida Fumio met Secretary of State Hillary Clinton in Washington in January and engaged John Kerry, her successor, three times in Washington, London, and finally in Tokyo where they addressed the full range of issues on the bilateral agenda including the realignment of US forces in Japan, TPP, North Korea, and China. Secretary Kerry ruffled some feathers in Tokyo during his April visit by referencing direct dialogue with North Korea and suggesting that US missile defense assets might be removed from the region if tensions subsided. But his clear description of US declaratory policy on the Senkakus – no position on ultimate sovereignty, recognition of Japan's administrative control, addressing the issue through peaceful means, and opposing any unilateral or coercive action to change the status quo – during a joint press availability with Kishida was well received. Defense Secretary Chuck Hagel made similar comments when Defense Minister Onodera Itsunori visited Washington in late April. The two defense chiefs also took stock of several initiatives demonstrating the extent of bilateral defense cooperation in recent months.

Bilateral security cooperation

The two governments continued close coordination on the realignment plan for US forces in Okinawa. On March 22, the government of Japan submitted to the Okinawa Prefectural Government a land permit request for the Futenma Replacement Facility at Henoko, a central element in a plan first introduced in 2006 to reduce the burden on the local population while maintaining an operationally effective force presence. Defense Secretary Hagel then issued a statement on April 5 detailing an Okinawa Consolidation Plan to further reduce the footprint of the US military that would allow for the immediate return of some facilities to Okinawa upon completion of certain procedures. The landfill permit request could be reviewed for as long as 10 months in the face of local opposition and local government reaction to the consolidation plan was predictably skeptical. Both developments nonetheless signify some movement on a central element of the overall realignment plan for US forces in the region.

There were also several dialogues to further bilateral security cooperation. In January officials initiated a review of the bilateral defense guidelines, last updated in 1997, to reflect regional developments and the roles, missions, and capabilities necessary to address new challenges. The two governments also convened comprehensive dialogues on space and extended deterrence with similar colloquies on cyber and other issues soon to follow in a process aimed at positioning the alliance to shape the regional security environment.

The wrinkle: history

Prime Minister Abe addressed the Center for Strategic and International Studies (CSIS) during his February visit to Washington and announced that “Japan is back” to underscore a commitment to economic revival and a sustained leadership role in world affairs. He discussed the importance of Japan’s relationships with China and South Korea, and projected confidence in the future trajectory of regional diplomacy. The speech and visit were well received in Washington, but Abe came under criticism in editorials published in the *Washington Post* and *Wall Street Journal* in late April after members of his Cabinet visited Yasukuni Shrine and he suggested in off-the-cuff remarks in the Diet that the definition of wartime aggression is open to discussion. The Obama administration made no official statements on these sensitive issues, but sent quiet messages during the Golden Week visits of senior Japanese politicians to Washington, particularly with respect to the importance of avoiding a divergence in Japan-Korea relations given the problems with North Korea. In early May, Foreign Minister Kishida reiterated that Prime Minister Abe shares the views expressed in the 1995 Murayama statement apologizing for Japan’s actions during World War II and Chief Cabinet Secretary Suga Yoshihide indicated that the government would abide by the 1993 Kono statement on the issue of comfort women.

Busy summer

Prime Minister Abe can be expected to continue focusing on the economy in the lead-up to the Upper House election in July. Several multilateral gatherings including the Shangri-La Dialogue, the G-8 Summit, and the ASEAN Regional Forum (ARF) should afford opportunities to further coordinate on bilateral and regional security issues. Finally, the economic agenda could also be in full swing should Japan formally join TPP negotiations.

Chronology of US-Japan Relations January – April 2013

Jan. 7, 2013: Japan’s Vice Foreign Minister Kawai Chikao meets US Deputy Secretary of State William Burns and other officials in Washington.

Jan. 10, 2013: Assistant Secretary of Defense for Asian and Pacific Security Affairs Mark Lippert meets Nishi Masanori, director general of the Defense Policy Bureau of the Ministry of Defense, to discuss bilateral security cooperation.

Jan. 11, 2013: Abe Cabinet approves an economic stimulus package totaling \$227 billion.

Jan. 16, 2013: Assistant Secretary of State for East Asian and Pacific Affairs Kurt Campbell, Assistant Secretary of Defense for Asian and Pacific Security Affairs Mark Lippert, and National Security Council Senior Director for Asian Affairs Daniel Russel visit Tokyo for consultations.

Jan. 17, 2013: US and Japanese officials meet in Tokyo to begin a review of the bilateral defense guidelines.

Jan. 18, 2013: Foreign Minister Kishida Fumio meets Secretary of State Hillary Clinton at the State Department in Washington to discuss the bilateral agenda and regional issues.

Jan. 22, 2013: Abe Cabinet and Bank of Japan issue a joint statement outlining efforts to combat deflation and achieve sustainable economic growth including an inflation target of 2 percent.

Jan. 22, 2013: US Marines and Japan's Ground Self-Defense begin the annual *Joint Fist* bilateral amphibious exercise at Camp Pendleton, California, held over a three-week period.

Jan. 25, 2013: Abe Cabinet decides to review the National Defense Program Guidelines and Mid-Term Defense Plan (budget) and re-release both by the end of 2013.

Jan. 26-29, 2013: US Special Representative for North Korea Policy Glyn Davies visits Tokyo to exchange views with senior government officials.

Jan. 28, 2013: Public opinion polls by *Kyodo News* and *Nikkei/TV Tokyo* reveal support for the Abe Cabinet at 67 percent and 68 percent, respectively.

Jan. 28, 2013: US Trade Representative Ron Kirk and Agriculture Secretary Tom Vilsack announce an agreement to further open Japan's beef market; Japan would permit the import of beef from cattle less than 30 months of age, compared to the previous limit of 20 months.

Jan. 29, 2013: Abe Cabinet approves a record \$1.02 trillion draft budget for the fiscal year beginning in April 2013.

Feb. 3, 2013: FM Kishida congratulates John Kerry on being appointed secretary of state.

Feb. 4, 2013: *Mainichi Shimbun* poll finds 56 percent of the public supports the Abe Cabinet's plans to review the "zero nuclear energy" policy of the previous government, and 47 percent favor Japan's participation in the Trans-Pacific Partnership (TPP) trade negotiations.

Feb. 6, 2013: US and Japanese officials meet in Tokyo for consultations on Japan's possible entry into TPP negotiations.

Feb. 11, 2013: Approval rating for the Abe Cabinet is 71 percent according to a public opinion survey by *Yomiuri Shimbun*. Fifty-eight percent of respondents favor Abe's agreement with the BoJ to pursue inflation targeting and 56 percent supported Abe's plans to stimulate the economy through increased public works spending. LDP posts an approval rating of 42 percent compared to 6 percent for the DPJ and 5 percent for the Japan Restoration Party.

Feb. 11, 2013: US Undersecretary of the Treasury for International Affairs Lael Brainard expresses supports for Japan's efforts to end deflation and stresses that structural reform should accompany macroeconomic policies to reinvigorate growth.

Feb. 12, 2013: The G7 issues a statement reaffirming fiscal and monetary policies will remain oriented towards meeting respective domestic objectives using domestic instruments, and that members will not target exchange rates.

Feb. 12, 2013: Officials from Australia, Japan, and the US meet in Washington for the fifth Security and Defense Cooperation Forum (SDCF) to discuss humanitarian assistance/disaster relief, regional capacity development, and maritime security.

Feb. 13, 2013: President Obama and PM Abe speak by telephone and pledge to work closely on a response to North Korea's nuclear test.

Feb. 14, 2013: Joint survey by *Yomiuri Shimbun* and *Gallup* finds 50 percent of the Japanese public and 52 percent of Americans consider US-Japan relations "good." Seventy-four percent of Japanese respondents approve of the Abe's policies to strengthen the US-Japan alliance.

Feb. 22, 2013: PM Abe and President Obama hold a summit. Abe also addresses the Center for Strategic and International Studies on his economic and diplomatic agendas.

Feb. 22, 2013: FM Kishida and Secretary of State Kerry meet in Washington.

March 1, 2013: Chief Cabinet Secretary Suga Yoshihide announces a Cabinet decision to allow exports of parts produced by Japanese firms for the *F-35* stealth fighter jet as an exception to Japan's ban on weapons exports.

March 11, 2013: First Japan-US Comprehensive Dialogue on Space is held in Tokyo.

March 11, 2013: US National Security Adviser Thomas Donilon addresses the Asia Society on the US rebalance to Asia.

March 15, 2013: Prime Minister Abe announces Japan's intention to enter the TPP negotiations.

March 15, 2013: Acting USTR Demetrios Marantis welcomes Japan's decision to enter TPP negotiations and references bilateral consultations on market access in Japan.

March 17, 2013: Deputy Secretary of Defense Ash Carter meets Senior Vice Defense Minister Eto Akinori in Tokyo to discuss regional security and bilateral defense issues.

March 18, 2013: *Mainichi Shimbun* finds a 70 percent approval rating for the Abe Cabinet. Sixty-three percent 63 of the Japanese public express support for Abe's decision to join the TPP negotiations and 65 percent favor Abe's economic policies.

March 21, 2013: North Korea threatens to target US bases in Japan after the US flies *B-52* bombers over South Korea during US-ROK military drills.

March 22, 2013: Government of Japan submits a landfill permit request for the Futenma Replacement Facility to the Okinawa Prefectural Government

Mach 27, 2013: Acting Assistant Secretary of State for East Asian and Pacific Affairs Joseph Yun visits Tokyo for discussions on a range of bilateral, regional, and global issues.

April 4, 2013: BoJ announces monetary easing measures to meet the two percent inflation target such as doubling the monetary base over two years and extending the average maturity of Japanese Government Bonds (JGBs).

April 5, 2013: Defense Secretary Chuck Hagel releases a statement on the US-Japan Okinawa Consolidation Plan to reduce the footprint of the US military presence on Okinawa.

April 8, 2013: Government of Japan decides to permanently deploy *Patriot Advanced Capability-3 (PAC-3)* missile defense system on Okinawa and deploys two *Aegis* destroyers to the Sea of Japan to defend against the North Korean ballistic missile threat.

April 9-11, 2013: US and Japanese officials convene in Washington state for a bilateral extended deterrence dialogue.

April 10, 2013: Under Secretary of State for Economic Growth, Energy and the Environment Robert Hormats visits Tokyo for consultations with senior Japanese officials.

April 10, 2013: North Korea threatens to target US military bases in Japan.

April 10, 2013: Secretary Kerry and FM Kishida meet in London prior to G8 foreign ministers meeting.

April 12, 2013: US and Japanese officials conclude preliminary consultations on Japan's entry into TPP negotiations, signing a joint statement that allows the United States to maintain tariffs on automobiles and agreeing to parallel talks on non-tariff barriers in Japan.

April 14, 2013: Secretary of State Kerry meets FM Kishida in Tokyo to discuss bilateral and regional issues. The two governments also announce a new bilateral dialogue on climate change.

April 15, 2013: Secretary Kerry delivers remarks at the Tokyo Institute of Technology.

April 16, 2013: Abe Cabinet posts a 74 percent approval rating in a *Yomiuri Shimbun* survey.

April 19, 2013: Deputy Prime Minister and Finance Minister Aso Taro attends a G20 meeting in Washington and details the Abe government's economic policies in an address at CSIS.

April 21, 2013: Minister of Economy, Trade and Industry Motegi Toshimitsu and Acting United States Trade Representative Demetrios Marantis meet on the margins of an Asia Pacific Economic Cooperation (APEC) Trade Ministers Meeting in Surabaya, Indonesia.

April 21, 2013: Deputy Prime Minister and Finance Minister Aso Taro and other Abe Cabinet members visit the Yasukuni Shrine in Tokyo.

April 23, 2013: Deputy Secretary of State William Burns visits Tokyo for consultations with senior Japanese officials.

April 23, 2013: PM Abe states in a Diet session that the definition of wartime aggression is open to interpretation.

April 24, 2013: Obama administration notifies Congress of intent to include Japan in TPP negotiations.

April 26, 2013: US Chairman of the Joint Chiefs of Staff Gen. Martin Dempsey meets Defense Minister Onodera Itsunori, Japan Self-Defense Forces Joint Staff General Iwasaki Shigeru, and FM Kishida in Tokyo.

April 26, 2013: *Washington Post* and the *Wall Street Journal* publish editorials expressing concern over PM Abe's comments on history.

April 29, 2013: Defense Secretary Hagel and Defense Minister Onodera meet at the Pentagon in Washington to discuss bilateral and regional defense issues.

April 30, 2013: The 12th US-Japan Joint High Level Committee on Science and Technology Cooperation convenes in Washington.