

**The Edwin O. Reischauer Center
For East Asian Studies**



**The United States and Japan
in Global Context: 2012**

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

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INTRODUCTION

The U.S.-Japan relationship in 2011 was profoundly affected by the aftermath of an enormous tragedy that hit Japan on March 11 – the Great Northeast Japan Earthquake. This year's issue of U.S.-Japan in Global Context brings into sharp focus the impact of the great earthquake, tsunami and nuclear crisis in northeast Japan on ties with the U.S. and Asian neighbors, energy security, managing the economy, and political leadership. The introduction below has been lengthened to delve deeply into the events and policy challenges of that fateful year, while placing into that context the themes contained in the collection of papers that follow. The papers, written by the students of Johns Hopkins University's School of Advanced International Studies (SAIS), in dealing with broad policy themes, also address Japan's efforts to cope with a range of specific issues while under great stress from the triple disaster.

The Triple Disaster on March 11, 2011

At 2:46 on the afternoon of March 11, 2011, a 9.0 magnitude earthquake struck Japan offshore, triggering a tsunami wave of up to 10 meters (33 ft) that engulfed large parts of northeast Japan and also damaged the Fukushima nuclear plant, was a disaster of epoch proportions for even a country prone to severe earthquakes, tsunami and volcanic eruptions. The number of dead and missing is now estimated to be 22,900.

So massive in size was the earthquake that, according to NASA, the force shortened the length of the Earth's day by a fraction and shifted how the planet's mass is distributed.

At peak, over 400,000 people in northeast Japan were displaced by the triple disaster. Those fortunate enough to have homes left to return to did so, reducing the evacuees to 216,963 in three weeks. Their lives in ruins, no home, occupation, or even community to return to, people were forced to live in evacuation centers for months with only the basics of human needs being provided. In April, the government began to build temporary housing for the homeless, and by the end of August almost all of the centers were closed down. No one knows how long people living in such housing will have to stay there, for it will take years to rebuild from scratch the communities washed into the sea. In areas affected by the nuclear accident, there is no timetable for the 80,000 living in temporary housing to return.

The immediate enormous challenge is the removal and disposal of over 23 million tons of debris in the three prefectures – Iwate, Miyagi and Fukushima – hit by the earthquake and tsunami. Although work to clear the debris is well underway, it is not clear where the remaining mountains of rubble everywhere – a total 1.6 times that of the 1995 Osaka-Kobe earthquake -- can be removed in the estimated three years time being allotted. The government is negotiating with prefectures across Japan to accept the hauled away debris. And rebuilding the vast stretch of devastated communities along the northeast coast will take up to 10 years to complete, according to some estimates.

The earthquake was followed by a series of tsunami waves – the worst in the history of Japan – that severely damaged the Tokyo Electric Power Co. (TEPCO)-operated Fukushima No. 1

nuclear complex, located along the coast of the towns of Futaba and Okuma in Fukushima Prefecture. As a result of the disaster, all external power sources were lost, causing the supply of cooling water to the plant's No. 1, 2 and 3 reactors to stop. Hydrogen was generated as a result of a chemical reaction between fuel rods and water, leading to explosions that severely damaged reactor buildings. The government, which initially estimated the accident level at 4 on the International Nuclear Event Scale (INES), later raised the level to 7 -- the highest rank. This matched the level of the Chernobyl catastrophe, which at that stage was the worst nuclear accident in history.

Compounding of missteps exacerbated nuclear crisis

TEPCO's failure in its initial response to the crisis at the Fukushima No. 1 nuclear power plant in Fukushima Prefecture created a chain reaction of trouble, according to analysis of events during the first three weeks after the March 11 earthquake and tsunami. At the crippled nuclear power plant, three reactors have been cooled by injecting water using temporarily set up pumps. However, there were fears the spent nuclear fuel rods stored in the reactors' temporary storage pools would overheat again. It was only in May that TEPCO admitted that a meltdown had actually occurred. That was when everyone understood the enormous extent of the accident. TEPCO's way of publicly releasing information related to the accident also drew much criticism from the start.

The nuclear plant lost all power on the afternoon of March 11 due to the gigantic tsunami that followed the great earthquake, causing an emergency halt to the operations of the Nos. 1 to 3 reactors. The Nos. 4 to 6 reactors already were not operating due to periodic inspections. Temperatures and pressures inside the pressure vessels of the Nos. 1 to 3 reactors began rising sharply, complicating the injection of cooling water into the reactors. When the level of water in the reactors drops, nuclear fuel rods become exposed, overheat and may start melting, risking damage to the reactor as well as the emission of radioactive substances.

On the night of March 11, TEPCO planned a controlled release of vapor mixed with radioactive substances from the No. 1 reactor, in an operation to decrease pressure in the pressure vessel. However, the operation was not carried out until 10:17 a.m. the following day, four hours after Prime Minister Naoto Kan left the Prime Minister's Office to travel to the Fukushima Prefecture plant for an inspection. Also, evacuation of residents in areas within 10 kilometers of the power plant had not been completed at that time.

Then, on the afternoon of March 12, a hydrogen explosion occurred at the No. 1 reactor, destroying the reactor building roof.

Kenzo Miya, professor emeritus at the University of Tokyo, an expert on nuclear engineering, said the prime minister's inspection delayed TEPCO's original plans to vent the pressure vessel. "Because of the prime minister's [impending] inspection, the start of the 'vent' was delayed. The possibility that the subsequent actions all fell behind can't be denied," Miya said. Haruki Madarame, chairman of the Cabinet Office's Nuclear Safety Commission, also noted the time-loss disadvantage. "Work [to conduct the 'vent'] took time to get under way. As a result, several hours were lost before starting to inject seawater [to cool the reactor]. It was a painful incident," Madarame said, when recalling the situation on the night of March 23.

Meanwhile, TEPCO President Masataka Shimizu and Chairman Tsunehisa Katsumata were on separate business trips on March 11 when the tsunami hit the plant. They could not return to Tokyo until the following day. "As we communicated with cell phones and other measures, there were no chain of command problems," an official of TEPCO's public relations department said. However, the absence of top management officials might have resulted in the delay in the initial response, some people involved in the handling of the accident said.

Use of seawater

To cool the reactor core, TEPCO started injecting seawater in the No. 1 reactor shortly after 8 p.m. on March 12--a full 19 hours since the containment vessel's pressure began rising abnormally. Since TEPCO began injecting seawater to cool the Nos. 2 and 3 reactors on March 13, the operation was believed to have only a limited effect.

On March 14 at the No. 2 reactor, cooling water ran out of supply due to loss of fuel for temporary pumps. On the morning of March 15, an explosion at the reactor was believed to have damaged its pressure suppression chamber, part of the containment vessel. It is suspected that water contaminated with high concentration of radioactive substances leaked from the chamber to the reactor's turbine building. The water continues to hamper restoration work at the plant. Since seawater contains impurities, its use as a coolant damaged the reactors probably beyond repair.

Storage pool for spent fuel rods

Another factor complicating the handling of the nuclear crisis was the delay in TEPCO's response to cool the temporary storage pools for spent nuclear fuel rods. Although the amount of heat generated by the fuel rods in the storage pools was less than the nuclear fuel within a reactor core, the central problem was that once the fuel rods were exposed as water levels decrease, they would overheat. These storage pools were then even more dangerous as they could easily discharge radioactivity, not being stored in a tightly enclosed structure as a reactor.

The attention of the government and TEPCO initially only focused on the reactors themselves. However, both parties also began to consider the threat posed by the temporary storage pools on about March 13, around the time the temperatures of the pools were believed to have begun to rise due to the halt in the circulation of cooling water. At the No. 4 reactor, the pool temperature rose to 84 C on the morning of March 14. In the early hours of the morning of March 15, an explosion and a fire took place at the reactor building, which also houses a temporary storage pool for spent nuclear fuel rods.

TEPCO was criticized for its delays in disclosing information and repeatedly making inconsistent announcements about the problems at Fukushima No. 1 nuclear power plant. For example, when explosions at buildings housing reactors at the plant were aired live on TV, TEPCO made no prompt statement about the facts behind the incidents. TEPCO's failure to obtain and distribute information about important developments at the plant in a proper manner was partly due to the fragile state of its internal telecommunications network, which hampered the transfer of information within the company.

At any rate, the next six months were an enormous struggle for both TEPCO and the government as they tried to deal with the tainted water. A shocked public watched the ordeal daily on television. Shortly after the accident, every possible means was employed to inject water into reactors and spent nuclear fuel pools in a desperate effort to cool down nuclear fuel. Self-Defense Forces helicopters, fire engines and pumping vehicles were mobilized to inject sea water into the reactors and spent fuel pools. However, the injected water started piling up within reactor buildings, creating a mass of water contaminated with huge amounts of radiation. The water began to leak from the damaged containment vessels and piping.

At the end of March, water contaminated with high levels of radiation was found in a tunnel connecting the buildings housing the No. 1 to 3 reactors with the ocean. The water contained about 40,000 times the amount of water in reactors. Workers managed to prevent the water from leaking into the sea through a stopgap measure. However, as long as water continued to be injected into the reactors, the amount of radioactive water would only increase and overflow. Haruki Madarame, chairman of the Cabinet Office's Nuclear Safety Commission of Japan, said neither the government nor the power supplier has the expertise to treat water contaminated with high levels of radiation, suggesting that they were not prepared to respond to any accident beyond the scope of their assumption.

According to the Nuclear and Industrial Safety Agency, contaminated water leaked into the ocean at least twice. The first instance occurred between April 1 and 6 at the No. 2 reactor, when 520 cubic meters was released; the second, between May 10 and 11 at reactor No. 3, when a total of 250 cubic meters of water was released into the open sea.

In a desperate effort to prevent further leaks, workers were forced to shift contaminated water into any tank on the premises of the plant that had some available capacity. While releasing 10,000 cubic meters of relatively low-level radioactive water into the sea, TEPCO shifted more water to neighboring facilities, and even purchased a nearby man-made floating island known as "Megafloat," capable of holding up to 10,000 cubic meters of water and transported it to an area near the power plant.

Meanwhile, in its action plan released in April, TEPCO announced that it would cool down the reactor cores by filling their containment vessels with water. Even though the utility thought it would be an effective way to cool down the reactor cores, the water did not reach the level that was considered necessary to cool down the reactors. In May, a hole was discovered in one of the containment vessels -- from which injected water was leaking, forcing TEPCO to abandon the method. As a result, contaminated water was continuing to build up within the power plant. As of the end of August, there was a total of 90,000 cubic meters of water stored in the reactor and turbine rooms of the plant's No. 1 to 4 reactors. Counting the water stored in other facilities, the figure stood at about 113,000 cubic meters -- enough to fill some 570,000 drums.

Cold Shutdown Achieved in December

After months of cliff-hanging efforts to get the nuclear crisis under control, TEPCO finally in December was able to declare that the reactors crippled in Japan's March 11 earthquake and tsunami were now in a "cold shutdown." Prime Minister Yoshihiko Noda made the official announcement on December 16 but he conceded that the crisis was far from over.

Cold shutdown is achieved when the temperature of water used to cool nuclear fuel rods remains below boiling point and radiation emitted by the reactors is no higher than the government-set limit for the public of one millisieverts a year. In April, TEPCO said it aimed to stabilize the reactors by the end of the year, but it only managed to bring water temperatures to below boiling point for the first time in September. Officials said in December that the temperatures inside reactors number one to three, which all suffered meltdowns, now range from 38C to 68C.

Prime Minister Noda, in his announcement, apologized for the anxiety the nuclear accident – the world's worst since Chernobyl 25 years before – had caused. He paid tribute to the thousands of workers, soldiers and firefighters who had risked their health battling to bring the plant under control. He said radiation levels at the plant's boundary could be kept at low levels, even in the case of an "unforeseen incident".

But he was unable to offer a date for the return of any of the 80,000 residents evacuated from a 12-mile radius of the plant in the immediate aftermath of the accident, when three of six reactors suffered core meltdown.

Decommissioning the reactors will be a time-consuming and expensive process; estimates put the cost at between 1.15 trillion and 4 trillion yen. The government has conceded that workers will not be able to start removing the molten fuel from the three worst-hit reactors for another 10 years. They plan to remove spent fuel from four storage pools within the next two years, reports said. TEPCO has yet to find a way to treat and dispose of an estimated 90,000 tons of contaminated seawater that has been used to cool the reactors. The water is now stored in huge tanks. Government officials said it could take as long as 40 years to decommission the plant and decontaminate an area of about 930 square miles (2400 sq km).

Another serious problem is how to handle the enormous amount of debris being cleared away from the devastated sites. According to an estimate by the Environment Ministry, Miyagi Prefecture alone has 15.69 million tons of debris, equivalent to 19 years' worth of general household waste in the prefecture. The situation is especially serious in Ishinomaki, which is believed to have 6.16 million tons of debris, roughly equivalent to the amount of waste in Iwate Prefecture--4.75 million tons--and Fukushima Prefecture--2.08 million tons--combined. According to Miyagi Gov. Yoshihiro Murai, a daily workforce of about 1,000 is needed simply for separating the different types of debris.

Demolition work on homes and facilities damaged by the tsunami has also been delayed. Only 43 percent of related debris had been moved to temporary storage sites as of Feb. 1, 2012. The city government and residents hoped the demolition work will speed up with the launch of a new reconstruction agency. Prime Minister Noda in March asked all prefectures in the country to cooperate and accept portions of the debris. The reactions are mixed but some cities like Tokyo and Osaka have indicated their willingness to accept their fair share.

Another challenge the agency faces is the relocation of survivors of the March 11 earthquake and tsunami to higher ground. In Miyagi Prefecture, about 18,000 households in about 170 districts of 12 cities and towns are considering relocating. As of the end of December, the cost of the project was estimated at more than 2 trillion yen, including the acquisition of 951 hectares of

land to serve as relocation sites. Relocation also is a serious issue in Iwate Prefecture. Ten of 12 coastal municipalities with reconstruction plans have been preparing to relocate.

In Fukushima Prefecture, the central government's local headquarters and the Environment Ministry's office are already engaged in relocation projects in the no-entry zone around the Fukushima No. 1 nuclear power plant. The ministry's Fukushima reconstruction bureau is mainly in charge of infrastructure restoration, such as decontaminating roads and municipal governments' office buildings within the no-entry zone. The bureau plans to work closely with other organizations involved in reconstruction work, with a plan to integrate consultation offices into one in the near future.

One year after the disaster

One year after the triple disaster in northeastern Japan, progress is slowly being made as communities hit hard are successfully cleaning up the debris, tearing down or fixing damaged homes and businesses, and planning how to redefine the physical landscape leveled by the tsunami. The media are filled with stories of long-absent residents who have returned to their hometowns to help with the recovery process. Roads formerly blocked have been returned to normal, volunteers are replanting trees wiped out by the sea water, and damaged buildings have been pulverized into their components.

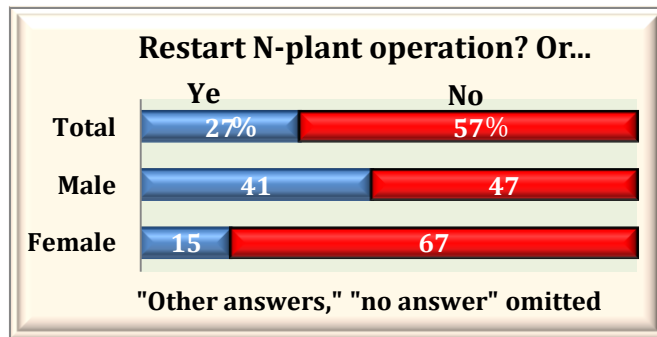
While the physical landscape in towns hit the hardest, like Rikuzentakata, Ofunato, and Minami Sanriku, is returning to normal, the recovery process is only just beginning. A number of larger issues, such as the balance between the central government's fiscal control over the recovery process and the desire of local governments to have more autonomy to pursue creative rebuilding efforts, remain unresolved. Other local-level concerns for Tohoku residents, such as issues of radioactive decontamination, counseling for post-traumatic stress disorder, and the long-term economic viability of these coastal communities, which often depend on fishing and canning industries, must be addressed through intergovernmental consultation. Some larger issues, such as the length of time for which evacuated villages will remain empty, and the creation of new no-build zones adjacent to low-lying, vulnerable areas will take considerable political will to tackle.

Prime Minister Noda on February 24 called on the public to offer silent prayers at 2:46 p.m. on March 11 for the victims of the earthquake and tsunami that devastated northeastern Japan at that time last year. "Thinking of those who passed away and the deep sorrow of those who lost beloved family members, I feel extremely sad," Noda said in a statement released by the Cabinet. Vowing to observe a moment of silent prayer at a memorial ceremony on March 11 in Tokyo to mark the first anniversary of the natural disaster, Noda said, "I would like you, the public, to offer silent prayers wherever you may be at that time." Japan's Emperor, Prime Minister Noda and people from various fields attended the solemn ceremony held at the National Theater in Tokyo's Chiyoda Ward starting 2:40 p.m. as the nation stopped for a minute of silence on that fateful day.

78% of people worry about future big quake

The psychological impact of the massive earthquake of 2011 cannot be downplayed. In a late 2011 Yomiuri poll, nearly 80 percent of the Japanese public worry that a major earthquake could

occur in the area they live--the highest figure since 2002--and only 3 percent believe the Diet has done a good job handling the March 11 disaster.



Sixty-eight percent of respondents said they are concerned radioactive substances that leaked from the crippled Fukushima No. 1 nuclear power plant could harm the health of themselves and their families, according to the survey, which was conducted Sept. 3 and 4. The proportion of people worried about radioactive materials harming their health was highest in the Tohoku and Kanto regions at 76

percent. The figure was 51 percent in the Chugoku region and Shikoku, and 59 percent in Kyushu. Although 82 percent of respondents said the Self-Defense Forces had performed well in the aftermath of the Great East Japan Earthquake, just 6 percent felt the government had done a good job--and only 3 percent said the Diet had done so.

This and similar polls by other news agencies strongly suggest the public not only is extremely unsettled and worried about the nuclear fallout, it also reveals extreme displeasure with the way the bickering in the Diet of the ruling and opposition parties hindered government efforts to provide assistance and start rebuilding after the disaster. Seventy-three percent were impressed with the efforts of volunteers, 52 percent with firefighters, 42 percent with local governments in devastated areas, and 40 percent with the police.

An Asahi poll released on March 13, 2012, reinforces the anti-nuclear feeling that has permeated the Japanese public since the Fukushima accident. In the survey, respondents were asked about the propriety of resuming the operation of reactors currently suspended for periodic inspections at nuclear power plants in the nation. In response to this question, negative answers substantially outnumbered affirmative ones, with "no" accounting for 57% and "yes" for 27%. A total of 80% said they "don't trust" the government's safeguards for nuclear power plants.

Such feelings were seized upon in the months after the disaster by then Prime Minister Kan, who promised to quickly rid Japan of all nuclear power. When Yoshihiko Noda, a pragmatist, assumed the prime minister's post in September 2011, he promised to keep Japan on the path to phasing out nuclear power, realizing the level of public resistance following the Fukushima accident. In his first speech as prime minister, he said it was "unrealistic" to implement the current energy strategy of building new reactors or to extend those at the end of their life spans. But he stressed that "it is also unrealistic to reduce our dependence on nuclear power to zero." The reduction thus would be a gradual process, and once stringent safety checks are over, nuclear plants now offline would be restarted.

In her paper on Japan's energy security dilemma, Dan Zhu carefully examines the policy options that the Noda government now faces in finding a new balance of power sources, centered now on fossil fuels, in order to keep the economy on sound footing and ensure Japan's energy security. She evaluates the efforts of the central government to meet the crisis as the nuclear power supply dwindled and to begin address the energy supply issue in planning for the future. She concludes

that for the time being it will not be possible to substitute other energy sources for nuclear power and the government is urged to put plants now offline for inspections back online before the demand crunch hits in the summer of 2012.

The Alliance in 2011: Operation Tomodachi and Beyond

The triple disaster has transformed the U.S.-Japan security relationship in ways that no one had previously imagined. It can be said a year later that the U.S. forces in Japan and Japan's Self-Defense Forces have had their first test of cooperation under essentially battlefield conditions and have come through with flying colors.

On hearing news of the massive earthquake and tsunami in northern Japan on March 11, President Obama ordered the U.S. forces in Japan and the region to do whatever it took to help a friend and ally in desperate need. The operation that ensued has already become legendary and has done more in a short time to solidify the U.S.-Japan alliance than any single event since the current U.S.-Japan Security Treaty was signed in 1960.

On March 17, 2011, Navy Adm. Robert F. Willard, commander of the U.S. Pacific Command (PACOM), told the Pentagon press corps that American troops stationed in Japan were engaged in responding to one of the biggest natural and manmade disasters of a lifetime. "At U.S. Pacific Command we're all very saddened by the tremendous losses that the Japanese have experienced," Willard said, adding that he has served twice in Japan during his Navy career. In an effort PACOM called Operation Tomodachi -- the Japanese word for friendship -- "we are placing our very highest priority on our operations in support of our ally Japan," the admiral said.

Already, more than 20,000 U.S. troops were involved in rescue, humanitarian aid and clean-up, working together with Japan's Self-Defense Forces (SDF) along Japan's devastated northeastern coast. At its peak, Operation Tomodachi was an operation of massive scale that mobilized some 24,000 U.S. troops, 20 ships, and about 200 aircraft.

In the past, the two forces conducted many joint exercises but never joint operations. This time, for the first time in the alliance's history, the SDF and U.S. Forces in Japan worked together in essentially battlefield conditions.

This was the SDF's largest operation in its 56-year history and the first major joint operation for its ground, maritime, and air forces. For several weeks after March 11, the SDF deployed about 107,000 troops, 42 per cent of its entire force. This consisted of 70,000 ground troops with more than 100 helicopters, 15,000 navy crewmen with 50 naval ships and 200 aircraft, and 21,000 airmen with 240 aircraft, as well as 500 troops to aid in the nuclear crisis.

To help resolve the nuclear crisis, the U.S. government sent specialists from the Department of Energy and the Nuclear Regulatory Commission. In addition, they provided, among other things, a huge quantity of pure water to cool the damaged reactors, unmanned drones and robots to inspect the reactors, and 10,000 protective suits. The earthquake brought together not only the two military forces but also the two governments in an unprecedented way as close allies dealing with a massive triple crisis.

The operations by the two forces were coordinated at a high level by the chief of staff of the SDF and the commander in chief of the US Pacific Fleet. They were then commanded by the commander of the Northeastern Army of the Ground SDF and the commander of US Forces Japan, respectively, via their bilateral coordination action teams. The American forces positioned themselves as a 'joint support force' rather than a 'joint task force', with the understanding that they would 'support' the SDF's efforts. This joint operation proved to the two forces that they could work well together as allies.

Five minutes after the earthquake, the Japanese Ministry of Defense and the SDF went to work, with American troops joining them in carrying out search and rescue operations, transporting victims, supplying water, food, and fuel, and administering medical aid. They cleared and opened roads, sea ports, and airports. Japanese and American helicopters used the decks of each other's ships to transport needed supplies. The US troops — who named their mission 'Operation Tomodachi (Friends)' — also helped displaced persons in towns and villages clear the devastated areas. The American troops were willing to help their Japanese allies carry out even the most difficult tasks.

The extraordinary scale of support the U.S. military supplied even included the only overseas-base Marine Expeditionary Unit (MEU) -- the 31st MEU from Okinawa.

The amphibious assault ship, USS Essex, home-ported in Sasebo, Japan, was in Sepanggar Naval Base in Malaysia on March 11, when the earthquake occurred. As soon as the news of the earthquake was delivered, the Essex initiated an immediate recall of all personnel, and departed Malaysia to return to Japan. A part of the Essex's Amphibious Readiness Group (ARG) was scheduled to participate in a multilateral humanitarian assistance (HA/DR) exercise, and the ships were loaded with necessary supplies already -- luckily these supplies were used in support of the Great East Japan Earthquake relief operations when she arrived back in Japan 5 days later, and began her relief support on March 20.

Many rescue squadrons arrived at the same time from Okinawa. A fixed-wing air transport squadron, with C-130's from Futenma, left Okinawa the day after the earthquake, along with a helicopter squadron from Futenma, with an abundance of relief supplies onboard their CH-46s, and delivered those supplies to victims in isolated areas of northeastern Japan on a daily basis.

The 31st MEU landed on Oshima island via amphibious ships from off the coast of the badly devastated city of Kesenuma. The Marines delivered food, and immediately began removing debris. Oshima was hit hard by the tsunami waves and the port was completely demolished, along with the ships and boats that were in port during the disaster -- the people on that island were completely isolated from the mainland with no means to seek for help. Rescue efforts had not yet reached them when the Marines arrived. As more Marines arrived in northern city of Sendai, units rushed to Sendai Airport to restore the runway so more relief supplies could be delivered. Along with the personnel from the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), Japan Self Defense Forces (JSDF), and civilian workers, Marines and U.S. Army soldiers restored the airport in short order.

Debris in the parking lot and the concourse were removed mainly by the Marines. Once the runway was open, the Marines temporarily served as the air traffic controllers. The base commanding officer of Camp Fuji flew into Sendai to oversee this operation. These Marines supported Sendai for about a month and then returned to Okinawa, but their generous support continues today such as inviting children affected by the earthquake to Okinawa.

The people of Oshima were extremely grateful to the Marines Corps and displayed their gratitude when Lieutenant General Kenneth J. Glueck, Jr., Commanding General, III Marine Expeditionary Force and Commander, Marine Forces Japan, visited Sendai in January 2012 by presenting a letter of appreciation to him. Lt. Gen. Glueck and the people of Oshima vowed to maintain this very special friendship.

Operation Tomodachi, the U.S. military's aid effort following last year's devastating earthquake and tsunami in Japan, generated much good will toward the United States among survivors in Tohoku and sparked interest among other local governments about how the U.S. military could come to their aid in the event of a similar disaster, the Japan Times reported.

Crisis management joint exercises

The success of Operation Tomodachi reflected years of joint training between the U.S. and Japanese forces. The most recent example of such efforts for the first time included Japanese civilian officials. According to press reports, the cabinet crisis management officer and officials from the Prime Minister's Official Residence [Kantei] in January 2012 participated in joint exercises by the Self-Defense Forces (SDF) and U.S. Forces Japan (USFJ) – so-called “command post exercises” -- for the first time.

Learning a lesson for the Kantei's inability to effectively respond to the Great East Japan Earthquake, this was the first step in improving information collation and decision-making at the top level of government during a contingency. Civilian officials from relevant ministries also participated for the first time. Drills were conducted on the USFJ's use of civilian airports and ports, coordination to secure communication frequencies, and other aspects of cooperation with the USFJ in response to a contingency.

A total of some 1,900 personnel from both sides participated in the 19th command post exercise from January 11-31, which consisted of computer-aided simulation of scenarios and sharing of information for joint response to a crisis. Cabinet crisis management officer Toshiro Yonemura was on duty at the Kantei's crisis management center on basement level 1 on January 11 and 12, where he was fed information from the exercise in real time. This exercise was evaluated by Prime Minister Noda as “an exercise in quick and accurate assessment of a situation and deciding on a response.” The timing and procedures for convening the Security Council of Japan in line with scenarios for mobilizing the SDF after maritime policing operations or public security mobilization is undertaken were also checked.

Division chief level officials from the Ministry of Land, Infrastructure, Transport, and Tourism, Ministry of Internal Affairs and Communications, and other offices participated in the central command center exercise at the Ministry of Defense (MOD). Although the MOD had been requesting the participation of other ministries since the revision of the U.S.-Japan Defense

Cooperation Guidelines in 1997, it was never able until now to obtain their cooperation. This time, the ministry was able to have officials from other ministries participate thanks to a deeper understanding of the importance of cooperating with the USFJ in light of the U.S. forces' use of civilian airports for the first time during Operation Tomodachi.

Operation Tomodachi spurs goodwill in Japan

U.S. earthquake and military relief efforts following the March 11 earthquake and tsunami has boosted Japanese goodwill toward America to an all-time high, according to the Japanese government's latest poll on foreign relations.

The annual survey found that 82 percent of Japanese polled felt "close" to the United States, up two percentage points from 2010. That is the highest positive rating since this type of survey began in 1975, according to the Cabinet Office. In contrast, a mere 15.5 percent of respondents said they did not feel close to America, an all-time low in this category since the polling began.

Joint Public-Private Partnership for Recovery

On April 17, 2011, Secretary of State Hillary Clinton and Japanese Foreign Minister Takeaki Matsumoto announced that their two governments had agreed to establish a public-private partnership for the reconstruction of Japan, in what Clinton described as a "message from the people of the United States...of solidarity and shared hope." She added, "We wish to enhance cooperation between Japan and American businesses, between civil society groups, public officials, under the guidance of the Government of Japan, with its planning." The announcement came during Clinton's trip to Tokyo.

The two nation's top diplomats were joined by leaders from the US and Japanese business community, President of the United States Chamber of Commerce Tom Donohue and Japan Business Federation (*Nippon Keidanren*) chairman Hiromasa Yonekura.

Foreign Minister Matsumoto noted that the Japanese government was in the process of developing its disaster recovery and reconstruction plan, which would be the basis for joint U.S.-Japan action. "This partnership is to have cooperation from the Japanese and U.S. economic organizations, firms, think tanks, and NGOs," he explained. "We would like to have a broad cooperation from the private sector with the government's involvement. That is the aim of this partnership." The announcement was both symbolic as well as substantive, highlighting the continued commitment of the U.S. government, as well as the American people, to stand with Japan, not only in the midst of the ongoing crisis set off by the earthquake, but also on their path to recovery.

In January Diet Speech, Kan Sets New Tone for U.S.-Japan Relations

Even if the earthquake and the resulting Operation Tomodachi had not occurred, 2011 would have been a cooperative year for U.S.-Japan relations, starting out with Prime Minister Naoto Kan's upbeat foreign policy speech on January 20 that set the alliance as "linchpin" of Japan's diplomacy. For the DPJ administration, this was a landmark statement that aimed at resetting bilateral ties to their former pivotal role after Prime Minister Hatoyama's dalliance with an Asia-tilted diplomatic stance that seemed to come at the expense of the United States.

Kan delivered his foreign-policy speech at a Tokyo hotel unusually on the eve of the opening of the regular Diet session. He said that the bilateral security alliance "should be maintained and strengthened as the linchpin of Japan's diplomacy, regardless of the change in administration," thus declaring a "fresh start" in the alliance relationship, shaken under the Hatoyama administration. Kan stressed: "It will not do for Japan to adhere to selfish pacifism and think that it is sufficient for Japan alone to enjoy peace," indicating a policy of active participation in UN peacekeeping operations (PKO) and other international contributions.

The Prime Minister named the following as the five pillars of Japan's foreign and security policy: (1) Japan-U.S. relationship as the linchpin; (2) new frontier in Asian diplomacy; (3) promotion of economic diplomacy; (4) tackling global issues; and (5) responding appropriately to the security environment. On the U.S., he stressed that the government would "work persistently" on promoting the bilateral relationship, having in mind the agreement in May 2010 on the relocation of the U.S. forces' Futenma Air Station in Okinawa to Henoko in Nago City.

On China, in an about face from his predecessor Hatoyama, Kan expressed "concern about the lack of transparency of its national defense buildup and maritime push. But he indicated his intention to work for the improvement of relations, starting with setting up a hotline between the top leaders.

In the economic field, Kan made a bold commitment to "stake the fate of the nation on 'Japan's opening up in the Heisei Era'," to consider participating in the Trans-Pacific Partnership (TPP), to promote economic partnership agreements (EPAs) with various countries, and advance infrastructure exports – such as the export of nuclear power plants – and resources diplomacy. Prime Minister Kan's foreign policy speech was a clear break from the policies of his predecessor Yukio Hatoyama.

His commitment to a "fresh start" in bilateral ties with the U.S. was an attempt to counter Hatoyama's tilt away from the U.S. and toward Asia, resulting in drift and confusion in bilateral ties. Kan never mentioned the Hatoyama's concept of an exclusive East Asian Community, which had alarmed the United States. The speech also can be taken as an expression of Kan's desire to make up for earlier "blunders," including his own administration's allegedly "weak-kneed" responses to the Chinese fishing boat collision incident in waters off the Senkaku Islands and the Russian president's visit to the Northern Territories.

Japan, U.S. revive Shimoda Conference

Even before March 11, relations between the U.S. and Japan were warming rapidly after the rough start during the Hatoyama administration. One symbolic event that received little media attention occurred on Feb. 22, 2011, when, after a hiatus of 17 years, the "New Shimoda Conference" (organized by the Japan Center for International Exchange), a non-governmental policy dialogue between Japan and the U.S., was held at a hotel in Tokyo. The "Shimoda Conference" had been held every few years from 1967 in Shimoda City, Shizuoka Prefecture, where Commodore Matthew Perry's ships visited in the closing days of the Tokugawa shogunate. The last time the dialogue had been held was in 1994.

This forum was "revived" as part of an overall effort by both governments to "rebuild" the Japan-U.S. relationship damaged in 2009-2010 by the DPJ's mishandling of a key U.S. basing issue in Okinawa, the relocation of the U.S. forces' Futenma Air Station, which had been pending since 1996. In the revived Shimoda Conference, at least 100 lawmakers and experts participated from both countries.

Maehara, Roos sign "sympathy budget" pact

Another example of the U.S.-Japan security relationship being back on track in 2011 was the new host-nation support (HNS) agreement signed on Jan. 21 by Foreign Minister Seiji Maehara and U.S. Ambassador to Japan John Roos stipulating Japan's share of approximately 70 percent of the costs for the stationing of U.S. forces in Japan for a period from fiscal 2011 through fiscal 2015. Japan will maintain the total amount of the budget at its current level (188.1 billion yen in fiscal 2010) for the five years, while reducing the labor cost of Japanese employees working at recreational facilities on U.S. bases.

HNS is often referred to by the media as the "sympathy budget" – a term that both governments disavow. The new agreement also includes the cost of transferring U.S. fighter training missions from Kadena Air Base in Okinawa Prefecture to the U.S. territory of Guam. The government submitted the pact to the regular Diet session on Jan. 24 and obtained Diet approval at the end of March.

Japan, U.S. set to cooperate against nuclear terrorism

The list of achievements in the bilateral relationship for 2011 must include the U.S.-Japan agreement in early February to draw up a roadmap in order for the two countries to step up their cooperation against nuclear terrorism. The move apparently was in preparation for the second nuclear security summit that South Korea will host in its capital of Seoul in April 2012. By then, Japan and the United States plan to take cooperative steps to prevent nuclear material from being stolen and deal with other potential cases. Since newly emerging countries in Asia and elsewhere are now constructing nuclear power plants, the U.S. and Japanese governments want to work together to prevent nuclear proliferation as a measure to deepen the bilateral alliance.

In late January, the Japanese and U.S. governments held the first meeting of their working group consisting of officials for the control of nuclear material and agreed to cooperate against nuclear terrorism. In concrete terms, their cooperative steps include: 1) conducting joint training intended for third countries against nuclear terrorism; 2) cooperating on nuclear identification technical know-how to identify the manufacturers of nuclear material stolen or removed; 3) strengthening support for the International Atomic Energy Agency (IAEA) by sending inspectors; 4) studying safeguards for nuclear power plants; and 5) co-developing nuclear detectors.

"Two-plus-Two" Meeting in June Resets Alliance Cooperation

One of the most significant bilateral meetings in 2011 occurred on June 21 when Secretaries of State Hillary Rodham Clinton and Defense Robert Gates met with their Japanese counterparts, Foreign Minister Takeaki Matsumoto and Defense Minister Toshimi Kitazawa in Washington, DC. "Two-plus-two" talks, formally known as the US-Japan Security Consultative Committee (SCC), is a periodical opportunity for the countries' diplomatic and military leaders to reexamine and reaffirm basic tenets of the bilateral alliance. The June meeting was the first of in four years

and the first between the Obama administration and the government led by the Democratic Party of Japan.

The overall purpose of the June meeting, as Secretary Clinton commented, was to underscore that the United States and Japan are “cooperating more closely on a wider range of issues and challenges than ever before.” The joint statement issued at the close of the talks outlined common strategic objectives and highlighted areas in which both allies could strengthen the foundation of the alliance and enhance cooperation, regionally and globally, while strengthening deterrence and contingency response.

The common strategic objectives included such commitments as working toward a denuclearized Korean peninsula and encouraging a responsible Chinese role in regional stability and prosperity. The new set of objectives also focused on bolstering trilateral security and defense cooperation with the Republic of Korea in addition to Australia, promoting a trilateral dialogue with India, and encouraging Russia’s “constructive engagement” with the Asia Pacific. Beyond the defense of Japan and cooperation in the prevention of terrorism, the leaders welcomed increased cooperation in defending the global commons beyond the freedom and safety of sea lanes to include outer space and cyberspace.

Foreign Minister Matsumoto stated that as a result of the tremendous US-Japan cooperation in response to the March 11 disasters, particularly the joint humanitarian assistance and disaster relief mission of *Operation Tomodachi*, “the awareness of the importance of Japan-U.S. alliance has only increased, not just in the two governments but amongst the peoples of our two countries.” The leaders promoted efforts to continue cooperation through joint military exercises, and began discussions on establishing regional humanitarian and disaster-relief logistics hub in Japan.

The last set of common strategic goals was issued in February 2005. Since then, China has built up its naval power and has expanded its advances into the South China Sea and East China Sea, while North Korea has conducted nuclear and missile tests repeatedly. The latest review of strategic goals was meant to reaffirm how Japan and the U.S. would jointly respond to such increasingly worrisome changes in the security environment.

Clinton-Roos sponsored “Tomodachi Initiative”

In the aftermath of the massive earthquake, cooperation between the U.S. and Japan is now extending far beyond the military-to-military sphere. An outstanding example is the “Tomodachi Initiative” to broadly support reconstruction after the Great East Japan Earthquake. It is being promoted by Secretary of State Clinton, Ambassador to Japan John Roos, and other U.S. officials and focuses heavily on expanding educational programs for young people in Japan. Toyota Motor Corporation, Hitachi, Ltd., Mitsubishi Corporation, Takeda Pharmaceutical Company, and other companies are also participating in this project, providing several hundred million yen in funds. Short-term study abroad programs to the U.S. are currently limited to disaster-hit Iwate, Miyagi, and Fukushima Prefectures, but will soon be expanded nationwide to support exchanges between the young people of Japan and the U.S.

Ambassador Roos, interviewed by the *Sankei Shimbun* (March 12, 2012) explained the new program and its origins:

“We launched the Tomodachi Initiative so that young people can have hope. This is a program for investing in Japanese young people in Tohoku to connect them to the U.S. There were several inspirations behind it.

“When I met Rikuzentakata City Mayor Futoshi Toba, I asked him what the U.S. could do to help. The mayor said he would like to think about it. Later, when he came to my office, he said: ‘How about giving the young people of Rikuzentakata opportunities to improve their English and go to the U.S.?’ A young woman who lost her family in the tsunami wrote in a letter to me: ‘My dream is to go to the U.S. to study English.’

“The area in which we would like to contribute is innovation through the development of entrepreneurship. This is also a pillar of the Tomodachi Initiative. In my professional life I have seen how innovation can lead to economic revival. From a long-term point of view, there is a great deal of potential (in Tohoku).”

According to Irene Hirano, president of the U.S.-Japan Council, the NPO that plays the leading role in the Tomodachi Initiative, the “Japan-U.S. Educational Partnership,” a major component of the Initiative, will be expanded and developed into a foundation supporting study abroad programs like the Fulbright Program. The program will be launched in the spring of 2012. The short-term study abroad support program will be expanded to cover the whole of Japan. In addition to university students, high school and middle school students will also be eligible.

Ultimately, this program aims to become a mechanism for sending hundreds of students to the U.S. for short- and long-term study each year. The number of Japanese students studying in the U.S. in 2011 was under 21,000, less than half the number of the peak level 15 years ago. The program also aims to urge Japan to accept students and trainees from the U.S. in the future in order to build a network of personal ties to support the bilateral relationship.

Okinawa Base Issues

Despite the string of accomplishments in the U.S.-Japan alliance in 2011, efforts to resolve the long-standing issue of MCAS Futenma’s relocation to another site in Okinawa were in vain, as local resistance to the plan approved in May 2010 remained intransigent. Despite several agreements since 1996 to close Futenma, deemed a dangerous base due to its location in the middle of a crowded city, it is seemingly as far away from being relocated in early 2012 as it was over 15 years ago.

The Kan government started out the year with a stance of giving “priority” to Okinawa in order to convince local authorities and opinion in the prefecture to acquiesce to the plan that would move Futenma’s key helicopter function to a runway to be built on the outskirts of Nago City in the northern part of the prefecture. The relocation was part of a complex, interlocking series of base realignments in Japan, including Okinawa, known as the “roadmap agreement” signed in

2006. The roadmap included shifting 8,000 Marines from Okinawa to Guam and the return of five other U.S. military facilities south of Kadena Air Base in Okinawa.

Kan's Okinawa initiative started in January with a rush of high level visits to the prefecture, highlighted by Chief Cabinet Secretary Edano, Foreign Minister Maehara, and Defense Minister Kitazawa. But the well-publicized pro-forma meetings with officials had no positive impact. The DPJ administration seemed to loathe engaging in *nemawashi* or consensus-building contacts beneath the surface in Okinawa to build support for the Futenma relocation plan – a tactic that the previous ruling party, the Liberal Democratic Party, had used for better or for worse to reach agreements on earlier relocation plans.

Ultimately, the efforts of the Kan administration were overtaken by events for the rest of the year, with the government's turning its almost exclusive attention to coping with the earthquake disaster following March 11. Recognizing the reality of the situation, the U.S. and Japan at the two-plus-two meeting in June decided to remove a 2014 deadline for the relocation, and although procedural steps have continued, most notably the completion of an environmental assessment that is now in the hands of the Okinawa governor, the Futenma relocation plan remains in limbo.

The Noda administration not only has inherited the issue, it has added to the standoff by a series of gaffes and errors by senior officials. Although a separate agreement in early 2012 between the U.S. and Japan to expedite a promised move of Marines from Okinawa to Guam and the return of certain U.S. facilities south of Kadena, thus pleasing Okinawa, the Noda government has preferred to proceed on Futenma at a deliberate pace, apparently hoping for local concurrence at some time. The base remains open and is likely to stay that way unless somehow a breakthrough is found.

Noda Filling the Policy Gaps

After two seriously flawed DPJ administrations collapsed from self-inflicted wounds, Prime Minister Yoshihiko Noda, who was inaugurated in office on September 2, 2012, has been doing his best to display leadership and plug the policy-making gaps of his two predecessors Hatoyama and Kan by restructuring the decision-making process under him in the Kantei (Prime Minister's Office). He also has pushed an agenda that would tackle the country's disaster-weakened economy, starting with a massive supplemental budget last fall, as well as to revive Japan's active diplomacy in the international community. Indeed, a surprising number of foreign and security policy developments came in the first month of his turn at the helm, during which Noda – accompanied by his Foreign Minister Koichiro Genba -- made his diplomatic debut with a speech at the United Nations session in New York and significant side-meetings with President Obama and other leaders.

Noda's leadership qualities were hard won through years of training at the famous Matsushita Institute of Government Management. In fact, there are now 38 alumni of the Institute in the Diet, with most of them DPJ lawmakers. The unique nature of the Matsushita Institute in Japanese politics and glimpses at some of their most famous alumni, who include former Foreign Minister Seiji Maehara, is examined by Narae Choi in her insightful paper on a little known area of Japanese politics.

Noda Diplomacy: PKO to Sudan

Though he has restructured the decision making on domestic policy to give himself more direct authority and bring the party into the consensus-building process, Prime Minister Noda has been relying on a more traditional decision-making structure when it comes to diplomacy and security affairs. In other words, he is allowing the relevant ministries and their officials to provide policy continuity and pursue initiatives that match Japan's national interests, as well as play an appropriate role in the international community.

For example, he has continued the dispatch of the Marine SDF to waters off Somalia as part of an international anti-piracy operation. And on Sept. 23, in his speech at the UN General Assembly, he expressed willingness to send a Ground Self-Defense Force unit to join international peacekeeping operations in newly independent South Sudan. "Japan is eager to make contributions to the United Nations Mission in the Republic of South Sudan (UNMISS) in the fields in which Japan excels," the Prime Minister promised.

Since then, Noda's commitment has reached the implementation stage, with the Ground Self-Defense Force's first unit arriving in February 2012 in South Sudan to begin its UN peacekeeping mission. The PKO unit is now carrying out full-scale activities, starting with an on-site inspection of the country's capital of Juba on Feb. 21.

The team's main duty is to make preparations and advance arrangements for the second team, which is responsible for infrastructure projects, such as bridges and roads. In February, the GSDF troops began setting up their camp. Some personnel visited the local Japan International Cooperation Agency (JICA) office and areas where bridges are planned to be built. The mission will provide support activities to local offices of international organizations, such as the World Food Program.

Noda Diplomacy: South Korea's Surprise

The learning experience for the DPJ as ruling party includes confronting and tackling long-standing issues with Japan's Asian neighbors. The Noda administration just after coming into office was caught totally off guard by South Korea's abrupt reopening of an old bilateral issue that Japan assumed had been put to rest. It happened during diplomatically untested Foreign Minister Koichiro Genba's first meeting with South Korean Foreign Minister Kim Song-Hwan on September 24th.

During what started out as a check-list conversation on bilateral matters, such as progress on an EPA (economic partnership agreement), Kim suddenly asked for talks on compensation to Korean "comfort women" (sex slaves for the Japanese military during WWII). Taken aback, Genba refused to discuss the issue. "The issue was solved in the 1965 normalization agreement between Japan and South Korea, which dealt with outstanding claims," he said, adding, "This issue should not be allowed to exert a negative impact on Japan-South Korea relations." Japan has acknowledged its military used sex slaves, but refuses to directly compensate the victims individually. In 1995, Japan set up a fund, now expired, to help deal with claims by women who said they had been forced into providing sexual services.

This dilemma for the DPJ government, despite its eagerness to enhance diplomatic and even security ties with the Republic of Korea, particularly in the face of an increasingly unpredictable North Korea, is covered in the paper by Patrick Branco. His essay examines the structural issues between Japan and the ROK – the historical legacy and the territorial dispute – that impede progress in deepening friendly ties and security cooperation. While the Noda administration has put on the backburner some irritants, such as prime ministerial visits to Yasukuni Shrine, other politically volatile and intractable issues, including ownership of the Liancourt Rocks claimed by both countries, could resurface at anytime.

Regarding North Korea, Matthew Yi has written a timely paper on Japan's efforts since Prime Minister Junichiro Koizumi to deal with a dangerous neighbor that threatens it with its nuclear and missile arsenals, kidnaps its citizens and makes itself an unwelcome member of the Asia-Pacific. He factors in the recent death of DPRK leader Kim Jong-Il and his replacement by his son Kim Jong-Un. He concludes that without trilateral cooperation with the U.S. and South Korea, and even better Six-Party Talks, Japan will remain impotent in its diplomacy toward that increasingly belligerent country.

Japan's hard-hit economy

The great earthquake and tsunami in northeastern Japan was not the only blow for the domestic economy during 2011. The year started off with the American credit rating agency Standard & Poor's (S&P) announcement on Jan. 27 that it was downgrading the rating of Japanese government bonds from AA to AA-, citing that "the Democratic Party of Japan's administration has no consistent strategy on the debt issue." Japan's national debt has risen over the years to over 200 percent of GDP, highest among developed nations.

The implication of the downgrading was that unless Japan took extensive fiscal restructuring measures, its economic situation would continue to deteriorate in the future. S&P reckoned that Japan's fiscal and economic prospects would worsen with the rapid decline of the birth rate and the aging of the population and predicted that fiscal restructuring would not make any progress until the first half of the 2020s.

The last time S&P cut its rating of the Japanese sovereign debt was in April 2002. Credit rating is determined based on the ability to repay debts. AA- is the fourth rank in the S&P's 21 ranks. Among the G-7 nations, Japan's ranking was only better than Italy, and on par with that of China or Saudi Arabia.

Since the earthquake disaster, the yen has continued to appreciate significantly, reaching the upper 70-to-the-dollar range. There is fear that such yen appreciation will serve to drive key Japanese companies offshore since they can no longer set their export prices on their products low enough now to compete internationally.

Colin Foley, in his paper on Japan's monetary policy, delves ably into the somewhat esoteric practices of the Bank of Japan in setting monetary policy and its addiction to "yen intervention" to drive down the value of the yen. The essay is both broadly reflective on theory and policy, but offers specific examples to show how policy is implemented. He also evaluates the BOJ's recent moves, including the setting of an inflation target as a new tool to promote economic growth.

China and the Asian market

If the downgrading of Japan's credit rating in 2011 was the first blow, the second event was even more of a psychological than real blow to Japanese policymakers: China officially overtook Japan to rank second in the world in GDP. China on Jan. 20, 2011, released its gross domestic product (GDP) figures for 2010, which marked the first double-digit growth in three years, indicating its economy is in good shape. With its nominal GDP coming to approximately \$5.88 trillion, it was then certain that the nation had overtaken Japan as the world's second largest-economic power. Economists point out though that even though China's GDP has risen to overtake Japan as second in the world after the U.S. as of 2010, its per-capita GDP is still about one-tenth that of Japan. Though the nation is still a poor country, pockets of growing affluence are spreading across now booming urban areas.

China's GDP rise reflects a growing shift from export-oriented growth and being the world's factory to domestic-demand-led growth undergirded by a gigantic consumption market. However, when it comes to the domestic economy, concern about inflation is growing, making it difficult for the government to achieve sustainable growth. In the meantime, Japan, which formally slipped to the third slot later in the year, continued to suffer from a sluggish domestic demand, and has been increasingly depending on the Chinese economy to absorb its exports of heavy equipment and other commodities.

Moreover, Japanese companies, such as automakers, home electronic appliance manufacturers and service companies, such as educational services, have been shifting to China to keep earnings high. China's private car boom has spread from the coastal area to the inland area. Its new car market expanded to 20 million units, about four times larger than the Japanese market, in 2011. Determining that demand in the inland area would increase, Nissan Motors, for example, reinforced its dealerships from 460 to more than 530. Toyota Motors and Honda Motors have been following suit.

In general, Japan's reliance on Asian economies has been increasing. According to the trade statistics for 2010 released by the Finance Ministry on Jan. 27, 2011, the ratio of trade with the rest of Asia to overall imports and exports reached 51 percent, topping 50 percent for the first time ever. While China remains Japan's largest trading partner, moves by Japanese firms to use ASEAN (Association of Southeast Asian Nations) members, which are promoting trade liberalization, as bases for exports to countries outside the region have also been spreading. Overall, Japanese imports and exports for 2010 grew 21.2 percent from the preceding year to 128.0416 trillion yen in total, bouncing back from a 33.9 percent drop in 2009 caused by the international financial crisis. This increase in trade was driven by newly emerging economies in Asia, which are continuing to grow at a rapid rate.

Asia's share of Japan's overall trade grew about 10 percent between 2000 and 2010. In contrast, the percentage of trade with the U.S. dropped by roughly half over the same time span to 12.7 percent.

Relations with China Finally Improve in 2011

Prior to the March 11 earthquake, efforts by the Kan government to improve relations with China were fully underway. In late February, Tokyo and Beijing resumed their vice-minister-level

strategic dialogue to discuss ways to improve bilateral ties that had deteriorated in the wake of the Chinese trawler collision incident in September 2010. The vice ministers discussed measures to prevent another maritime collision incident from occurring and paved the way for foreign ministerial and summit talks scheduled for the spring in Japan.

In addition to maritime safety measures, the vice ministers also discussed Japan's new National Defense Program Guidelines, which indicated concern over China's military buildup, the resumption of stalled bilateral talks on signing a treaty on joint gas field development in the East China Sea, and the North Korean situation.

In the aftermath of the Chinese fishing boat collision incident, the leaders and cabinet members of Japan and China stopped their exchange of visits, except during international conferences. China also suspended talks unilaterally on the pending issue of joint development of East China Sea gas fields and did not respond to Japan's calls to resume negotiations.

As part of Japan's efforts to improve ties with China, Prime Minister Kan launched on Feb. 6 a new panel of experts called the "China Affairs Council" that issued its report prior to a scheduled Japan-China-South Korea trilateral summit in May.

On 21–22 May, Japan hosted the fourth China-Japan-South Korea Trilateral Summit. As the first such meeting since the triple disaster in Japan, it was largely focused on disaster recovery efforts. To this end, the three countries agreed to cooperate on disaster management and nuclear safety, accelerate talks for a Trilateral Investment Agreement and Free Trade Agreement to aid Japan's economic growth, and attempt to expand the numbers of Chinese and South Korean tourists travelling to Japan.

Prime Minister Kan wanted to hold the summit in Fukushima to convey the message to the world that the prefecture where the nuclear accident had occurred had already become a safe place. The Japanese government hoped that the sight of the heads of the three countries gathered in Fukushima would dispel radiation fears. However, due to logistic problems, the meeting could not be held in Fukushima and instead was shifted to Tokyo.

The trilateral summit can be seen as being particularly significant for Japan-China relations. The summit — as well as China's efforts at 'disaster diplomacy' in the two months since Japan's earthquake that included sending a rescue team — has provided a critical opportunity for the two countries to put bilateral ties back on track after the Senkaku islands incident in September 2010.

Indeed, in side meetings with Japan, While Chinese Premier Wen Jiabao agreed to partially relax import control measures on food products from two of the radiation-affected prefectures in Japan, this did not satisfy Japanese expectations. After the nuclear accident and the spread of radiation, China had imposed restrictions on food imports from 12 areas of Japan surrounding the Fukushima plant.

At the tripartite summit, Premier Wen informed Prime Minister Kan that China will partially ease restrictions on imports of Japanese agricultural products, provided Tokyo ensures their safety. However, the lifting of import restrictions for food was limited to two prefectures - Yamagata and Yamanashi. These restrictions did not apply to maritime products, which account

for about half of agricultural and maritime imports from Japan. After the leaders tasted fruit and other food items from Fukushima prefecture, the Japanese government seized the opportunity to actively disseminate the information to the world that food in the radiation-stricken area was safe.

China, however, was reluctant to make major concessions with regard to overall food imports from Japan. Part of this is because of food safety being a sensitive issue in China due to cases of illegal additives being mixed into food products. For Japan, the issue of food safety following the Fukushima accident was both a domestic problem and an international issue as many countries banned Japanese food products over fears of radiation contamination. This still lingering problem is addressed in Benjamin Lauer's paper. Japan argues that the fears are groundless and efforts have been underway to convince domestic consumers not to shun agricultural or fishery products from the earthquake-stricken prefectures. At the same time, the government has been working to persuade trading partners, particularly China, to remove hastily erected barriers to Japanese food exports that assume contamination when none exists. Lauer points out the irony of Japan's severe restrictions on U.S. beef exports based on non-scientific grounds.

Noda Makes "Friendship" Visit to China

Prime Minister Yoshihiko Noda, continuing the policy course of his predecessor Naoto Kan, made a "friendship" visit to China, December 26 - 27. In preparation for the 40th anniversary of normalization of relations in 2012, the two countries planned to feature several new frameworks for bilateral cooperation to play up the "friendship" theme.

During his meetings with President Hu Jintao, Premier Wen Jiabao, and other Chinese leaders, Noda conveyed the same message: "China's development represents opportunities not only for Japan, but also for the international community." This stance was in stark contrast to the view Noda had expressed prior to becoming prime minister, namely, that China's military power constituted a "coercive diplomatic posture." Now that he was prime minister, Noda was now seeking to dispel his image of being a hardliner against China. He stated prior to the visit, "Now is the time to draw up a Pacific charter and for Japan to exercise leadership." He envisioned "trade and investment," "utilization of the ocean," and "security" as the main pillars of the charter, with his China visit as the first stepping stone to promoting the vision.

In fact, reports of the death of North Korea's General Secretary Kim Jong Il came in on Dec. 19 just before Noda's China trip, so the main focus of the summit meeting turned to the North Korean situation. Still, the two countries were able to agree on financial cooperation, such as the purchase of Chinese government bonds, and new bilateral frameworks, including the high-level talks between the maritime authorities of the two countries.

Despite the good atmospherics, the summit talks produced practically no progress on pending bilateral issues. Noda asked for the early resumption of the negotiations on the signing of an agreement on joint development of East China Sea gas fields and the relaxation or abolition of import restrictions on Japanese food products that China had imposed after the Great East Japan Earthquake, but he received no definite responses.

Noda's meeting with Wen resulted in the release of a statement on "Six Initiatives to Further Deepen the Japan-China Mutually Beneficial Strategic Relationship." However, the document had a note saying "Japan is solely responsible for the drafting of this statement," which served to underscore differences between the two countries.

Beijing from the start was wary that Noda “is a hawk who takes a hard line on history issues,” according to a Chinese paper. It has been critical about the Noda administration’s policy on issues relating to the South China Sea, where China has territorial disputes with Vietnam, the Philippines, and other countries. Japan’s agreement with Philippine President Benigno Aquino to send Japan Coast Guard patrol boats to those waters was seen in China as an act of intervention with the U.S. Though not a claimant to the Spratly islands, Japan has inserted itself into the dispute by saying vessels that deliver oil it imports from the Middle East pass by that vital sea lane.

Japan promised to assist the Philippine Coast Guard so it could better patrol the country’s vast coast line. It will dispatch patrol vessels of the Japan Coast Guard to train its Filipino counterparts. Both countries also agreed to “promote exchanges and cooperation between their defense authorities.”

Still, despite concerns about China’s activities in regional waters, Noda’s priority remains the building of friendly diplomatic and productive economic ties with that Asian neighbor. In particular, the mutually beneficial aspects of increasingly interdependence between the Japanese and Chinese economies have become strikingly apparent. China, for example, has been applying Japanese technology and management expertise for over two decades now, and the benefits have become obvious for Chinese businesses. In addition, a significant proportion of Japanese manufacturing is now based in China, which has surpassed the U.S. as Japan’s largest trading partner. China’s rise as a key economic partner since the early 1990s has helped Japan’s per-capita GDP rise from \$24,000 in 1990 to \$43,000 in 2010.

Structural issue with Russia Dominates 2011

Japan’s relations with Russia during 2011, however, started out as neither productive nor fruitful. But many Japanese would say, so what is new? It seems to have been a matter of degree, for most of what Moscow planned or did in early 2011 only served to irritate Tokyo all the more. For example, early in the year, Russia announced plans to woo Chinese and South Korean companies to the Northern Territories, which are Japan’s territory. The announcement was taken in Japan as an ultimatum that if Japan refused to participate in long-discussed economic activities with Russia on the Northern Territories, Russia would accept investment from third countries and essentially leave the territorial issue unresolved indefinitely. Japan was pressed to review its diplomatic strategy but came up short of new ideas.

A Russian seafood company and a Chinese firm based in Dalian agreed in early 2011 to jointly raise sea cucumbers in the waters off Kunashiri Island, one of the Northern Territories. The two companies exchanged notes and shipments to China reportedly started in the spring. Russia’s Federal Agency for Fishery acknowledged on Feb. 16 that a local firm is also planning to establish a joint scallop-farming venture with a Chinese firm on another island, Shikotan.

In the past, Russia had refrained from seeking foreign investment in the Northern Territories, out of consideration for Japan, which is calling for the return of the four northern islands. The recent strain between Japan and Russia was set off by an interview with President Dmitry Medvedev on Russian television on Dec. 24. Medvedev said: “Russia is ready to work with Japan on a joint economic project” on the Kuril Islands, which include the Northern Territories. He then proposed

setting up special economic zones, such as a free trade area. Against the backdrop of its shortage of funds for the development of the Northern Territories, Russia had long insisted that joint economic activities would help pave the way toward resolving the territorial issue, and the President was reiterating this call in the TV interview.

The Moscow Declaration issued by the leaders of Japan and Russia in 1998 stipulated a plan to establish a committee on joint economic activities. Afterward, Moscow unofficially made this proposal to Japan in 2005 and in the latter half of 2009, but Japan has taken a cautious stance, fearing that doing so would constitute its recognition of Russia's sovereignty over the islands. Since his visit to Kunashiri Island in November 2010, which then Prime Minister Kan called an "outrage," Medvedev adopted a policy of stepping up the development of the Northern Territories. A number of high-ranking government officials also visited the islands, including Regional Development Minister Viktor Basargin and Defense Minister Anatoly Serdyukov, early in 2011. These officials said they would welcome investment from third countries, pressing Japan to reconsider Russia's approach and participate in joint economic activities. To make matters even worse, Medvedev in Feb. 2011 ordered significant reinforcement of Russian defenses on the Kurile Islands, which include the Northern Territories.

In a joint press conference held after the Japan-Russia foreign ministerial on Feb. 11, Foreign Minister Seiji Maehara said: "Japan is ready to discuss at high-level talks what can be done, on the premise that Japan's legal status is not undermined." His Russian counterpart, Sergey Lavrov, said Maehara's stance was "positive," but observers speculated that the project with China announced by Russia immediately after the foreign ministerial with Maehara was aimed at ratcheting up pressure on Japan to agree at an early date to economic cooperation in the Northern Territories. Russia is particularly eager to work on resources development and infrastructure construction, and Japanese investment would be welcome.

Then, it was revealed on Feb. 15 that Russian and South Korean firms were engaged in negotiations for a seafood venture on the northern islands. Policymakers in Tokyo reckoned that if Russia promoted development on the islands with Chinese and South Korean firms instead of Japan, territorial negotiations would inevitably become even more difficult for Japan. China claims sovereignty over the Senkaku Islands, which are Japan's territory, and South Korea claims sovereignty over the Takeshima/Dokto Islands. Under such circumstances, it would be easy for China and South Korea to cooperate with Russia in pursuing their interests.

Russian Minister of Regional Development Viktor Basargin revealed in mid-February 2011 that the total value of foreign direct investment from 2007 through 2009 in the Chishima Islands (Kurils), which include the Northern Territories, reached 10 million dollars or approximately 840 million yen, Interfax reported on Feb. 16. By disclosing third countries' active investment in the four northern islands, Russia was seen as apparently trying to apply pressure on Japan. Toyohisa Kozuki, deputy director general of the Foreign Ministry's European Affairs Bureau, said on Feb. 16 that "current Japan-Russia relations are nearly the worst they have ever been over the last several decades."

In a survey of the sentiments of the Russian people, 90% said they were opposed to Russia's return of the Northern Territories to Japan. Only 4% were in favor of the return of the islands.

These figures are almost the same as those from the previous survey. The poll was released on Feb. 18, 2011 by the Levada Center, an independent research institute.

Earthquake disaster as a possible game changer

Following the devastating earthquake and tsunami in northeastern Japan on March 11, the atmospherics in relations between Russian and Japan changed dramatically. There even was a mood expressed by Russian Foreign Ministry officials that the natural disaster in Japan would give the two countries an opportunity to either solve or soothe the territorial dispute between Moscow and Tokyo.

Such a turn of events had already taken place in international practice before. U.S.-Russian ties, for instance, improved after the 9/11 attacks in 2001. Moreover, Russia and Poland improved their ties after April 10, 2010, when Polish President Lech Kaczynski and the entire political leadership of Poland died in an air crash near Smolensk.

Russia was one of the first countries to offer its assistance to Japan after the massive earthquake and tsunami. President Medvedev was quick to express Russian condolences to the people of Japan. On March 12th, Tokyo decided to accept Moscow's offer, and Russia sent two brigades of rescuers to Japan immediately after that. At first it was decided to send an Il-76 of Russia's EMERCOM with 50 specialists on board, as well as three rescue vehicles and equipment. A Mi-26 helicopter carrying 25 rescuers on board left for Japan from Russia's Sakhalin Island, as well. Moscow sent humanitarian aid to Japan, as well.

Russia also sent tankers with liquefied natural gas and vessels with coal to Japan, since the country needed additional energy resources following the shutdown of many nuclear power plants after the Fukushima accident. Russia announced it was ready to supply up to 500,000 tons of liquefied natural gas from the Sakhalin-2 project for 12 months. Moscow was willing also to increase coal shipments to Japan by 3-4 million tons within a short period of time.

Foreign Minister Takeaki Matsumoto met in Paris on March 17 with Russian Foreign Minister Sergei Lavrov to express his words of gratitude to Russia for solidarity and assistance following the natural disaster. The cordial meeting set the tone for the rest of the year. With the election of Vladimir Putin as president in March 2012, expectations are high in Tokyo that progress can now be achieved on the territorial and other bilateral issues. Whether Putin will meet those rising expectations is another question.

Noda and TPP

For the Noda government from the start, full-fledged participation in the Trans-Pacific Partnership (TPP) has been seen as vital to Japan's economic interests. Consultations with countries already committed to TPP, including the U.S., are ongoing at this writing, with a conclusion to be reached around mid-2012. Prime Minister Noda at the APEC conference in Hawaii in mid-November 2011 wanted to announce definitively that Japan was ready to join TPP negotiations. But due to domestic resistance, including his own party, he had to settle for a vague commitment, namely, that "Japan will enter into consultations toward participating in the Trans-Pacific Partnership (TPP) negotiations with the countries concerned."

Noda decided to settle for a commitment to only consider TPP after the DPJ's own TPP panel called on the government to "make a decision cautiously," and a cross-party group of 232 lawmakers submitted a nonbinding resolution opposing Japan's participation in TPP negotiations. A great part of the reason for Noda's punting the decision reflects the cumbersome and time-consuming way that Japanese governments, including Noda's, reach a consensus on policy courses. But there is also deep-seated doubt across the political spectrum, compounded by fear-mongering by organized groups, that joining TPP is anathema to Japan's economic interests. The myth of TPP as destroying Japan has spread across the media.

The Noda administration believes otherwise, arguing that TPP will spur reforms in the agricultural and other potentially affected sectors that are long overdue. Japan will emerge more competitive than ever. The government has started to counter negative views by public hearings and other campaign tactics to correct misunderstandings about the effect of joining TPP and to promote the benefits to the economy. But Noda's party, the DPJ, is still split, some say perhaps hopelessly, on the TPP issue, and other parties are similarly divided if not outright opposed. It remains to be seen whether the ultimate outcome of consensus building led by Noda will convince the Japanese public and even opponents in his party to change their views.

The politics and economics of the issue of Japan's participation in TPP are expansively discussed in Max Helzberg's paper. Helzberg points out the complexity of the issue, which involves not only dealing with intransigence from domestic agricultural interests and their formidable political allies but also a highly skeptical public, most of whom probably do not really understand whether TPP will be good or bad for their country. He also delves into Japan's economic rivalry with South Korea as a factor for Japan's TPP interest. But even more difficult for Japan may be the U.S. as the main TPP actor: Should Japan join with the U.S.-led TPP to counter growing Chinese influence in the region, or shy from it in anticipation that the U.S. will demand trade and economic concessions as the price of TPP membership that Japan may not or could not accept. Noda's final decision on TPP ultimately may be the most difficult of his tenure as prime minister of Japan.

Japan, U.S. Launch Council on Nurturing venture businesses

The U.S. and Japanese governments in 2011 launched an experts' panel called the U.S.-Japan Innovation and Entrepreneurship Council, which began activities in 2012. The Council was charged with finding ways to nurture venture businesses and activate investments. The panel was designed to serve as an advisory body to the two governments and make recommendations on improving the investment environment and other policy-related matters. Japan aims to lure more American venture capital investment into its economy. It is part of a wider initiative named the U.S.-Japan Dialogue to Promote Innovation, Entrepreneurship, and Job Creation.

The Council has been charged with discussing such issues as ways to build a venture capital market in Japan, tax breaks for entrepreneurship and technological innovation, as well as ways to support entrepreneurship. The Department of State and the Ministry of Economy, Trade and Industry (METI), on January 25, 2012 launched the bilateral Council, comprised of government and private-sector leaders, with the mandate of exploring ways for the two countries to cooperate to facilitate the commercialization of new technology through entrepreneurial ventures.

There are many promising venture businesses in Japan with accumulated technologies in the environmental and other areas that are attracting great interest from venture capitalists. In that light, Timothy Koide's rich paper on venture businesses in Japan that can serve as a source for economic growth and innovation is an appropriate addition to this year's yearbook. Koide's example-rich essay on startups in Japan is a welcome counter-argument to the pessimists who see gloom and doom at every turn for the future of the Japanese economy. He provides an in-depth look at "new breed of entrepreneurs who are rewriting the book when it comes to the country's international potential" and the way their services-oriented companies operate. His paper is a well-needed corrective to the prevailing argument that Japan's economic future must be rebuilt on a resurgent manufacturing sector.

STRUCTURAL ISSUES IMPEDED PROGRESS IN JAPAN-SOUTH KOREA RELATIONS

Relations between Japan and the Republic of Korea (ROK) since normalization in 1965 have never been easy, but in recent years, contention stemming from such structural issues as Japan's militarist past and a territory claimed by both countries seemed to have given way to cooperation, mutual understanding and conciliation, particularly in the face of a belligerent North Korea that threatens both countries. Greatly symbolic was the gesture by Prime Minister Yoshihiko Noda on October 18, 2011, during a summit meeting with his South Korean counterpart of returning to the ROK ancient royal documents looted by Japan during the colonial period. The well-appreciated and much publicized move was a deliberate attempt by Japan's leaders to propel bilateral relations to a higher stage – what the ROK has been touting as future-oriented and not mired in the past.

But structural issues are not easy to remove once set, for despite the fact that the Japanese and Korean peoples share linguistic, historical and cultural similarities and that Japan owes much of its traditional culture to Korean imports, the bad feelings and distrust left over from the colonial period are still latent, particularly among older Koreans who harbor deep resentment over Japan's 35-year rule. Economic rivalry in the postwar decades, too, has not helped keep relations smooth. Even under the rule of Japan's Democratic Party of Japan (DPJ), which came into power in late 2009 under a Asia-tilt agenda, spats over the historical legacy have arisen without notice, such as the current one over the plight of women once used by the Japanese military during the war as sex slaves.

Still, the DPJ's three administrations since 2009 have all been eager to pursue a conciliatory line with the ROK on remaining historical issues to a degree that its predecessor, the Liberal Democratic Party (LDP) generally loathed doing. Prime Minister Yasuhiro Noda in keeping with the DPJ's attitude made South Korea his first overseas trip after taking office, arriving in Seoul with five volumes of the formerly purloined royal Korean documents, and formally returning them to President Lee Myung-bak. The documents are part of a set of 1,205 historical volumes that Noda's predecessor, Naoto Kan, had agreed to hand back when he met President Lee in 2010. The books' return was more than Noda's symbolic goodwill gesture toward South Korea, for, as Seoul National University Professor Park Cheol-hee says, "The return should be seen as a gift with a political intention." The gesture of course was appreciated, but it did not erase the vestiges of ill-will still strong in the ROK from the legacy of Japan's imperialist period.

Japan's colonial dominance over Korea from 1910 to 1945 left a legacy of bitterness and deep distrust that, generations after the end of World War II, remains deep in the psyche of the Korean society. The two countries on the surface have smooth and cooperative relations, with regular summit and cabinet-level meetings, as well as a full array of official and private contacts and business ties. Still, the political relationship remains overcast by historical points of contention. The issues that still trouble ties include Japanese views of history that seem to deny the negative impact of colonial rule of Korea, the presence of a controversial shrine in Japan where war

criminals are enshrined, Japan's handling of the WWII "comfort women" issue, and the long-standing dispute over Liancourt Rocks, tiny isles claimed by both countries. This paper in addressing these well-gnawed bones of mutual contention will assess how the DPJ has dealt with them as the new Japanese party in power.

Historical Legacy

Until the 20th century, Japan enjoyed two millennia of rich cultural interaction and direct political contact with Korea. Chinese culture, including writing and religion, flowed throughout the centuries to Korea and then from Korea to Japan. China also influenced Japan's political and legal institutions via the Korean route. The Three Kingdoms period (57-668) in Korea was marked by diplomatic representatives sent by Japan to the Korean kingdoms and vice versa. There were even contacts between the Korean and Japanese royal families, and archeological evidence now shows that the Japanese Imperial family is partly descended from the imperial family of Baekje.

The 13th to 15th centuries were times of belligerence, with a series of skirmishes between Japanese and Korean warriors off the Korean coast. During the Imjin War (1592–1598), the Japanese invaded Korea to use it as a pathway to China. The Japanese fleet was ultimately defeated and the invasion forces retreated.

With the erosion of the Qing Dynasty in China in the 19th century, China began to lose its grip on Korea, which was traditionally treated like a tributary state. Korea began to show greater independence, partly to avoid western domination and also block Japanese ambitions to control the Korean Peninsula. As Japan rapidly modernized in the second half of the 19th century and tried to emulate Western imperialism, it soon showed a strong interest in Korea. With the defeat of Qing forces inside Korea in 1895 during the Sino-Japanese War and the eventual murder of Empress Myeongseong, followed in 1905 by the defeat of Russia in the Russo-Japanese War in 1905, Korea was completely vulnerable and quickly became a colony of Japan.

Korea as a sovereign state disappeared in 1910, with the signing of the Japan-Korea Annexation Treaty and absorption into the Empire of Japan. Until 1945, the Japanese ruled Korea with policies that aimed to erase the Korean culture and language and "Japanese" the Korean people. More than a million Koreans would end up living in Japan, and many of their descendants still live there today. During this period, up to a million Japanese moved to Korea.

At the end of World War II, Korea gained its independence from 35-years of Japanese occupation, though split into the Soviet Union-influenced North and the American-influenced South. Formal ties with Japan were in limbo, however, until June 22, 1965, after long and arduous negotiations, diplomatic relations between Japan and South Korea were established with the Treaty of Basic Relations between Japan and the Republic of Korea. Japan has yet to normalize ties with the North.

Shared Common Interests and Cultural Heritage

Japan and South Korea in truth have much in common culturally and economically, and they share a common strategic view of the region. Both are key U.S. allies in the region and members of stalled six-nation negotiations on ending North Korea's nuclear and missile programs in return

for aid. Lee In-deog, head of the Institute of Japanese Studies at Seoul's Kookmin University, agrees that Japan understands the importance of South Korea as a strategic partner in the region. That Japan and the ROK have not pursued the logical course of enhancing their strategic relationship can only be blamed on the structural hurdles from the past that still remain high. The goal of defense intellectuals in both countries of a strategic triangle of Japan, the ROK, and the United States remains elusive.

Chronic Trade Deficit

Since 1965, bilateral trade between Japan and South Korea has continued to dramatically increase. According to 2009 trade figures, South Korea accounts for 6 per cent of Japan's total trade, while for South Korea, trade with Japan accounts for 10 per cent of its total. However, imports from Japan account for 15 per cent of South Korea's total imports.

Trade between Japan and South Korea has been marked by a constant trade deficit on the part of South Korea. Over the past decade, South Korea has posted a \$175-billion imbalance in trade and other international transactions with Japan. Analysts suggest that to reduce the deficit with the Japan, Korean firms should invest more to develop core technologies and increase their self-sufficiency in key industrial components. According to the Bank of Korea, South Korea's cumulative current account deficit with Japan from 1999 through 2008 reached \$175 billion, with the size expanding nearly every year. In 2007, the shortfall reached \$28.8 billion, up from \$25.1 billion in 2006 and \$17.1 billion in 2003. In 2010, the current account shortfall dropped to \$25.4 billion because domestic companies imported fewer Japanese components and parts on plunging overseas sales as a result of the global financial crisis in 2009 and the subsequent economic downturn.

But South Korea's merchandise trade deficit with Japan, despite rises and falls with global economic shifts, remains a chronic source of irritation, owing to the structure of the ROK's automobile and electronics industries, which import key components from Japan and export the assembled products abroad. According to statistics released by the South Korean government, the country's trade deficit with Japan jumped from \$27.7 billion in 2009 to an all-time high of \$36.1 billion in 2010. Japan has been eager to negotiate an Economic Partnership Agreement with South Korea, but authorities in Seoul have been concerned that such an EPA would leave South Korea's weak parts industry defenseless against a flood of Japanese imports, causing the trade deficit with Japan to balloon even further. South Korea's trade deficit with Japan dropped sharply after March 11, 2011, when the deadly earthquake hit Japan's northeastern region, but as the pace of exports and imports picks up in 2012, the deficit is likely to balloon again.

Japanese and South Korea firms often have interdependent relations, which gives Japan advantages in South Korea's growing market. Many South Korea products are based on Japanese design and technology. Rising Japanese imports of certain South Korean products into Japan stems partly from production facilities launched by Japanese investors in South Korea. Intra-industry trade linked to direct investments is also a significant factor in the deficit.

Imperial Family ties to Korea

In 1996 FIFA announced that Japan and South Korea would jointly host the 2002 FIFA World Soccer Cup. The sports event helped to lift cultural relations to another dimension. But one unexpected issue that has hindered even stronger ties has been the reluctance of Japan to let the Emperor pay a visit to the ROK, starting with the World Cup matches.

The Emperor himself has not been the problem. Indeed, he has been part of the solution. Ending a century of intellectual debate and speculation about the Japanese Imperial Family's Korean roots, none other than the Emperor himself acknowledged his origins in a 68th birthday press conference in 2001, much to the delight of South Korea and the chagrin of Japanese nationalists. Looking ahead to 2002, when the two countries would co-host the World Cup soccer finals, Emperor Akihito noted his feelings of personal attachment to Korea because of the blood ties of his ancestors. "I, on my part, feel a certain kinship with Korea, given the fact that it is recorded in the Chronicles of Japan that the mother of Emperor Kammu was of the line of King Muryong of Paekche," he told reporters. Kammu reigned from 781 to 806 AD, while Muryong ruled the Paekche Kingdom in Korea from 501 to 523 AD. Although he was quoting historical records, this was the first time that an emperor publicly admitted the Korean blood in the imperial line.

Academic claims about the emperor's ethnic and national "purity" have impeded progress in determining his family origins. The Imperial Household Agency reportedly has made archaeological sites in the former capital of Nara off-limits because officials fears the discovery of evidence that emperor's Korean ties are far stronger than has long been taught in Japanese schools. But Emperor Akihito went a long way to puncture ethno-centric myths by acknowledging that much Confucian and Buddhist teaching, as well as court music, came to Japan from the Korean Peninsula. "I believe it was fortunate to see such culture and skills transmitted from Korea to Japan," he said. While only one Japanese newspaper covered the story in detail, in South Korea, it was front-page news and generated much editorial praise. Government spokesmen welcomed the comment as a sign of a possible thaw after a year in which bilateral relations were marred by fierce disputes over Prime Minister Junichiro Koizumi's visit to the controversial Yasukuni Shrine and the approval of a new history textbook that South Korean believes whitewashes Japan's wartime atrocities.

South Korean politicians expressed hope that the acknowledgement would pave the way for the Emperor to attend the world cup opening ceremony in Seoul on May 31, 2002. But no Japanese emperor has visited South Korea since the war, and the Imperial Household Agency said there are no plans for this situation to change. Nationalist politicians are opposed to an imperial visit, fearing that the Emperor would encounter protests and come under pressure to make a new apology for Japan's wartime misdeeds.

Yuji Otabe, an expert on Imperial system and family, noted in 2001 that he believes the remark challenged Japan's prevailing image of itself as an ethnically homogeneous nation. He hoped the Emperor's comments would help shatter the country's widespread ethnocentrism, noting, "The Emperor has long been a symbol of ethnocentric nationalism . . . the myth of Japan as an ethnically homogeneous country. By commenting on his kinship with Korea, the Emperor suggested a new form of Japanese national identity that objectively sees the historical influence from the rest of Asia."

The remarks were also welcomed by archaeologists and scholars of early Japanese history whose view of a strong historical connection between Japan and Korea has been supported by archaeological discoveries in recent years. In 2009, South Korea tried again for a visit by the Emperor. President Lee Myung-bak expressed his hope in a news conference that Emperor Akihito would visit Seoul on the occasion of the 100th anniversary of Japan's annexation of Korea. Tokyo never responded and the date in 2010 has come and gone. The issue has retreated to the recesses of the diplomatic agenda.

Comfort Women

During December 2011, Prime Minister Noda met with South Korean President Lee Myung-bak in Kyoto. During the talks, President Lee sought the prime minister's "decision" on the comfort women issue, insisting that resolving it should be given priority while some former comfort women are still alive. However, Prime Minister Noda reiterated Japan's standard position that the issue had been legally settled, but he called for using wisdom and addressing it from a humanitarian standpoint. Noda, keeping with party lines, was correct to refrain on behalf of Japan from making an easy compromise on the issue of so-called comfort women despite Korea's recent domestic legal decision. President Lee was clearly bringing up the comfort women issue with a view to recent developments in his country, such as a stiffening of public sentiment after South Korea's constitutional court ruled that it was unconstitutional for the government not to make an effort to have Japan pay compensation to the comfort women.

The term "comfort women" is a euphemism used to describe women forced into sexual slavery by the Japanese military during World War II. Estimates vary as to how many women were involved, with numbers ranging from as low as 20,000 from some Japanese scholars to as high as 410,000 from some Chinese scholars, but the exact numbers are still being researched and debated. The majority of the women, now elderly and diminishing in number every year, are from Korea, China, Japan and the Philippines.

Initially the Japanese government denied any official connection to the wartime brothels. However in June 1990, the Japanese government declared that all brothels were run by private contractors. The same year, the Korean Council for Women Drafted for Military Sexual Slavery filed a lawsuit, demanding compensation. Several surviving comfort women have also independently filed suit in the Tokyo District Court. The court rejected these claims on such grounds as the statute of limitations having expired, the immunity of the State at the time of the act concerned, and non-subjectivity of the individual in international law.

It is conventional wisdom in Japan that many of the military records that might have documented the comfort women program were likely burned at the end of the war. But in 1991, the historian Yoshiaki Yoshimi discovered incriminating documents in the archives of the then Japan Defense Agency, which indicated that the military was directly involved in running the brothels. The information was leaked to the press and this sensation caused the government, represented by Chief Cabinet Secretary Koichi Kato, to acknowledge some of the facts. On January 17, 1992, Prime Minister Kiichi Miyazawa presented formal apologies for the suffering of the victims during a South Korean tour.

After the government studied the evidence, Yohei Kono, then chief cabinet secretary, issued a statement on August 4, 1993, which recognized that the “comfort stations were operated in response to the request of the military of the day,” and that “the Japanese military was directly or indirectly involved in the establishment and management of the comfort stations and the transfer of the women”. In the statement, the government of Japan expressed its “firm determination never to repeat the same mistake” and to reinforce knowledge of the issue “through the study and teaching of history.” Although this statement was offered as an apology, it was very carefully worded, admitting an unspecified role of the military in running the brothels, while rejecting legal responsibility for them. Japan continues to contend the brothels were not a “system” and not a war crime or crime against humanity.

In 1995, Japan set up an “Asia Women’s Fund” for atonement in the form of material compensation and to provide each surviving comfort woman with a signed apology from the then Prime Minister Tomiichi Murayama. His statement read: “As Prime Minister of Japan, I thus extend anew my most sincere apologies and remorse to all the women who underwent immeasurable and painful experiences and suffered incurable physical and psychological wounds as comfort women.” The fund, which expired in 2007, was supported by private donations and not government money, and has been criticized as a way for the government to avoid admitting official culpability for the abuse of the women. Because of the unofficial nature of the fund, many comfort women rejected the payments and continued to seek an official apology and compensation.

On March 2, 2007, Prime Minister Shinzo Abe created an international stir when he denied that the Japanese military had forced women into sexual slavery, in effect rejecting the Kono Statement. He claimed, “The fact is, there is no evidence to prove there was coercion.” In tandem with his remarks, a group of conservative lawmakers from his party the LDP, sought unsuccessfully to retract Yohei Kono’s 1993 statement of apology to the former comfort women.

The Supreme Court of Japan, in a decision handed down on April 27, 2007, firmly and finally closed the possibility of former comfort women seeking compensation through litigation in Japan. That case *Ko Hanako et al. v. Japan*, was brought by six plaintiffs on behalf of two women who were captured by the Japanese soldiers in Shanxi province of north China, removed to garrisons, and subjected to weeks of ongoing sexual and other brutal violence. However, all claims were ultimately denied. The DPJ has not revisited the issue, for in an interview in October 2011, Prime Minister Noda stated that the issue of war compensation to “comfort women” from South Korea had already been “legally resolved” in 1965 by a bilateral diplomatic treaty between the two nations to normalize relations. Whether his call for “humanitarian consideration” results in another Asian Women’s Fund or the like, remains to be seen. Some critics argue that even if Japan were to take half measures from a “humanitarian standpoint,” it would be difficult to satisfy South Korea but only further complicate the problem.

Activists in Seoul have installed a statue of a young comfort woman in front of the Japanese Embassy. In their October meeting, Noda requested of President Lee that the statue be removed as soon as possible. But Lee, obviously with an eye to the domestic audience, refused. He said that unless Japan took sincere measures to resolve the compensation problem, other statues would be added every time a former comfort woman died. The DPJ believes the argument

makes no sense and has no standing based upon the Vienna Convention on Diplomatic Relations, which stipulates that “the receiving State is under a special duty to take all appropriate steps...to prevent any disturbance of the peace of the mission or impairment of its dignity.” The Japanese government believes the South Korea government’s tacit approval of the statue violates the convention. The government maintains that Noda’s demand that the statue be removed is consistent with the DPJ’s standpoint that the issue in legal terms has been resolved and cannot be revisited.

Yasukuni Shrine

Yasukuni Shrine, located in central Tokyo, dates back to the 19th century when established by the Japanese military for enshrining the war dead. It was not controversial internationally until it was discovered in 1978 that the shrine had secretly enshrined 14 convicted Class-A war criminals. The spiritual presence of such souls at Yasukuni made visits by Japanese officials, starting with the Prime Minister, an affront to those countries, particularly China and Korea, which were the victims of Japan’s past military aggressions.

Yasukuni Shrine honors some 2.5 million war dead, dating back to the mid-19th century. Most were added in the decades following World War II. Asian countries that were invaded and occupied by Japan see the shrine as an insulting tribute to Japan’s decades-long quest to dominate the region militarily. The controversy has been reignited nearly every year since 1975, when Prime Minister Miki Takeo visited the shrine as a private individual on August 15th; the day Japan was defeated in World War II. The following year, Prime Minister Fukuda Takeo visited as a private individual yet signed the visitors’ book with his official title. Several other Japanese prime ministers have official visited the shrine since 1979: Yasuhiro Nakasone in 1983 and 1985; Kiichi Miyazawa in 1992, although this visit was kept secret until 1996; Ryutaro Hashimoto in 1996; and Junichiro Koizumi, who visited six times between 2001 and 2006. All of these visits angered neighboring countries because they were seen as symbolic attempts to legitimize Japan’s past militarism.

Visits to the shrine are also controversial in the domestic debate over the proper role of religion in the secular Japanese government. Some of the members of the Liberal Democratic Party (LDP) insist that the constitutional right to freedom of religion protects visits and that it is appropriate for politicians to pay their respects to those who have fallen in war – though the war criminals were executed for their acts and did not fall in battle. For years, there were proposals floated for the construction of a secular memorial to honor Japan’s military dead. But all such attempts have failed and Yasukuni remains the focus of August 15 attention. There is a secular service at a local hall in Tokyo attended by the Emperor and the Prime Minister, but this event does not have the status of being a secular memorial to replace Yasukuni.

The situation surrounding visits by Japanese leaders flared up during the tenure of Prime Minister Koizumi. He claimed that his annual visits were to honor the war dead, not the war criminals, and to ensure that there would never be any more wars involving Japan. His visits were interpreted by some as acts of remembrance rather than reverence. One visit, however, his fifth one, was made despite a September 30, 2005, ruling by the Osaka High Court that such visits violate the constitutional separation of religion and state.

“Koizumi knows what he’s doing,” says David Kang, Professor of International Relations and Business at the University of Southern California. “A lot of this is for domestic purposes. It’s a delicate balancing act.” Koizumi was strongly backed by the Liberal Democratic Party’s nationalistic right wing, which urged party members to visit the shrine to “thank from the heart and sincerely offer condolences to those killed in war.” The LDP’s party platform contained a similar message.

For Koreans, such visits by Japanese officials to Yasukuni evoke memories of Japan’s past treatment of that country. “Nationalism directed against Japan is an essential part of Korean national identity,” says Charles Armstrong, assistant professor of history and director of the Center for Korean Research at Columbia University. Experts say Korean leaders come out very strongly against Japan because they must respond to a bloc of young, liberal voters in South Korea that is very critical of Korea’s cooperation with Japan during the colonial period. Liberal Korean leaders come out strong because they are trying to distinguish themselves from earlier generation of leaders, as well as their rivals in the Grand National party. However, both parties accuse the other of being weak towards the Japanese when out of power. Overall, both the right and left in Korea criticize the Japanese government whenever there is a perception that Japan is trying to reject or ignore the transgressions of its militarist past, such as a prime minister or cabinet members paying a visit to Yasukuni fully aware that such is an affront to Asian countries.

Since the privately-run Yasukuni Shrine is not an official, state-run institution, the priest there have been able to choose which souls of which former officials and officers to enshrine. Ironically, though, the names of the post WWII war dead, including Class A, B, C war criminals, were sent to the shrine by the Ministry of Health and Welfare and automatically added to the shrine’s roles. As Japan has no official shrine, its leadership has to go to this important and symbolic site instead.

The former ruling party, Liberal Democratic Party (LDP), tended to treat Yasukuni Shrine as a domestic issue, arguing that ‘*official obeisance visits*’ were necessary in order pay respects to the war dead -- though a liberal wing of the party disagreed and avoided visits on controversial days like August 15. The new ruling party, the Democratic Party of Japan (DPJ) has consciously avoided creating controversy with Asian countries over Yasukuni and neither prime ministers nor cabinet members have visited the shrine since the party came into power in the fall of 2009.

However, the current prime minister, Yoshihiko Noda, is on record as having said that he does not consider the 14 Class-A war criminals enshrined at Yasukuni to have been guilty of war crimes, in effect rejecting the findings of the International Military Tribunal for the Far East and Japan’s acceptance of that when it signed the San Francisco Peace Treaty in 1951. The latest incident started on August 15, 2011, when Noda irritated South Korea, which Noda’s predecessor Naoto Kan had carefully courted, by reaffirming an argument he had made in the Diet six years about the 14 enshrined at Yasukuni not being war criminals.

Some legal commentators have made a similar point in the past, arguing that Japanese law does not recognise the verdicts of the International Military Tribunal for the Far East, which convicted them. Legal hair-splitting aside however, Japan’s government accepted the verdicts as part of the

San Francisco peace treaty, Article 11 of which begins: “Japan accepts the judgments of the International Military Tribunal for the Far East and of other Allied War Crimes Courts both within and outside Japan, and will carry out the sentences imposed thereby upon Japanese nationals imprisoned in Japan.”

Noda’s unusual argument in 2005 was that the San Francisco treaty “restored the honour” of all Japan’s war criminals, but when he made this point to Junichiro Koizumi in 2005, in response to the then-prime minister’s controversial visit to Yasukuni, even Koizumi said he did not know what Noda was talking about.

Few noticed this exchange in 2005 because at that stage Noda was a little-known opposition politician. As prime minister, however, one of his most symbolic diplomatic gestures would be whether he visits Yasukuni on the annual August 15th ceremony to venerate the souls of Japan’s war dead. Koizumi’s visits to Yasukuni deeply soured Japan’s relations with China and South Korea. Since becoming prime minister, however, Noda has indicated he would not visit the shrine when in office, following the DPJ policy line. Yasukuni has been moved to the back-burner as a structural issue with South Korea. On August 15, 2011, the 66th anniversary of Korea’s liberation from Japanese rule, President Lee Myung-bak made this much wiser comment about Japan:

“The Korean government has all along striven to maintain mature relations with Japan. For the sake of the future relationship, Korea will not be bound by the unfortunate past. But at the same time, the Korean people can never forget the history of the recent past altogether.

“Japan has a responsibility to teach its young generation the truth about what happened in the past. By doing so, we can then allow young people in Korea and Japan to forge ahead into the new era with a correct recognition and understanding of history. This kind of cooperation will greatly contribute to the peace and prosperity of the world as well as north-east Asia.”

A day later, the foreign ministry in Seoul called Noda’s remarks inappropriate, saying they “negate Japan’s past history of aggression.”

Noda’s personal view are not held by the Emperor, however, who has not visited the shrine since the 1970s, when he found out about the enshrinement there of the war criminals. He is quoted as saying: “It is my mind not to pay tribute to Yasukuni anymore as Class A war criminals are now enshrined.”

With the Emperor’s comments and the DPJ staying away from the shrine, the Yasukuni issue is not likely to flare up again soon. But it will continuously be a sleeper issue between Japan and its Asian neighbors that could return to sour ties if a future prime minister and cabinet ministers decide to challenge the new status quo.

Liancourt Rocks: Takeshima or Dokdo?

Isolated, tiny and desolate, a small group of islets internationally known as the Liancourt Rocks are the center of an international dispute that dates back to the 15th century. Both the ROK and Japan claim sovereignty over the small islets located in the Sea of Japan. North Korea supports South Korea's claim. The islets have been administered by South Korea since 1954 by stationing its coast guard there. This action was taken after the United States stated that the Japanese claim to the Liancourt Rocks would not be renounced in the peace treaty.

Koreans claim sovereignty over what they call "Dokdo", while the Japanese maintain that the islets are theirs, calling them "Takeshima". The islands occupy just 0.08 square mile in land, but their possessor would gain control over the 200 nautical miles (230 miles) surrounding them. South Korea currently administers this collection of 90 islands and reefs in the Sea of Japan (East Sea), centered about halfway between South Korea and Japan - with only 2 permanent residents and 40 government workers stationed there (police, lighthouse keepers, Fishery Ministry personnel). Although the dispute is centuries old, it has heated up recently due to several incidents: increased efforts in Japan to call attention to the dispute itself, a flip-flop by the U.S. Board on Geographic Names which briefly labeled the rocks as having "Undesignated Sovereignty" (undone by executive order within days), and the public observations in Japan of "Takeshima Day" on February 22nd. South Korean citizens have staged numerous protests against Japan over the past few years, some with extreme demonstrations, including a woman and her son who each cut off a finger. One man even attempted to set himself on fire.

Noda's October 2011 visit to Seoul came two months after South Korea banned three conservative Japanese lawmakers from entering the country after they arrived at a Seoul airport with a plan to travel near islets at the center of territorial and historical disputes between the countries. Tokyo's latest defense white paper claimed for the seventh straight year that the islets belong to Japan, drawing protests from Seoul.

In January 1952, then ROK President Syng-man Rhee, issued a declaration on maritime sovereignty that effectively installed the so-called "Syng-man Rhee Line" as the ROK's maritime boundary. It encompassed the disputed isles and was regarded then as a unilateral act in contravention of international law. In July 1953, Korean officers supporting and protecting Korean fisherman fired on a Japanese patrol vessel of the Maritime Safety Agency. In June 1954, the ROK's Ministry of Home Affairs announced that the coast guard had dispatched a permanent battalion to the islands. Since then, the ROK has kept security personnel stationed on the islands and constructed lodgings, a monitoring facility, lighthouse, port and docking facilities.

The occupation of the islands by the ROK is illegal, according to the Japanese government, which argues that there is no basis for that under international law. The Japanese government believes that no measure taken by the ROK concerning the islands while it is occupying the islets has any legal justification. Japan has consistently made strong protests against each and every measure taken by the ROK with respect to the islands, demanding withdrawal of the latest one. Since the installation of the "Syng-man Rhee Line" by the ROK, Japan has repeatedly protested against the ROK's actions, such as claims of sovereignty over the islands, fishing activities, firing at patrol vessels and the construction of structures on the island. Intending to peacefully resolve the dispute, Japan proposed with a *note verbale* in September 1954 that South Korea agree to

submit the dispute to the International Court of Justice (ICJ). The ROK in October flatly rejected the proposal, for in Seoul's view, there was no territorial dispute. Again, in March 1962, then Foreign Minister Zentaro Kosaka in a meeting with his ROK counterpart, Choi Duk-shin, proposed that the issue be referred to the ICJ, and again Japan was turned down. As of today, no progress has been made to resolve the dispute.

Managing the Liancourt Rocks issue has been a challenge for DPJ administrations with two incidents in 2011 alone. The territorial dispute threatened to flare up in January 2011 when a South Korean fishing vessel veered into disputed waters near the islets. The Japan Coast Guard arrested the captain of the vessel after it refused to stop for inspection in territory that Japan claims near the rocky islets. In the past, disputes surrounding the islets have led to diplomatic spats and protests on the streets of Seoul. But in this case, both Japan and South Korea decided to play down the incident. There apparently was concern that it could escalate into another nasty feud capable of overshadowing ongoing amicable military talks aimed at tightening ties between the two countries. Japan and South Korea aim to sign a peacetime ACSA – Access and Cross Servicing Agreement – that would allow the armed services of both countries to cooperate logistically during a natural disaster in the region.

But only months later, the territorial dispute between Japan and South Korea flared up again, when Japan's foreign ministry told its staffers to boycott Korean Air Lines Co. for a month following the airline's unusual flight over the contested islets in June. Korean Air flew its first, newly acquired A380 superjumbo passenger jet over the disputed isles as part of a demonstration for local media. The Japanese boycott was largely a symbolic move with little commercial or economic sting. Still, the instructions issued in July by Foreign Minister Takeaki Matsumoto showed the sensitivity in both countries over the issue of who controls the tiny islands

The official Japanese perspective on the territorial issue is one of puzzlement. Interviewed experts and officials stated that they did not understand why the ROK has made such a fuss about the islets. They wondered that since the ROK effectively controls the isles, why is it necessary for the government to regularly bring up the territorial issue? This viewpoint essentially captures the issue at hand over the isles. South Korea continues to vocalize the issue of Dokdo, despite its effective control over the isles. The Japanese would prefer to resolve the Takeshima issue through the international judicial process, despite their view of the islands as a domestic issue. But South Korea will have none of that, since the islands are Korean territory. This structural issue that defies diplomatic solutions is not likely to go away for the foreseeable future.

Conclusion

Structural issues linked to the past that cannot be effectively resolved and flare up unexpectedly have become a constant impediment to the deepening of bilateral ties between Japan and South Korea and the mutual aim of building a forward-looking and future-oriented relationship. In the October 2011 summit meeting between Prime Minister Noda and President Lee, the comfort women issue took up most of the allotted time at the expense of productive discussion on other important issues. In this case, the issue reemerged due to South Korea's domestic political situation, but regardless, both countries need to be wary of letting historical bones of contention block progress in developing a broad-based amicable relationship.

The two countries, for example, need to move on the now stalled negotiations to sign an economic partnership agreement (EPA). In his meeting with Lee, Noda called for accelerating lower-level consultations in order to resume the EPA negotiations as soon as possible, but the president did not give a positive response. Neither side seems ready to trust the other: Wary of a further increase in its trade deficit with Japan, South Korea remains cautious about resuming the negotiations. If Japan were willing to take the bold steps to further open its markets that the ROK wants, it would go a long way toward building trust and ensuring market access for both countries in each other's economies.

Japan and South Korea share common interests when it comes to North Korea, a mutual threat. But if the two countries fail to keep in step with each other on North Korean issues, such as the North's nuclear and missile development programs and the fate of abducted Japanese and South Korean nationals, it only benefits North Korea. Particularly now with a new leader in North Korea following the death of Kim Jong-il, the two countries should cooperate diplomatically and strategically, assuming that the North is entering a period of instability and unpredictability.

The unfortunate legacy of Japan's historical treatment of Korea explains why South Korea tends to react disproportionately to controversial words and actions coming out of Japan. Kang noted: "Japan and Korea will have to get to a relationship where Japan does one move, and Korea responds with one move. Now, Japan does one and Korea does ten." But such diplomatic overreaction is not all that uncommon, he noted, pointing to U.S. antipathy toward France after it refused to support the Iraq war. "It's not just Asian countries that are needlessly provocative," he said.

Experts say the leaders of both countries, in calmer moments, know that they are deeply interrelated on many levels and must depend on each other. Their societies have become closer and more involved culturally. This can be seen in recent opinion polls showing growing positive attitudes among the Japanese and South Korean societies toward each other. Since Japan and South Korea jointly hosted the successful 2002 World Cup, there has been a burgeoning boom of interest in each other's sports, culture, and society. South Korean singers, actors, movies, and TV shows have become almost insanely popular in Japan in recent years. A South Korean soap opera, *Winter Sonata*, led the way for other productions several years ago. The show's star Bae Yong-jun and subsequently other actors and singers have become heartthrobs to millions of Japanese women, who make pilgrimages to sites in South Korea where the shows are filmed. 2005 was designated the Korea-Japan Friendship Year to mark forty years of diplomatic relations.

Such developments have smoothed over the rocky parts of the relationship and boosted the overall picture in the public's eye. "Relations are not as bad as they appear from the outside," said one observer, adding, "Much of the protest is for domestic consumption." Despite the existence of historical points of contention, the two countries now have the capability of transcending them for the sake of the importance of the overall relationship. They must not let structural issues stand in the way of greater economic and strategic cooperation between Japan and South Korea as the region becomes more fully integrated.

SAME GAME OR END GAME? JAPAN AND THE NORTH KOREA CONUNDRUM

Introduction

In May 1993, two months after withdrawing from the Non-proliferation of Nuclear Weapons Treaty (NPT) amid suspicions about its nuclear weapons program, North Korea fired a Nodong-1 medium-range (1300 km) ballistic missile into the Sea of Japan. The test missile launch was thought to be part of North Korea's effort to develop weapons capable of striking Japan. Since then, despite negotiations and occasional moratoriums, North Korea's nuclear program and periodic missile tests have continued, most recently with the failed satellite-bearing launch of the long-range Taepodong-2 missile in 2009. For Japan, the threat became shockingly real in August 1998, when North Korea tested the Taepodong-1, firing that intermediate range missile over northern Japan.

As a result of this and other provocations, including incidents targeting South Korea, Japan considers North Korea a direct military threat, which for most Japanese remains frighteningly real today. In addition, North Korea's abductions of Japanese citizens in the past remain a top-priority bilateral issue. Sanctions against the DPRK have virtually cut off all trade and flows of money. Moreover, with the recent death of "Dear Leader" Kim Jong-il and the selection of his enigmatic young son Kim Jong-un as the "Great Successor," uncertainties on the Korean Peninsula are greater than ever, for even the best North Korea watchers cannot predict what will come next.

Japan would prefer an eventual diplomatic solution to the North Korean nuclear and missile threat, and a negotiated settlement of outstanding bilateral issues, headed by the return of Japanese nationals abducted by North Korean agents decades ago. The North, as its price, wants Japan to provide wartime compensation for the colonial period and additional economic assistance, but talks have been stalled for years.

In addition to the bold summit diplomacy of Prime Minister Junichiro Koizumi – who journeyed to Pyongyang in 2002 and 2004 to meet Kim Jong-il, sign a Pyongyang Declaration and bring home five abductees and then their families – another major development since the first North Korean nuclear crisis in 1993-94 has been the elevation of Japan's role in multilateral negotiations with the DPRK. Although the principle vehicle has been Six-Party Talks, the experience has brought Japan, the U.S. and South Korea closer together in a trilateral approach to risk management, given the uncertainties of North Korea's intentions and most recently, the transition of power issue.

During the first North Korean nuclear crisis, bilateral talks between the U.S. and North Korea led to the 1994 Agreed Framework. Japan joined the multilateral arrangement designed to wean Pyongyang away from its nuclear program in return for aid to build light-water reactors for peaceful energy use. The arrangement eventually failed when Pyongyang was discovered to have cheated by continuing a secret nuclear development program. Today, the process of prodding the

DPRK to abandon its nuclear ambitions is led by the currently stalled Six-Party Talks with North Korea, which also include the United States, Republic of Korea (ROK), China, Russia and Japan. Attempts to restart the moribund talks are likely to continue, once the DPRK's transition to the Kim Jong-un regime seems to be complete.

This paper examines Japan's perspective on the Korea Peninsula problem with an emphasis on Tokyo's role in the Six-Party Talks. It also brings into focus the approach to the DPRK of the Democratic Party of Japan, which took over the reins of government from the Liberal Democratic Party in September 2009. The research for this paper, including interviews in Japan with security specialists, evaluates Tokyo's diplomacy toward Pyongyang in the context of Six-Party Talks, but it also concludes that Japanese leaders, given the current multilateral impasse, should pursue more aggressive bilateral talks with Pyongyang that are highly coordinated with the U.S. and the ROK. Indeed, such may already have started as of early 2012. Building a solid foundation through bilateral negotiations is a necessary prerequisite to effectively utilizing the Six-Party Talks and ensuring the security of the Northeast Asia region.

Japan-North Korea Historical Background

As the closest landmass between the mainland of Asia and Japan, the Korean Peninsula has long been regarded as an area of both vulnerability and strategic importance for Japan. Since the attempted Mongolian invasion of Japan via Korea in the 12th century, the peninsula jutting out of continental Northeast Asia towards Japan has been thought of as a "dagger pointed at the heart of Japan." It is not surprising, therefore, that Japan has considered Korea to be a strategic prize throughout much of history, as it has been for other great powers in the region. After victories in both the Sino-Japanese War (1894-5) and the Russo-Japanese War (1904-5), Japan, with its imperialist ambitions, solidified its control over Korea. In 1910, Japan officially annexed Korea and occupied the peninsula as a colony for 35 years until its 1945 defeat in World War II.

North Korea's animosity towards Japan runs deep in its history. When the Korean Peninsula was divided at the 38th parallel following the end of World War II, many Korean nationalists who had fought against the Japanese occupation allied themselves with leftist elements and went north. In the South, conservative elites made up largely of former Japanese collaborators formed another government with U.S. support. Brutally suppressed in the South, many one-time independence activists with leftist affiliations fled to the North. Fueled by bitterness over Japan's 35-year occupation of the Korean Peninsula, North Korea has shaped its relations with Japan based mainly on that historical experience, which according to former Deputy Foreign Minister Hitoshi Tanaka, places Japan in a uniquely vulnerable position vis-à-vis North Korea.

Since Pyongyang still views Japan as its former colonial master, it has branded it as public enemy number one. To demonstrate his point, Tanaka highlighted an incident in which North Korean agents used Japanese passports when they bombed Korean Airlines flight 858 in 1987. Tanaka believes Japanese passports were used in an effort to establish the Japanese as terrorists. The perception that North Korea is a dangerous enemy runs deep in Japan as well. Johns Hopkins University Professor William Brooks has observed that North Korea is to Japan what Iran is to Israel, noting that the Japanese still remember vividly the Taepodong missile launch over the Japanese archipelago in 1998 and are constantly aware of the upwards of 200 Nodong missiles that the DPRK has trained on Japan. Against this backdrop, opinion polls consistently

show, and experts all agree, that the most immediate and consequential threat to Japanese security is coming once again from the Korean Peninsula.

The North Korean Game

Throughout the Cold War, North Korea relied on Soviet economic assistance and security guarantees to sustain its socialist economy and ensure its survival. However, when the Cold War abruptly came to an end and North Korea no longer had the luxury of Soviet assurances, Pyongyang's survival strategy shifted. North Korea began to meet its need for hard currency through various other channels. Trade with its neighbors and international remittances, especially from Japan, were two sources of cash. In addition, North Korea resorted to various illicit activities as sources of revenue, such as the arms trade, drug trade, and by counterfeiting foreign currencies. These days, an isolated North Korea has also turned increasingly to China as its supporter of last resort. However, of all of North Korea's tactics for preserving the existing regime, the most alarming for the international community, especially for Japan, has been the development of North Korea's nuclear weapons program.

For the past two decades, North Korea's nuclear issue has played a double role: one of ensuring its security and another of extorting aid from countries worried about the rogue nation's nuclear capabilities. Pyongyang has utilized its nuclear program as a wildcard in a game of brinkmanship, a strategy in which North Korea engages international players in a cycle of provoking, bargaining, obtaining economic and security concessions, and then provoking again to gain even more concessions. As Masaru Tamamoto, senior fellow at the World Policy Institute, put it several years ago: Kim Jong-il "increasingly looks like a man who has doused his house with gasoline in a tightly packed neighborhood of wooden houses and threatens to light a match unless he can have his way." For many Japanese observers of North Korea, the description is apt.

Some North Korea watchers in Japan are of the opinion that there is no endgame to the nuclear issue as long as the existing North Korean regime continues to survive, a situation that remains even more uncertain due to Kim Jong-il's recent death and the transition to an untested young son, Kim Jong-un. Many now believe that North Korea will never give up its nuclear ambitions as long as the U.S. nuclear umbrella protects South Korea and Japan. Some experts even argue that the very act of "negotiating" with North Korea is pointless, arguing that the Six Party Talks only worked to provide the participants with a sense of false security. Such experts see the Six Party Talks, at most, as a useful crisis management mechanism, but dismiss the negotiations as being potentially effective for denuclearizing North Korea. What this pessimistic view means for the future of diplomatic efforts to eliminate the North Korean threat is not clear, but it certainly opens the possibility of conflict in some form or another along the way.

Still, other experts in Japan, like Tanaka, remain more optimistic. Tanaka believes that North Korea in the end may be convinced to abandon its nuclear weapons program. He thinks North Korea wants to use the nuclear card to its best advantage as an international bargaining chip and get the highest payoff. Others who argue similarly say that North Korea will eventually have no choice but to exchange its nuclear capabilities for all the benefits it desires, including the lifting of sanctions, economic aid and normalization. Otherwise, the country's economic future looks

increasingly bleak. Such cold logic sounds convincing, but there is no way to foretell whether Pyongyang's young dictator is thinking along those lines.

The Koizumi Magic in 2002 and Beyond

In September 2002, Prime Minister Junichiro Koizumi without warning flew to Pyongyang for an unprecedented summit meeting with Kim Jong-il. He was the first Japanese leader to visit North Korea. During their meeting, the two leaders signed the Pyongyang Declaration, which became the basic framework for Japan's policy towards North Korea. The Declaration addresses three key issues surrounding Tokyo's relationship with Pyongyang: nuclear and missile issues, normalization of bilateral ties, and the abduction of Japanese citizens.

During the meeting, Kim amazingly acknowledged thirteen abductions of Japanese citizens by North Korea agents in the 1970s and 1980s and apologized for the incidents. Of the thirteen abductees, North Korea claimed that only five were still living. Koizumi negotiated the release of the five survivors, who returned to Japan the following month. When normalization talks between Japan and North Korea began in Kuala Lumpur in late October 2002, the Japanese side demanded the release of the five abductees' families to Japan. The North Korean side responded by saying that it was unwilling to use the abduction issue for political purposes, but expressed its intent to eventually resolve the issue. Two years later, in May 2004, Koizumi visited Pyongyang for the second summit meeting with Kim to negotiate the release of five of the abductees' seven children. The two other children were allowed to meet their mother in a third country, and both countries agreed to jointly investigate the whereabouts of abductees who were still missing.

The Abduction Issue

The Japanese government, backed by an emotionally charged public, considers the abductions to be a top priority policy issue with North Korea. The issue has received so much public attention that it is now considered an issue of national security for Japan. As Prime Minister Yoshihiko Noda stated in his inaugural policy speech to the 178th session of the Diet in the fall of 2011, the abduction issue is a grave one that relates to Japan's national sovereignty. Still, some Japanese scholars warn that policy towards North Korea should not be so narrowly focused on the abduction issue. They argue that although the vulnerability of politicians to public reactions is understandable, Japan is losing sight of the big picture in northeast Asia because of its overly emotional attachment to the abduction issue.

But since the DPJ came into power in 2009, there has been a subtle change in emphasis on the abduction issue. Whereas the LDP was openly vocal about the top-priority need to resolve the issue, the DPJ has played down the rhetoric and seems to be seeking opportunities for quiet interaction with the North at diplomatic levels.

Pyongyang's position regarding the abduction issue has been inconsistent. North Korea has repeatedly stated that the issue has already been resolved, but on occasion, it has reversed its position by pledging to investigate the missing abductees even further. Though there has been little progress made regarding the abduction issue under the DPJ, given the party's receptivity, the possibility of renewed talks with Pyongyang cannot be ruled out in the foreseeable future.

One Japanese scholar believes that new developments in the abduction case of Megumi Yokota, a Japanese girl who was kidnapped by North Korean agents at the age of thirteen in the late 1970s, could finally lead to a critical breakthrough in efforts to settle the overall issue. Yokota was one of the Japanese citizens that North Korea admitted it had kidnapped. Pyongyang has declared that she died in captivity, but many Japanese believe that she is still alive. Since then, massive public campaigns led by Yokota's parents have made Megumi Yokota the symbol of the abduction issue in Japan. The scholar thinks that the Japanese public can never accept normalization of ties with the DPRK unless there are developments in the Megumi Yokota case. Resolving that case would be a game-changer for Japan, and it could lead to a possible huge breakthrough in bilateral relations, according to the expert.

But Hitoshi Tanaka is not so sanguine. He sees the abductions, much like the nuclear and missile issues, as one of North Korea's survival tools, which it will not be willing to give up easily. Japan, on the other hand, will only normalize relations and provide economic assistance to North Korea once the abduction issue is settled. Moreover, Tanaka further argues, the Diet would never approve economic aid to North Korea as long as the regime possesses nuclear weapons. Therefore, he concludes, North Korea does not stand to gain from resolving the abduction issue as long as it holds on to its nuclear wildcard. Pyongyang understands this, and for this reason, the abduction issue cannot be settled independently. Rather, there has to be a comprehensive settlement plan in which all the cards are thrown on the table, according to Tanaka. His argument seems quite convincing.

Ratcheting up Sanctions on the DPRK

Another factor militating against easy resolution of bilateral issues with North Korea is the regime of comprehensive sanctions Japan has imposed in response to North Korean provocations. Sanctions were first imposed in 2006 when North Korea conducted a nuclear weapons test. In April 2009, Japan tightened economic sanctions against North Korea to punish the communist regime for a ballistic missile launch. The Japanese cabinet approved the new set of sanctions and tightened monetary transmission rules to North Korea. Under the new rule, any monetary transmission to North Korea over 10 million yen (approximately \$100,000) and cash delivery over 300,000 yen (\$3,000) had to be reported to the government. The sanctions also extended a current import ban and embargo on North Korean vessels to Japanese ports. The 2009 sanctions were extended in 2010 because Pyongyang did not fulfill a promise made in 2008 to reinvestigate cases of its abductions of Japanese nationals; nor had it returned to the Six-Party Talks to defuse tension over the nuclear weapons issue.

Incidents occurring during DPJ governments have resulted in even more sanctions. On November 23, 2010, immediately following North Korea's military strike on the South Korean island of Yeongpyeong, the Naoto Kan cabinet established an emergency response center to gather information on the unfolding crisis, and it promised harsher sanctions on the DPRK. In the ensuing weeks, however, a flaw in this strategy emerged. Since earlier rounds of sanctions imposed on North Korea following its 2006 nuclear test, extended in 2009 following its long-range missile test, and further tightened in May 2010 following the sinking of the South Korean warship *Cheonan*, Japan's trade and financial flows with North Korea dwindled virtually to zero. There was, in other words, no more leverage to apply; Japan had nothing left to sanction. Ironically, the series of sanctions imposed on North Korea by Japan and other countries in recent

years is widely regarded by scholars as having had very little effect on the DPRK regime anyway. Trade and financial flows continue from China, the DPRK's one remaining source of aid and comfort.

Confronting the Nuclear Weapons and Missiles Issue

At the Japan-DPRK normalization talks in October 2002, Japan provided a list of demands in regards to the nuclear issue. The demands included clarifying the status of North Korea's uranium enrichment program, dismantling the program in a prompt and verifiable manner, ceasing operations at facilities as outlined in the 1994 Agreed Framework, and allowing inspections in compliance with the International Atomic Energy Agency (IAEA) Safeguards Agreement. Regarding the missile issue, the Japanese demanded concrete and positive measures to eliminate long-range ballistic missiles capable of reaching Japan. In response to Japan's demands, the North Korean side simply stated that the nuclear and missile issue could only be resolved through negotiations with the U.S. According to Tanaka, who had organized Koizumi's 2002 trip to Pyongyang, at the time, Kim Jong-il was greatly concerned about a possible U.S. attack against his country. Tanaka pointed out that Kim's statements at the summit meeting were closely scripted, except when he spoke about the U.S. The fact that Kim spoke without using a text when his words were directed at U.S. sheds light on the importance Kim had attached to improving relations with the U.S. Most Japanese experts on the DPRK acknowledge that for Pyongyang, such a goal remains a priority, and bettering relations with Japan is far down on the diplomatic list of things to do.

As a result, when the first round of the Six-Party Talks began in August 2003, an integral part of the package deal that North Korea proposed to resolve the nuclear issue was a non-aggression treaty with the U.S. The DPRK barely tolerated Japan as a member of the talks.

Six Party Talks: Timeline and Major Developments

The Six-Party Talks have been held since 2003 in pursuit of a peaceful resolution to the issue of North Korea's development of nuclear weapons and the denuclearization of the Korean Peninsula. The first three rounds soon ended in a stalemate. But in the fourth round of the Six-Party Talks in 2005, a joint statement was released, which included the verifiable abandonment of "all nuclear weapons and existing nuclear programs" by North Korea. It appeared that a breakthrough had been achieved. Soon after, however, other disagreements surfaced, particularly the sensation over U.S. financial sanctions against North Korea linked to Banco Delta Asia. The joint statement was effectively cast aside. The fifth round of multilateral talks soon stalled in 2006, when North Korea test fired seven ballistic missiles and announced that it had conducted a nuclear test. In response, the U.N. Security Council implemented sanctions against North Korea. As tensions mounted, Prime Minister Shinzo Abe toughened Japan's policy towards North Korea with a ban on North Korean vessels from entering Japanese ports and a complete ban on North Korean imports.

The situation began to change after 2006 when Japan chose to increase pressure on North Korea, and the U.S. began to move in the opposite direction toward reengaging Pyongyang in dialogue. The U.S. in an effort to move forward with the 2005 Joint Statement began separate talks with the DPRK, and succeeded in getting the fifth round of the Six-Party Talks started by December 2006 and in February 2007 reached an agreement regarding the initial action plan for

implementing the 2005 Joint Statement. The initial action plan called for North Korea to freeze operations at nuclear facilities in Yongbyon. In return, North Korea was to receive energy aid amounting to 50,000 tons of heavy-fuel oil (HFO).

By the end of the sixth round of the Talks in October 2007, the agreement on the second-phase actions was announced. The plan included the completion of the disablement of nuclear facilities in Yongbyon, and a complete and correct declaration of all of North Korea's nuclear programs by the year's end. In return, North Korea was to be given an additional 950,000 tons of HFO and the U.S. reaffirmed its commitment to take North Korea off the list of state sponsors of terrorism (SST). By October 2008, having met the conditions of the second-phase action plan and verification as stipulated by the U.S. Congress, North Korea was taken off the list of SST – despite pleas by the Japanese that such was premature. Whatever achievements the Six-Party Talks might next have obtained were derailed when North Korea carried out a nuclear test in 2009. The UN Security Council released a statement condemning North Korea's actions and called for punitive actions. In response to the UN Security Council statement, North Korea withdrew from the Six-Party Talks and declared that it would no longer be bound by its agreements.

First Step to Dealing with the DPRK: Bilateral Talks

Although North Korea experts in Japan believe that Six-Party Talks is useful for constraining North Korean provocations, most are of the opinion that the platform is an ineffective tool for denuclearizing the Korean Peninsula. Therefore, there is general agreement among experts that bilateral talks with the DPRK must come before any attempts to engaging Pyongyang multilaterally. According to Tanaka, three sets of bilateral talks with North Korea are needed, namely with the U.S., South Korea, and then Japan. Before such talks occur, bilateral consultation with the U.S. should make sure that it, the ROK and Japan are all reading from the same script when approaching North Korea separately. Tanaka is of the opinion that a North-South dialogue must be restarted soon. According to Tanaka, in the past, North Korea may have perceived the U.S. as the greatest military threat, but today it is probably most fearful of South Korea under the current conservative government. This is because Pyongyang believes that the U.S. would not make an aggressive move against the North unilaterally, he notes.

Still, given the current tensions between the two Koreas, particularly after the recent string of provocations by the North, Tanaka recognizes that the chances of the two Koreas making a breakthrough first are not strong, which is why he says that U.S.-DPRK talks are also needed in tandem, with Japan's set of talks coming later. The conventional wisdom among seasoned North Korean watchers in Japan such as Takushoku University Professor Satoshi Morimoto is that until such bilateral talks are started in earnest, Japan will not budge on providing any kind of assistance to the DPRK. The premise also for the three sets of separate bilateral talks is continued strong coordination among the U.S., ROK and Japan to keep the process on track.

Senior security experts in Japan believe that North Korea might be willing to put its nuclear program on the negotiating table if the U.S., ROK and Japan, using a carefully coordinated approach, press Pyongyang hard enough. North Korea cannot survive much longer without substantial assistance, they reason, and it knows that the only sources for such aid once the nuclear issue is resolved can only be South Korea and Japan. Moreover, to reach any significant

breakthrough, key bilateral negotiations will have to take place at the summit level, as Koizumi in 2002 had concluded. Hitoshi Tanaka stresses that unless the top leaders from both sides are involved in the critical juncture, little progress will be made. Like Koizumi, the talks may have to start at the top. Once serious breakthroughs are made bilaterally, the Six-Party Talks can be a beneficial forum for coming up with specific agreements, concludes Tanaka.

Effective Utilization of the Six-Party Talks

The position of the U.S., ROK and Japan is that three steps must be taken by Pyongyang before the Six-Party Talks can be resumed: missile testing must cease, the nuclear enrichment program must also be halted, and finally North Korea must agree to allow IAEA inspections. But Pyongyang's position, which China and Russia support, is to reenter the Six-Party Talks without any prior conditions.

China supports the immediate resumption of the talks because denuclearization is not the concern. Instead, China's primary concern is the stability of North Korea and the preservation of the existing regime. Tanaka stresses that maintaining the status quo is in Beijing's interest, for if North Korea were to collapse, China would be faced with the troubling scenario of having U.S. troops along its border as well as the mass emigration of North Korean refugees into its territory. Since the nuclear weapons program is one of North Korea's survival tools, China has less to gain from resolving the nuclear issue relative to the other parties concerned. With this in mind, Beijing believes that, if the Six-Party Talks were to resume, the DPRK would not engage in provocative behavior that would threaten regional stability. Due to these differing goals of players involved in the Six-Party Talks, achieving major breakthroughs through prior bilateral negotiations would serve to make the main talks a more effective means of resolving the North Korean nuclear issue.

Despite the apparent weakness of the six-party framework, no participant wants to abandon it, however. One reason why all participants still support it is because there is no alternative viable framework on the horizon. The framework is their only hope for a diplomatic solution to the North Korea problem. Moreover, the Six-Party Talks involves all the main stakeholders in the region, and a chance to act in a collegial way to resolve a regional problem of critical mutual concern. The talks could serve as a springboard to normalization of relations with North Korea, and once successful in meeting its immediate goal, the multilateral framework can eventually become the basis for broader regional cooperation.

Trilateral Cooperation: U.S., Japan and South Korea

Now that Kim Jong-il is dead and his untested young son Kim Jong-un is in charge of his nuclear arsenal, there is much uncertainty surrounding the future of the Korean Peninsula. Any scenario now seems possible: continuity of the regime and its policies to date, structural reform, particularly of the economy, sudden collapse or implosion, or even the outbreak of war on the Korean Peninsula if provocative acts continue. The U.S. and South Korea have long been working together to plan for a contingency on the Korean Peninsula, and some defense experts in Japan now feel that it is time for Japan to take part in such contingency planning, as well. How far that would go is not clear, but the experts believe that Japan should play a bigger role in the future. Modest cooperation between ROK forces and Japanese Self-Defense Forces (SDF) began after the nuclear crisis in the mid 1990s, but there is no peninsula contingency framework that

includes Japan as a player. Of course, the problem to be addressed in such a case would be whether the ROK would accept any cooperation from the SDF in the event of such a contingency. Japan, too, would have to square such efforts with its own constitutional limits. But Japan could likely at least define its role in the evacuation of its own and foreign citizens from South Korea should the need arise. Similarly, U.S.-Japan contingency planning efforts must also be strengthened. Once North Korea is aware of such moves, a strong contingency plan would help deter it from future provocations.

Continued positive developments in trilateral cooperation among the U.S., ROK and Japan, as well, are critical for maintaining the balance of power and stability in northeast Asia. Strengthening trilateral relations would enhance nonproliferation efforts and serve to counter the regional security challenge of both the DPRK and China's increasing assertiveness in the region. In that respect, Tokyo, Seoul and Washington have already begun such trilateral consultations in 2010 and 2011 to pledge their commitment to common goals in the region. By continuing this type of dialogue, this trilateral platform could play an increasing important role in managing regional security affairs.

Conclusion

Japan under the DPJ's administration has yet to demonstrate its potential for taking a more proactive diplomatic role in directly dealing with North Korea and bilateral issues with that country. This stasis may be ending. According to news reports citing sources in Prime Minister Noda's office, on January 9, 2012, Japan and North Korea secretly made contact in Beijing, where they are believed to have discussed the abduction issue. The talks, which lasted two days, were the first between the two countries since Kim Jong-un took power following the death of his father Kim Jong-il in December. Though the details of the talks are unclear, Tokyo regards the North's participation as a sign its new leadership "may be interested in improving relations with Japan through progress on the abduction issue," according to one official source. The long-standing issue has been the chief stumbling block preventing Japan and North Korea from normalizing diplomatic relations. The talks are being handled by Hiroshi Nakai, the former state minister in charge of the abduction issue, and a North Korean delegation thought to be led by Song Il Ho, ambassador for normalization talks with Japan. Japan and North Korea have not held intergovernmental talks since August 2008, but it is uncertain whether progress can be made if the talks resume as the North considers the issue settled. In addition, in Prime Minister Noda's cabinet reshuffle on Jan. 13, 2012; Koriki Jishima, the party's expert on the abductions, was given the post that handles that issue.

Still, the immediate challenge for Japan and the U.S.-Japan alliance remains the North Korean nuclear and missile threat. The unexpected death of Kim Jong-il and the installment of his enigmatic young son as his successor have added regime uncertainty to the equation. As a result, the conclusion reached in this paper is not optimistic: North Korea remains now an even greater and most immediate danger to the security of Japan and the stability of the region. The experience of dealing with Pyongyang's leaders over the past two decades has shown that the rogue regime can be erratic and unpredictable, and its intentions as a self-proclaimed nuclear state are not easy to fathom. Promoting an international perception of unpredictability has been Pyongyang's main weapon in the dangerous game of brinkmanship the regime has waged in an effort to ensure its survival.

Now that Kim Jong-il is gone and the intentions of his successor uncertain, the dangers of unpredictability appear to loom larger than ever, with most North Korea watchers in Japan saying that anything could happen. Some of them believe that North Korea will continue to engage in its cycle of seemingly irrational provocations and use its nuclear capabilities to extort aid and other concessions from the international community. In this sense, Pyongyang may continue playing the same game it has since the end of the Cold War, actions which the experts believe are highly logical and calculated. If that is so, Pyongyang is waiting for the right moment to play its cards right and receive the largest payoff possible. North Korea's most valuable card is its nuclear wildcard, which experts say Pyongyang will only be willing to lay down in the end if it can secure a huge payoff, such as U.S. security guarantees, economic aid and the normalization of relations with the U.S. In the meantime, the main actors on the other end of the DPRK negotiating table – Japan, the U.S. and the ROK – must proactively engage the North to end the game sooner and on their own terms as best as possible.

Whereas Japan's role in negotiations with the DPRK was limited during the first nuclear crisis in the mid 1990s and marginal at best during the Six-Party Talks, today Japan potentially has a greater part to play. But that new role may be beyond the limited framework of the Six-Party Talks, particularly if Japan wishes to pursue resolution of bilateral issues with the North. As demonstrated by the Koizumi initiatives in 2002 and 2004, summit diplomacy can work in reaching major breakthroughs when negotiating with Pyongyang. Such bilateral talks could become a crucial prerequisite or supplement to the Six-Party Talks.

But without a top-down approach in which the top decision makers are involved in the negotiations, Japan's efforts with the DPRK will not likely succeed. This is because the North Korean culture is dominated by the question of authority. Further, the nuclear, missile and abduction issues, at the top of Japan's agenda toward the DPRK, cannot be resolved independently. Rather, there needs to be a comprehensive plan that addresses all three. By following these guidelines suggested by prominent North Korea experts in Japan, Tokyo should be able to build a solid foundation bilaterally and more effectively contribute to the Six-Party Talks.

As historical changes take place on the Korean Peninsula today, Japan will once again be pressed to play a significant role, based on its own security and alliance interests, in shaping the future of Korea and the broader Asia-Pacific region. Working hand-in-hand with the U.S. and the ROK, Japan has a responsibility to help bring peace and stability to one of the region's most volatile areas.

THE POLITICAL INFLUENCE OF THE MATSUSHITA INSTITUTE OF GOVERNMENT AND MANAGEMENT

"I'll never be a goldfish in a scarlet robe, but like a loach in muddy waters, I'll work hard for the people, to move politics forward."

--Noda Yoshihiko

Introduction

In August 29, 2011, when Democratic Party of Japan (DPJ) lawmakers gathered to determine the next prime minister of Japan, candidate Yoshihiko Noda, a former finance minister, took the floor to surprisingly declare his intention to be a “loach” – a lowly fish that resides in muddy waters in Japan – and not a goldfish. Looked at in the history of prime ministers in Japan, his analogy seemed to make sense and oddly had some appeal to the body about to take a vote. Noda was no elitist: Whereas most of Japan’s prime ministers have been born to established political families, Noda's father was a member of the Self Defense Force – which itself had an image problem in postwar pacifist-oriented Japan – and his mother was a housewife.

Alongside Noda, one might say there was another "loach" making its way in the DPJ: Seiji Maehara, who served as foreign minister in the administration of Prime Minister Naoto Kan and is now the chair of the party’s Policy Research Council. The son of an administrator for Kyoto’s family courts, Maehara, like Noda, rose through the party, even serving briefly as its president, and has now become a chief contender to be Noda’s successor as prime minister in the future. With the top of Japan’s political sphere now increasingly populated by second and third generation politicians, how did these two rise to top? The answer lies in another shared characteristic: their tenure at the Matsushita Institute of Government and Management (MIGM – Matsushita Seikei Juku).

While Noda, who won the election and became the new prime minister of Japan, and Maehara are two of the most high-profile MIGM graduates in Japanese politics, they are hardly alone. In all, 38 graduates have been elected to the National Diet and 42 graduates occupy seats in local governments. Since its founding by a powerful electronics manufacturer, Konosuke Matsushita, in 1979, based on his personal philosophy for training future leaders, MIGM has become an effective path into high-profile seats in central and local Japanese politics. But what has been its impact on Japanese politics more broadly? How has the MIGM curriculum affected its graduates’ views and, through them, shaped government policy? Are they what some analysts deem the "fourth power" in the Diet after the Democratic Party of Japan, Liberal Democratic Party (LDP), and the New Komeito? This paper seeks to answer these questions by following MIGM’s role in its graduates’ electoral successes, and surveying the correlation between the MIGM curriculum and the policy perspective of elected graduates on economic, domestic and foreign affairs.

What Is the Matsushita Institute of Government and Management?

The Matsushita Institute of Government and Management (MIGM hereafter) was founded in 1979 by Konosuke Matsushita, the late chairman of the Matsushita Group (now Panasonic), with a mission to cultivate new generations of leaders for Japan. Matsushita, a wildly successful businessman often dubbed as ‘the god of management,’ was growing increasingly disenchanted by what he perceived as “the vanity and mediocrity of 20th century leadership” in Japan, according to MIGM’s website. The site records his frustration with the current state of politics:

“Since so many of the world's and Japan's problems can be attributed to the lack of a clear, future-oriented perspective and of a long-term national and global policy, it seemed to me urgently necessary to begin fostering talented and promising young people capable of assuming the responsibility for these great tasks. Surely, neither the world at large nor Japan in particular, has done enough in this regard previously.”

At the age of 80, Konosuke Matsushita was finally able to realize the first step of his grandiose vision with the founding of MIGM’s sprawling campus in Chigasaki City in Kanagawa Prefecture, not far from Tokyo. The Institute’s first class was a diverse group of twenty-three students included a Buddhist monk, an acupuncturist, a space engineer, and a government official, according to Dean Williams’ 1993 dissertation, *Learning to Lead in Japan: The Matsushita Approach to Leadership Development*.

On one hand, Matsushita’s vision was not formed in a vacuum. According to Williams, Matsushita drew his inspiration from Shoin Yoshida, a rebellious intellectual from a Kyushu samurai family who founded his own school for displaced samurai, Sho-ka-son Juku in 1857, to hasten the fall of the Tokugawa Shogunate at a time of great social and political turmoil in Japan. Yoshida was no ordinary scholar: He attempted once to ignore the Tokugawa government’s National Seclusion edicts and smuggle himself to the US by boarding Commodore Perry’s flagship, the U.S.S. Powhatan. After being returned to local authorities, he was put under house arrest and was still there when he founded his school. The local youths taught by Yoshida were mostly from poor samurai families. Fired up by his influence, many later went on to topple the Tokugawa Shogunate, with some becoming key figures in the oligarchy that ruled Japan during the Meiji Period (1868-1912). Two of his students eventually became prime ministers.

Matsushita hoped to create a Sho-ka-son Juku for the 21st century, with a mandate for transforming the stasis that was destroying Japanese politics. At the time, a school solely devoted to cultivating future leaders was radically new to postwar Japan. Moreover, Matsushita’s initiative to found a political school was, according to Peng-Er Lam’s 2006 article, "Nurturing Leaders for Government and Opposition: Political Schools in Japan," was greeted with skepticism. Critics included, not surprisingly, business organizations and leaders, who at the time whole-heartedly supported the pro-business, conservative LDP. Matsushita himself avoided Japanese big-business organizations and remained a lone wolf on the business scene. His ambition was to go beyond the foundation of a school for nurturing successful leaders; his ultimate goal was to establish a second conservative party populated with the MIGM graduates in time for the 1989 House of Councilors election.

According to Idei Yasuhiro's 2004 book, *Matsushita Seikeijuku towa Nanika [What is Matsushita Institute of Government and Management]*, from which this report heavily draws, core ideas of Konosuke's anticipated new party reportedly would include a zero-tax policy, Holland-style expansion of livable land, a pro-active foreign policy to enhance Japan's role as a global leader, and political reform aimed at improving the efficacy of the political system. He never lived to see his dream of a new party, however, for he died in 1989.

Although Konosuke Matsushita passed from the scene, his training institute, based on his vision and philosophy has continued to produce outstanding leaders since then. Matsushita's Confucian-like philosophy – spelled out in *the Basic Principle, Basic Creed* and *Five Vows* (see exhibit 1 below) – is recited every morning by all current MIGM associates. It continues today to guide the day-to-day operation of the institute as well as the lives of many graduates.

Exhibit 1: Matsushita Konosuke's Philosophy

(Source: the MIGM Website, <http://www.mskj.or.jp/english/about.html>)

The Basic Principle “With deep love for our country and our people, we seek to contribute to the peace, happiness, and prosperity of all humankind by searching for guiding principles of government and management based on a new vision of the nature of human beings.”

The Basic Creed “With a *sunao** mind, we firmly dedicate ourselves to the gathering of wisdom, the seeking out of the intrinsic nature of reality through independent study, and the searching anew every day for the path that will lead to new growth and development.”

* “*The Japanese term sunao represents a mind that accepts life in a constructive way, a mind that is docile in the face of truth. It enables us to develop disciplined objectivity, free from prejudice. It allows us to see things as they really are. It is sometimes translated as the untrapped mind.*”

The Five Vows

1. To Realize Heartfelt Ambition
2. To Have a Spirit of Independence and Self-reliance
3. To Learn from All Things
4. To Be on the Cutting Edge of Creative Innovation
5. To Have a Deep-felt Spirit of Gratitude and Cooperation

Organization and Admissions

MIGM has a corps of full time administrative staff who run the institute under the guidance of the director, Kazuhiro Furuyama, who is a graduate of MIGM's 3rd class, and President Takami Sano. There is no full-time faculty, apparently to allow the school flexibility in tailoring courses and their teachers to the mix of students. The institute is governed by a nine-person board of trustees, with the president serving as the chair and the director also on the board. Other notable current board members include two MIGM alumni, Ichiro Aisawa, an LDP lawmaker in the House of Representatives, and Prime Minister Noda. Other influential members include Yutaka Kitamura, Tokyo branch manager of the prestigious Urasenke Tea School; and Masayuki Matsushita, vice chairman of Panasonic Corporation.

Admission to the school is highly competitive, with an acceptance rate of only 2-3% of applicants. The size of the class is now small, roughly six to ten students accepted each year, based on leadership, character, initiative and vision. The MIGM application guideline requires applicants to submit an application form, a personal essay and a medical examination results. Subsequently, the applicants undergo an extensive interview session by board members, and aptitude test, a written examination and participate in a group discussion.

Curriculum and Student Life

While the length of the training period at MIGM has fluctuated over the years, cut from five to three or four years starting in 2011, the basic format of the education has not changed. The initial two years are devoted to basic courses in leadership training so that the associates can “conceive their own worldview and governing philosophies,” according to the school. There are four official objectives to be reached:

“[F]irst, to obtain some idea of the spiritual forces connecting mankind with the greater universe; secondly, to form a vision of national management; thirdly, to gain hands-on experience with the genesis and resolution of political issues; finally, to acquire the basic skills and theoretical background necessary for policy-making.”

The basic curriculum during this period includes lectures on philosophy, Japan and Confucianism, history, policy-making, and cross-cultural and communication skills. Other activities include sessions with MIGM alumni, a year-long group project, tea ceremony and Kendo lessons, daily morning exercise and campus cleaning, and at some point, the completion of a 100-kilometer walk within a 24-hour time frame. In the view of most observers, the result is alumni, including those becoming politicians, who have considerable physical endurance and mental strength in pursuing their activities. Alumni who enter politics are well familiar with the intricacies of policy-making.

The idiosyncratic nature of these first two years have been widely publicized, but, according to Nakanome Junichi, a *Nikkei Business* reporter who authored a series of articles on MIGM, the mainstream media has overlooked the more important second-half of the MIGM education, when the associates carry out personal projects outside the school. Of all of the messages contained in the founder’s statement of Principle, Creed and the Five Vows, the core one seems to be the second vow, “To Have a Spirit of Independence and Self-reliance.”

Furuyama echoes this sentiment in his Director’s Message on January 15, 2012:

“The purpose of studying [at MIGM] is not just about acquiring certain knowledge or improving certain skills; the purpose of studying is about cultivating future leaders through individual associate’s effort. [...] MIGM does not spoon-feed each associate; an associate who fails to obtain “a spirit of independence and self-reliance” will never learn anything from MIGM. Furthermore, all progress is evaluated based on whether each associate is a suitable leader or not.”

During the third year, each associate picks a research topic that eventually becomes the basis of his or her independence in, and contribution to, the Japanese society after graduation. The research process is completely up to each associate, but all of them must present the results at the graduation forum and submit the final report to be published in the MIGM graduation yearbook. As a result, the final years at the institute vary widely, from a tour of Europe to political internship in the US, to volunteering for an election campaign of an alumnus. If there is one overarching theme, it is self-management and identification of life's purpose. What seems to be missing from the equation, however, is the group or team spirit that characterizes so much of the Japanese society and its organizations.

Finally, in order to accommodate MIGM's uniquely demanding curriculum, the associates are not allowed to hold jobs or live outside the dorm; even married associates are required to live on campus without their spouse. Students also receive monthly stipend of 200,000 yen, and can request activity stipends, granted based on student performance and activities plan. Finally, all students have to change their voter registration to Matsushita Institute ground.

History of the MIGM

Establishing an unprecedented type of institution to cultivate new leaders of Japan was no easy task, not even for the Matsushita himself. Furthermore, although the founder's philosophy continually guided MIGM's courses, the curriculum changed over time depending on leadership changes, external developments, and student needs. In the following section, this report will briefly summarize the history of MIGM, and the external and internal sources of developments, as well as its rapport with the Japanese politics.

Beginning (1980 – 1989): When Konosuke Matsushita established MIGM, he filled most of the administrative positions with Matsushita group employees. The first director who served under Matsushita himself, who was president, was Yukata Hisakato. He used to head the personnel division of Matsushita Electronics when he got a call from the owner.

During the early years, the institute was run by trial and error. One of the most serious problems was the conflict between the MIGM employees and the associates. At first, former Matsushita Electronics employees-turned MIGM administrators treated the associates the way they treated new hires: hierarchical top-down strict control over the all aspect of associates' lives. 4 out of 23 inaugural class members – hand-picked by Matsushita himself – dropped out. The second graduating class aggressively rebelled against the administration, claiming that they were acting on the spirit of self-reliance and independence according to the founder's tenets.

Although the first graduating classes had to deal with administrative chaos and constant adjustments, one benefit they had was regular interaction with Matsushita himself. Prime Minister Noda was in the first graduating class and as such was so tutored by the founder. Matsushita would regularly visit the campus and hold seminars with the associates. And unlike many successful men in power, he would listen to the green opinions of associates with sincerity and attention, and never force his opinions on them, for he indeed lived his philosophy of self-reliance and independence.

Joko/Post-Konosuke period (1989 – 1994): Akira Joko, a sales director for Matsushita Microwaves, was transferred to MIGM in 1981 as the curriculum manager, and he became the director in 1984, when Matsushita's health forced him to step down and along with it his direct influence on MIGM. Upon the founder's death in 1989, Joko ushered in a new period through several sweeping reforms at the institute.

Joko's first move aimed to dissolve tension between the associates and the administration by separating MIGM from the influence of Matsushita Electronics. He sent all employees other than accountants back to the Matsushita group, and hired MIGM graduates to fill their spots. Further, Joko strictly banned the institute and the Matsushita group from providing financial and organizational support to the election campaigns of alumni, other than volunteer services by current associates. By this, he hoped to demonstrate MIGM and candidates' independence from the Matsushita group.

Joko, according to Idei, also devised a *Chinika* Movement, which is short for "Chiiki kara Nihon wo Kaeru Undou [Movement for Changing Japan from Localities]" which largely changed the institute's course. Joko began the movement by reaching out to local newspapers and co-sponsoring forums for renowned Matsushita-affiliated speakers of various fields. During such forums, associates originally from the locality were allowed to present their projects, and raise the awareness and name recognition of the institute.

In addition, Idei further states that Joko implemented a type of internship program with different regional governments, linking a regional government officer with an associate to carry out a project. He did so in order to foster grass roots connection and solidarity between the regional government and the MIGM associates, for he deemed that such a network might come in handy once the associates were elected to national offices. In the end, the *Chinika* Movement became a basis for many MIGM graduates' electoral success in regional elections, as well as success in national politics in some cases.

Another problem that Joko was determined to solve was the gap between associates' graduation year and election cycle. If the associates were to resort to finding a regular job as they waited for the next election cycle, campaigning for a political office would become increasingly difficult. One of Joko's solutions was to establish regional MIGMs, where the associates could learn and campaign at the same time. The first regional MIGM to be established was the Kyoto Office, and Tetsuro Fukuyama (11th class), who was entering his second year at the MIGM, became the director. A Tokyo office was established as well.

However, in general, the *Chinika Movement* was not successful. The regional institutes were a huge drain of money; the students at regional institutes never became grass roots politicians; the Movement's magazine intended to educate the Japanese public never sold well. The only positive results came from the Tokyo office.

The Tokyo MIGM office was established with great help from Hiroyuki Nagahama (2nd class), who was nudged by Hiroshi Yamada (2nd class) to abandon his private career to support their alma mater. Nagahama developed the Tokyo MIGM office into a gathering place for Tokyo-

based alumni, particularly fledgling politicians and others whose shared values became a tool for magnifying their individual impact.

In 1991, a crisis was building in Japan's political world, dominated since 1955 by the LDP. MIGM alumni who had entered politics were particularly discouraged by the national political climate. As conservative politicians, their views clashed with most non-LDP parties such as the centrist Komeito, Japan Communist Party and the perennial main opposition party, the Japan Socialist Party (JSP), which seemed stuck in time even after the end of the Cold War and the collapse of international socialism. But the MIGM politicians also tended to despise the LDP, too, seeing the party as having slipped into a pattern of corruption, collusion, and cronyism. Suddenly, a chance presented itself for the MIGM to make a difference in reshaping the landscape of postwar Japanese politics. It came with a turning-point visit to MIGM's Tokyo office from Morihiro Hosokawa, a former reform-minded governor of Kumamoto Prefecture who had become acquainted with the MIGM through the *Chinika Movement*.

Hosokawa brought with him a grand proposal to create a new reformist party. Hosokawa suggested that it would fulfill Konosuke Matsushita's vision of changing Japan. By joining the new party, MIGM graduates would benefit from Hosokawa's name recognition and prominence while bringing their own expertise. Hosokawa's proposal won over the Tokyo office led by Yamada. Subsequently, Joko gave the movement the institute's heartfelt approval, and Nagahama became the liaison between Hosokawa and MIGM.

In 1992, Hosokawa issued a manifesto for his new party, leaked to the media before publication, and it created a sensation. The reformist leader insisted that his vision for a Free Society Alliance (*Jiyuushakairengo*), which was later to become the Japan New Party (JNP), was akin to Matsushita's unrealized goal for the creation of the second conservative party. His party would replace the 1955 political system dominated by the ruling LDP and the opposition JSP, the former deemed corrupt and the later incompetent.

The relationship between Hosokawa's JNP and MIGM quickly become increasingly symbiotic. As Idei points out, the newly established JNP lent name recognition to MIGM graduates, many of whom were local politicians and unknown in the realm of national politics. In turn, MIGM supplied fresh candidates who had strong determination and a shared vision for Japan. The institute also provided the necessary organizational help that the JNP severely lacked, especially during the 1992 House of Councilors election. As a result, the JNP succeeded in gaining four proportional representation seats, an unprecedented victory for a fledgling party of outsiders.

That was just the beginning. In the upper house race, many MIGM graduates had supported the JNP anonymously because they were still associated with the LDP or were independents. But in the 1993 House of Representatives elections, the JNP won 20 seats, of which 15 were filled by MIGM graduates including Hiroshi Yamada (2nd class), Yoshihiko Noda (1st class), Seiji Maehara (8th class), and Hiroshi Nakada (10th class). The 1993 election pushed the LDP out of power, at least for the time being, and Hosokawa became prime minister, presiding over a coalition government of eight parties and a group, including his JNP. Although the Hosokawa cabinet only lasted less than a year, dissolving in 1994 to make way for the return of LDP in a

coalition with the New Komeito, the brief period of non-LDP rule gave the MIGM graduates and associates a strong hands-on introduction to the reality of national politics.

Post-Bubble period (1994 – Present): In 1994, Kunihiko Okada, a graduate of MIGM's inaugural class, replaced Joko as director, only to encounter an internal crisis. As MIGM graduates were making names for themselves in national politics, MIGM itself was facing a serious financial problem. As Idei records, its operating budget was drawn from the interest on a fund set up by Matsushita. During the economic bubble years of the 1980s, when interest rates were high, the yearly yield of interest on MIGM's fund was 900 million yen – greater than MIGM's operating budget. However, during Okada's time at the helm, the annual interest income declined to 200 million yen, far below the then operating budget of 700 million yen. Although Okada tried different solutions, including shortening MIGM's matriculation period from five years to three years and reversing Joko's policy against accepting money from Matsushita, the budget deficit was not resolved until after Okada's resignation in 2002. Those were hard years for the institute.

Unlike Joko, whose centerpiece for MIGM was the *Chinika Movement*, Okada saw the Harvard Kennedy School of Government as a role model for MIGM. Okada's aimed to transform the Institute from a mere school for domestic politicians to an internationally acclaimed school for leaders of various fields, including journalists. Nevertheless, Okada's focus on non-political aspect of leadership at the MIGM resulted in criticism from alumni and other members of the MIGM board, especially because only one of MIGM graduates who matriculated under Okada's directorship was elected to a political office.

The MIGM board's decision to replace Okada with Kazuhiro Furuyama (3rd class) as director in 2002 showed the board's clear discomfort regarding the way the institute was being run, according to Idei. Unlike Okada, who never intended to become a politician, Furuyama had run for a lower house seat four consecutive times since 1990. Although Furuyama's bids were not successful, top MIGM alumni commended his efforts in recommending him for the director's position.

With Furuyama's appointment, a new problem emerged over the controversial practice of allowing associates to graduate early to run for election. Furuyama was blamed, but in fact, the tradition of early graduation for aspiring politicians far predates him. In fact, MIGM has long had a policy of considering as a graduate those associates who leave to run for an office. The problem only became serious when associates started to leave MIGM earlier and earlier, even during the first or the second year of matriculation. Previously, associates who left to run for office did so once they had started on their independent studies in their third year. Many felt that running for office was a logical conclusion to their independent work and the institute generally supported it. With associates leaving before the core MIGM curriculum had been completed, some alumni became worried that MIGM could become a mere brand name and not a substantial educational experience. Criticism has continued to grow, including the media, about the “deplorable” practice of allowing such early departures.

Given MIGM's political objectives, there is reason to question if the concern over early graduation is justified. An exhaustive analysis of associates' career choices from the 22nd class,

who graduated two years after Furuyama took over, to the 29th class, who graduated in 2011, suggests that a substantial number of associates leave before the full matriculation. 48 associates graduated between 2004 and 2011, 26 of whom ran for a political office at some point. Of the 26, more than half of them ran before the graduation; 6 ran during the third year, 5 during the second year, and 4 during the first. Lawmaker Akira Otani, who himself ran for an office during his second year has defended MIGM and the graduates' choices by pointing out that three years does not necessarily guarantee the complete understanding of mankind and that the chance to run for office may only come once. As aspiring politicians, it makes sense for the MIGM associates to take a chance and leave early. Nevertheless, only time can tell if they will become effective politicians, or the politicians that Konosuke Matsushita had envisioned.

Reaching Konosuke's goal?

Sano Takami, who became the president of MIGM in October 2008, trumpeted the institute retorted in a recent interview for *Nikkei Business*: "After having cabinet ministers, we finally have an [MIGM] graduate who is in charge of running Japan. Haven't we reached 70% of Konosuke's goal?" Given that statement, it would be instructive here to evaluate MIGM's legacy in electoral politics, as well as the graduates' performance.

Arguably, the largest impact MIGM has had on the Japanese political landscape is its role on transforming Japan's electoral politics. MIGM successfully trained and supported a cadre of elected officials from backgrounds that were traditionally considered unelectable. Many journalists, academics and MIGM affiliates emphasize MIGM graduates' lack of "*jiban*, *kaban*, and *kanban*" – the organized constituency (*jiban*), briefcases full of money (*kaban*), and a signboard or personal reputation (*kanban*) seen as prerequisites for successful politicians.

The traditional role of *jiban*, *kaban*, and *kanban* is hard to overstate. According to Verena Blechinger-Talcott's "Learning to Lead: Incentives and Disincentives for Leadership in Japanese Politics," a snapshot of the lower house in 2002 showed a structure that was the very opposite of the group of MIGM graduates who were coming into the Diet. The 2002 Diet showed 134 of the 480 lower-house members to be second or third generation politicians, and 98 of the then 239 LDP lower-house members had obtained their seats largely through family ties. Moreover, the LDP since 1955 was the source of money (*kaban*) and prestige (*kanban*) largely through historical affiliation and corporate ties that secured a constant flows campaign funding. That funding, however, was already drying up for the party as a whole as the groups and organizations turned elsewhere.

In contrast, MIGM graduates overwhelmingly came to the institute without familial or political connections. Many came from second or third tier universities and not the elitist ones. Moreover, they have traditionally shunned most corporate ties and have often run as unaffiliated candidates. As a result, the graduates' remarkable string of victories in local elections during the first decade of MIGM's inauguration was based on a youthful image and hard work, as well as ties cultivated through Joko's *Chinika Movement*. Still, at least for the first batch of MIGM candidates, including Yamada, Ono and Noda, direct support came from Matsushita electronics network and employees; loans from Konosuke Matsushita; help from MIGM graduates; and help from MIGM associates. While different from the traditional *jiban*, *kaban*, and *kanban*, MIGM affiliation quickly became an asset in itself. In its early days, the MIGM label brought with it ties to expert

advisors and as the institute's reputation and network grew over time, the ability it has had to bequeath the equivalent of *jiban*, *kaban*, and *kanban* has grown with it.

On the other hand, until the 1990s, Japan's national electoral system highly favored the LDP establishment. As Dyron Keith Dabney explains in his 2009 dissertation, *Electioneering in Japan in an Era of Institutional Change*, Japan's multi-member district system (MMD), cemented the LDP domination. Implemented in 1925, MMD distributed 511 Lower House seats to 129 two-to-six member districts, where parties were required to dispatch several candidates to vie for a majority of votes. As the only party with enough resources and organization to reliably support multiple candidates per district, the LDP was able to dominate national elections.

For example, in 1983, Shinya Ono (1st class) joined an LDP ballot and became the first MIGM associate elected to the Ehime prefectural assembly. Over the long run, however, continuing dominance by LDP proved disadvantageous for most MIGM graduates. Most reform-minded MIGM graduates outright rejected the LDP's "iron triangle," which leveraged the national bureaucracy and industrial circles to maintain political power. MIGM associates had little interest in the culture of the LDP, and when LDP *did* need to recruit outside their ranks, it was generally for districts where LDP faced opposition incumbency. Without *jiban*, *kaban* or *kanban*, MIGM graduates were not attractive candidates.

Instead, MIGM graduates turned to local governments to demonstrate and hone their leadership. As directly elected mayors and governors they were able to exercise their vision with little impediment, whereas in the Diet under LDP rule, it was difficult for MIGM graduates to overcome the factions, seniority structure and nepotism that surrounded cabinet appointments. Other alternatives, such as the JSP and Japan Communist Party (JCP) not only lacked political clout and the resources to overturn the status quo, they also clashed ideologically with the conservative-leaning Matsushita graduates.

In addition to perpetuating the LDP rule, the MMD system provided little incentive for political accountability and corrupted the tenets of democratic government. The multimember system allowed candidates to be elected or reinstated with as little as 10% of the vote. This prompted candidates to lavish attention on only key supporters or organized groups in their constituency to the expense of the general electorate. In the end, the system was upended by the short-lived Hosokawa administration, which introduced a single-seat electoral system that ultimately undermined the power base of the LDP. In addition, a series of high profile scandals involving LDP politicians and corporations led to the rise of the new reformist coalition government that defeated LDP in 1993. Ironically, Hosokawa had his own personal scandal – ties to a parcel shipping company that forced his early resignation.

Still, for almost a year starting in 1993, a broad coalition of anti-LDP parties ran Japan. Shortly after becoming prime minister, Hosokawa had his coalition pass the landmark electoral reform bill that switched from MMD to a composite Single Member District (SMD) and Proportional Representation (PR) System called the Mixed-Member Majoritarian (MMM) system. The reformists argued that the SMD system would reduce the importance of campaigning money and foster policy and party oriented politics rather than personal aggrandizement. It also decreased the importance of LDP's party machine and increased the chances for opposition candidates to

win seats. This, in turn, benefitted MIGM candidates' chance of winning elections, as majority of them were against LDP and the political establishment, or at least ran on such a platform.

Though the coalition was short-lived, its political reforms had lasting effects. Unfortunately, political in-fighting and deep ideological differences, not to mention the Hosokawa scandal, caused the coalition government to collapse in 1994, just 8 months after it was formed. It took the opposition camp until 2009, with the landslide victory by DPJ, to finally validate at least in part the reformists' assertion that electoral reform would bring policy-centered elections and that alternating dominance by two parties would become the norm. MIGM directly and indirectly affected this transformation by supplying qualified alternative candidates who brought youth, optimism and untarnished reputations. The DPJ's 2009 election victory bolstered MIGM graduates who by then had joined that party. Three who rose swiftly were Seiji Maehara, Koichiro Gemba and Noda. After cutting their teeth as fresh, optimistic and untarnished MIGM graduates, they went into the 2009 elections as seasoned opposition leaders and emerged as politicians at the front of the nation's new majority.

As discussed in the introduction, when Noda became the prime minister, the media wondered whether MIGM graduates were becoming the fourth power block in Diet. This line of questioning becomes even more salient when one considers the number of alumni in the top cabinet and party posts. But not all MIGM graduates are alike, and the quality of each varies

Idealistic and creative, ambitious and driven, youthful and energetic, visionaries passionate about their chosen cause: such are typical descriptions of MIGM graduates who went into politics, as seen by other politicians and journalists. MIGM graduates are clearly different from the old LDP regime. Such qualities have made them popular and helped them win votes as maverick candidates in traditional and entrenched Japanese politics. They have become the face of DPJ, are represented by the commitments to the voters found in the DPJ Manifesto, and epitomized by Noda and Maehara.

Still, perceptions of MIGM graduates are not always positive. Some of experts interviewed for this paper that have had personal and professional relations with MIGM politicians, acknowledged the electability of MIGM graduates, but they voiced some reservations on their capability to realize their idealistic vision.

Seiji Maehara is an example of such a contradiction, as seen in the following two incidents. On September 16, 2009, Maehara became the Minister of Land, Infrastructure and Transport in the cabinet of Prime Minister Yukio Hatoyama. On the morning of September 17, with no advanced consultation with local officials, Maehara announced that he was going to stop Gunma prefecture's environmentally-controversial Yamba dam construction, as part of a campaign promise in the DPJ's election manifesto. Local communities and politicians, including Gunma's governor Osawa Masaaki, were enraged. In an to *Nikkei Business* on January 13, 2010, Maehara defended his action, stating that he wanted to tell his fellow Japanese what needed to be changed before his cabinet's approval rating dipped. He admitted he had expected opposition, but not to the extent that he encountered. The decision was eventually reversed.

The second episode happened less than a month later. According to *Nikkei News*, at a meeting with Toru Hashimoto, Osaka's dynamic young governor, Maehara announced that he was going to adjust the respective responsibilities of the three Kansai airports – Kansai International, Osaka and Kobe airports – after making Haneda airport a 24-hour international hub. Taken by surprise, Governor Hashimoto and the mayor of Narita City, Kazunari Koizumi publically criticized Maehara's unilateral decision. In short, Maehara's tendency to ignore protocol and announce important policies before consulting fellow DPJ members, let alone the opposition camp, got him into trouble. He was apparently incapable of *nemawashi*, or behind-the-scenes maneuvering to reach a decision. His abruptness earned him the reputation of having big visions with little horsepower to implement them. In a way this criticism applies to the DPJ governments since 2009, as well, they just seem unable or unwilling to make deals with local interests, such as those opposed to the relocation of the Marines' Futenma Air Station in Okinawa.

Noda, on the other hand, seems to represent a different side of the Matsushita education, for he is a pragmatist looking for ways to find compromise, and a consensus management style of leader. Even though he has taken nationalistic stances on certain issues in the past, he has been wary of angering Japan's Asian neighbors on sensitive issues linked to Japan's militaristic past. He vowed not to visit Yasukuni Shrine during his tenure as prime minister, and he made strategic comments to neutralize his previous comments denying the validity of judgments of the Tokyo Tribunal and rejecting the trials' designation of Class A war criminals.

Unlike Maehara, Noda has never announced anything major before forming a consensus or without the assurance that he will be able to implement a policy. For example, Noda was careful with his wording about Japan's possibly joining TPP talk before the DPJ reached a consensus. Since becoming prime minister, he has pragmatically redirected the DPJ from the type of politician-led politics that ignored the bureaucracy – as practiced by Hatoyama and to a certain extent Kan. He has moved quickly to reestablish smooth cooperation with the bureaucracy. He also has scaled back unrealistic promises that came from the DPJ manifesto.

Noda is an old-time campaigner, who has used a well-worn strategy of standing in front of a train or metro station and appealing to commuters to support his election bid. He did this on and off from October 1986 to the day before he was appointed as finance minister in the Kan cabinet. One long-time supporter of Noda wrote this blog post on August 30, 2011:

“Although I have been voting for Noda, I actually don't know what his policies were. It's because he never talks about policy. When Noda campaigns in front of the station, a distinct feature is that he never gives a speech, only saying, “Welcome. I am Yoshihiko Noda. Nice to meet you.” Then, he just bows his head, blending into the surroundings, as if it is so natural for him to be there, like a meditating Buddha.

“Given that he's been in politics and graduated from MIGM, I don't think he lacks policies or views. It's just that opinions create enemies. Noda's campaign manager wants to drill in the idea that ‘despite that Funabashi [his home district] is for Noda’ into the citizens by never discussing his policies. Most of Funabashi's people are not too crazy about Noda, but no one criticizes him, either.”

Noda no longer projects an image of youth; his face shows the wear and tear of many years of Diet service. But in part because of his success, MIGM has become a venerable name in politics. Gone are the days of wearing blue and white *happi* coats to appeal ambitiously to voters, as Noda did when he first ran in 1987. Although he was an integral part of the DPJ revolution in 2009, his own political maneuvering actually more closely resembles that of LDP politicians, especially in his skillful use of *nemawashi*.

In analyzing the MIGM graduates who entered the DPJ, they do not seem to have formed a cohesive power bloc in the party. Of the 38 MIGM graduates in the Diet, 10 belong to the LDP and 28 to the DPJ. Interestingly, attendance at meetings for the non-partisan Future Politics Study Group, a gathering for MIGM graduates, is consistently low, according to observers. Noda has admitted that even within the DPJ, MIGM alumni seldom keep in close touch. In the past, even the DPJ's two star MIGM alumni, Noda and Maehara have clashed, for example, over DPJ party elections in 2002 and 2011. During 2002 election, Noda and Maehara vied with each other for the party president candidacy representing younger DPJ lawmakers. They faced the more senior Kan and Hatoyama who were also running for the position. The rivalry was in part because Noda and Maehara had virtually no contact; they never were friends. And in part, Maehara refused to yield to his senior. Noda outpaced Maehara but he ended up losing the party election. Afterward, they both regretted having split the MIGM members in the party, and created a committee to bring MIGM alumni closer together in the DPJ. Even so, Maehara ran against his MIGM senior Noda in the 2011 party election that would determine the prime minister.

This does not mean, though, that all MIGM graduates inside the Diet or in other circles have no close ties. For example, Aisawa Ichiro (1st class, LDP representative) is known for his caring gestures towards recent graduates, providing them with resources and manpower even when they are running on a non-LDP ticket. Furthermore, Aisawa stepped down from the position of LDP Diet policy chief after Noda became the prime minister because their close personal relationship widely known. Many maintain close personal ties to other alumni. And in districts without a clear candidate, recommendations based on school ties get priority. Many DPJ politicians from MIGM and recent MIGM graduates have taken advantage of this practice. As the graduating class sizes have become smaller and smaller over the years, argues Idei, it has become easier and easier for those small groups of graduates to stay connected.

Conclusion

There is no doubt that the MIGM has had a dramatic influence on Japanese politics, particularly over the past two decades when the political world was seeking an alternate potential ruling party to the long-running LDP. But getting into power via the DPJ as the vehicle is one thing; the effective use of that power is another. In that sense, the entire DPJ must share responsibility since 2009 for a so far disappointing performance as the new ruling party. In that context, one cannot but wonder if MIGM graduates – Prime Minister Noda in particular – have demonstrated the type of leadership qualities that Konosuke Matsushita once dreamed of.

Given the political turmoil that has marked the DPJ's rule from the start, as well as the reality that the opposition camp now controls the Upper House, the odds are against the Noda administration, the third since September 2009, having sufficient time or will to enact the types

of long-term and far-reaching changes Matsushita had envisioned. Historically, the majority of prime ministers and their cabinets stay in power for too short a time to make any meaningful difference. Disaster relief and economic recovery from the massive triple disaster of March 11, 2011, have absorbed precious political capital and the opposition camp is no longer cooperating on passing key legislation through the Diet. Moreover, Noda's strong push for doubling the consumption tax over the medium term (which, ironically, is also diametrically opposed to Matsushita's vision of a no-tax country) has met with strong LDP and Komeito opposition. There are even rumors of Diet dissolution around June 2012 followed by a snap election – which the DPJ could conceivably lose!

Critics have remarked that MIGM graduates have an excessive amount of political savvy but lack a grand vision. This would doom them to the pursuit ad hoc trial and error efforts and reactive instead of proactive policy approaches. While successfully navigating election circuits, MIGM graduates have revealed a lack of consistency and stability in their ideology, changing parties, positions and priorities to suit their short-term political goals. In the words of one critic, MIGM is “a Matsushita factory that churns out graduates who are competent political ‘technicians’ but not political leaders with a grand vision who can inspire the electorate.”

Nevertheless, no historian of contemporary Japanese politics can deny MIGM's role in ushering in post-LDP and post-1955 system era through its cooperation with Hosokawa's JNP, and more broadly, by providing a successful foundation for a talented group of young politicians who would have been largely unelectable thirty years ago. There is a well-known anecdote that Konosuke Matsushita had a fourth screening process for MIGM admissions, in addition to the application, written exam and oral exam. He probed them on whether they possessed luck and charm. He knew his protégés could overcome their lack of *Jiban*, *Kanban* and *Kaban* with determination and the spirit of independence and self-reliance. Perhaps, he also knew that those qualities alone were not enough for them to become transformative, visionary leaders of Japan.

JAPAN'S ENERGY SECURITY IN A POST-3/11 FUTURE

Introduction

On March 11, 2011, the Tohoku region of northern Japan was devastated by a massive earthquake and tsunami. The Great East Japan Earthquake was the most powerful to have ever hit Japan, and one of the five most powerful earthquakes in the world since 1900. The unprecedented scale of the quake and tidal wave that swept away villages all along the northeastern shores of Japan, destroying thousands of lives, rendering homeless countless people, and ruining local economies, also changed dramatically the energy sector that had depended increasingly on nuclear power. The tsunami flooded a nuclear power plant, Fukushima Daichi, causing a partial meltdown of the reactors and spewing radiation into the air and sea – one of the worst accidents in nuclear history. Fukushima was the direct casualty – the plant will never reopen -- but indirectly the entire future of nuclear power in Japan has been put in jeopardy, with the public suffering a severe recurrence of nuclear allergy.

As of early 2012, 43 of all the 54 nuclear power reactors were shut down, either because of mechanical problems or routine inspections, and the remaining could be closed by the spring of 2012. Tokyo and other affected regions initially experienced rolling power blackouts and resorted to conservation measures to prevent blackouts during peak power-use seasons. The political world is deeply divided over the future use of nuclear power, some wanting to wean Japan completely as soon as possible, others wanting to slow down its use. The option of increasing Japan's use of nuclear power, however, is completely dead.

At this juncture, since Japan relies on nuclear power for up to 30 percent of its energy needs, it is facing a tough challenge, given the political imperative to reduce that dependency, on maintaining a sufficient energy supply for the country in the immediate future as well as over the medium to long term. While energy conservation measures can continue to be an effective stop-gap solution all across Japan, the additional demand for oil and natural gas imports to fill the electricity gap due to nuclear plants being shut down can most likely be filled, though an oil disruption due to current tensions in the Middle East – centered now on oil-rich Iran's standoff with the West – could be a wild-card factor. Over the long run, however, Japan must revise significantly its energy policy to accommodate a declining use of nuclear power. With mounting political and popular pressures, the government of Prime Minister Yoshihiko Noda is in the process of revising its Strategic Energy Plan to match the new realities. There will be substantial policy changes in the post-Fukushima period regarding nuclear power application, energy regulation and renewable energy development.

Overview of Japan's Energy Security

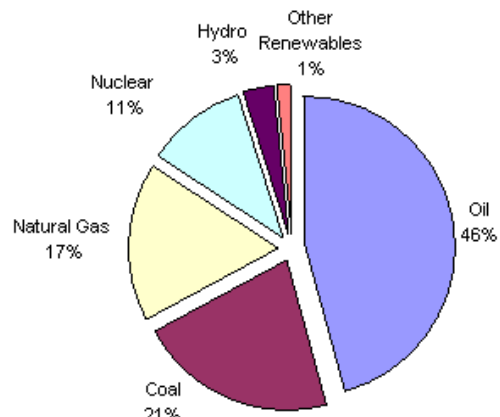
The Current Energy Mix

Japan is nearly complete dependent on imported fossil fuels. The country has few domestic energy resources and imports 84 percent of its total energy consumption to drive its economy. It is the third largest oil consumer in the world behind the United States and China and the third largest net importer of crude oil. It is the world's largest importer of liquefied natural gas (LNG)

and coal. Since the oil crisis in the 1970s, Japan has maintained a proactive energy security policy that focuses on securing stable energy supplies from abroad and establishing the “best mix” of fuels and technology at home.

Total primary energy consumption in Japan is over 22 quads of British thermal units (Btus) per annum. The U.S. in contrast used 99.75 quads in 2005. In the energy mix breakdown, oil remains the most consumed energy resource in Japan, although its share of total energy consumption has declined from about 80 percent in the 1970s to 46 percent in 2009. Coal continues to account for a significant share of total energy consumption, although cleaner energy sources such as natural gas and nuclear power are becoming increasingly important sources. Hydroelectric power and renewable energy account for a relatively small percentage (around 5 percent) of total energy consumption in the country. Nuclear power has been given special policy attention in Japan for its ability to reduce external dependency as well as reduce CO₂ emissions. Before the Fukushima accident, Japan was the third largest consumer of nuclear power in the world, after the United States and France. According to the Strategic Energy Plan of Japan passed by the cabinet in 2006, Japan was to significantly increase its nuclear power generating ratio to from the current 30 percent to 53 percent in 2030, mostly by adding new capacity.

Japan Total Energy Consumption, 2008



Primary Energy Consumption: 22.3 Quadrillion Btu

Source: EIA

Governmental Actors in Japan’s Energy Security

Japan’s high dependency on imported energy has raised energy security to a high-priority level on the national policy agenda. The Ministry of Economy, Trade and Industry (METI) plays a significant role in drafting energy policies and has several agencies in its organizational structure covering energy issues. The Agency for Natural Resources and Energy (ANRE) is a central component of this powerful ministry, covering such policy areas as energy conservation, renewable energy, natural resources, fuel, electricity and gas industries. The Nuclear and Industrial Safety Agency (NISA) is another METI affiliate specifically designed to regulate and oversee the nuclear sector. Due to the efforts and strategic application of nuclear to favor energy autonomy through nuclear power, NISA is staffed with almost twice the number of personnel than ANRE. Both NISA and ANRE have retained the greatest regulatory discretion due to the importance of energy security. The energy bureaucracy has long been viewed as uncommonly cohesive and well-developed institutionally.

The institutional configuration of Japan’s energy-related private sector is tightly related to the bureaucracy. METI is both the promoter and regulator of the energy industry. The electric power industry is Japan’s most profitable and influential sector, reflecting in part the traditional close ties between business, politicians and bureaucrats and in part the relatively high price set for

electricity in Japan. TEPCO, Chubu and Kansai, the three leading electric power companies, control the entire process of electricity generation and transmission, thus ensuring greater profits. In the post-Fukushima environment, however, there is now political momentum to separate the process of generation and transmission, as well as to better regulate the power industry.

In 2006, with the issuance of the New National Energy Strategy, METI initiated three basic new policy approaches. First, it called for more active government measures to shape Japan's energy supply and demand structure by improving energy efficiency and diversifying and decentralizing energy resources. Second, it called for multilateral initiatives on energy and the environment. Finally, it called for the private sector to establish more effective risk management systems to prepare for major accidents, natural disasters and terrorism, including improving the existing oil stockpiling system and developing a similar one for gas.

Energy Security Changing after Fukushima

According to U.S. Energy Information Administration (EIA) analysis, after the March 11 nuclear accident, Japan will require additional natural gas and oil to provide electricity, but power demand may be dampened at least in the short term as a result of the destruction of homes and businesses. The prediction was accurate. So far, Japan has been able to cope with last summer's and this winter's demand by conservation and increased overseas purchases of natural gas and LNG. It remains to be seen, however, how well the power grids will hold up next summer during peak season demand and the expected drain on power from reconstruction needs in infrastructure and the return to normalcy of manufacturing industries.

Politics Driving Nuclear Power "Offline"

METI has been the main advocate of the use of nuclear power as a main component in Japan's goal to significantly raise its energy self-sufficiency goal. By 2007, nuclear energy already accounted for 26 percent of total electricity supply. The Strategic Energy Plan aimed at increasing the nuclear share of total electricity generation from 24 percent in 2008 to 40 percent by 2017 and to 50 percent by 2030. No one touts those numbers anymore.

The Fukushima accident was the game changer for Japan's energy security. There is little doubt now that the 3.11 earthquake will have a profound effect on nuclear energy growth for the foreseeable future, both in physical capacity as well as political motivations. Over 12,000 MW of nuclear capacity at the Fukushima, Onagawa, and Tokai facilities ceased operations after the earthquake and tsunami, with some of the reactors permanently damaged, including the use of corrosive seawater to cool the reactors. As of late November, 43 of all the 54 nuclear power reactors were shut down, either because of mechanical problems or routine inspections. These 11 units left in operation can only produce 20.2 percent of Japan's nuclear electricity output. Across the country energy production is down 7 percent on this summer; in greater Tokyo area power generation has fallen by 20 percent. Without resumption of nuclear plants after regular inspection, there were a mere 6 reactors operating in January, and without a display of political will at the top and the willingness of local communities to accept the restarts, most likely no reactors will be on line by the summer of 2012.

Demand for Fossil Fuels Increases

According to industry estimates, consumption of such fossil fuels as oil and natural gas consumption could increase by up to 238,000 bbl/d and 1.2 Bcf/d, respectively, depending on the combination of fuel substitution.

In terms of oil, the March 11 earthquake in northeastern Japan caused a shutdown of at least 1.2 million bbl/d or 26 percent equivalent of the current capacity. According to the trade press, Japan will import refined products, particularly low sulfur fuel oil, in order to offset shortfalls in fuel supply for power generation. Demand for naphtha is expected to fall as some petrochemical plants may remain offline and operating rates are reduced. The actual oil consumption in late 2011 decreased due to the shutdown of manufacturing facilities and energy conservation measures.

Demand for natural gas and LNG imports have been growing rapidly. Japan is importing more spot LNG along with other fuels to cover the nuclear power outages, similar to the pattern after the last earthquake disruption at the Kashiwazaki-Kariwa nuclear facility in 2007. LNG and natural gas imports are rising by 10 percent according to a researcher in an oil and gas company. Qatar, Russia, and Indonesia immediately offered Japan LNG spot cargoes.

Electricity Demand Bounce

On the electricity side, the enormous earthquake damage sustained by homes and industries across the Tohoku region has lowered power demand at least until reconstruction efforts are fully underway. The mix of fuel sources could shift, particularly as nuclear facilities remain offline. The government has been unusually successful and the public and industry has been highly cooperative in implementing energy conservation measures such as turning off lights and air-conditioning, shutting down extra elevators, and running energy-intensive experiments at night to save electricity. To avoid blackouts last summer, the government told big industrial energy consumers to cut their power usage by 15 percent. One interesting development that has helped now is the installation in recent years of small-scale gas power that can help regional electricity demand by increasing gas supply. In Tokyo, such modern facilities as Roppongi Hills and parts of the Ginza shopping area use such gas power.

No one is optimistic about the electricity market situation during the summer of 2012. There will be a foreseeable leap in electricity demand, which cannot be resolved simply by importing more oil, natural gas or LNG. There is an immediate need for designing and implementing new solutions, such as recombining energy sources, including renewable energy, and designing a specific nuclear policy that can deal with the anticipated electricity demand rebound.

Impact of Public Opinion

The nuclear plant accident provoked nationwide public discussions over the future use of nuclear power. Much criticism has centered also on the alleged misdeeds of Japanese officials and the culpability of Japanese politicians. Calls came out immediately to revise the Strategic Energy Plan of Japan that METI issued in 2006 defined a heavy reliance on nuclear power to ensure Japan's energy security. Public opinion, scholars and international organizations started to question the wisdom of Japan's nuclear strategy and the government's capability to regulate nuclear production and safety issues. For instance, in the most recent poll on future nuclear

power generation by *Mainichi Shimbun*, only 13 percent of the public felt there was a need to decrease the reliance on nuclear power, while 74 percent supported a gradually decrease, and 11 percent wanted to abolish it immediately. Similar polls also reveal a growing trend to call for either a phasing out of nuclear power or complete abolishment.

METI bureaucrats have long been criticized about a lack of accountability and transparency in their decisions on energy policy. In the past, regulations were accompanied by the issuance of ambiguous, often unwritten administrative guidance that allowed bureaucrats retain regulatory discretion and authority without the use of a formal system of rules. The power industry seems to be a remnant of this early postwar industrial policy. The Fukushima accident, in the opinions of many Japanese, demonstrated a lack of accountability by METI in its regulating of the energy sector. The sharpest criticism has been aimed at the Nuclear and Industrial Safety Agency as to whether it has been fulfilling its function as an industry regulator, and whether it should continue to exist.

In the furor over the aftermath of the Fukushima nuclear accident, it is not surprising that NISA was accused of maintaining collusive tie with the electric utility companies and not functioning properly in its watchdog position from its vantage point in METI. According to a government report to the International Atomic Energy Agency (IAEA) in June 2011, "NISA's lack of independence from the trade ministry, which promotes the use of atomic power, hampered a quick response to the disaster at Tokyo Electric Power Co.'s Fukushima Dai-ichi plant this year". The Japanese government is now focusing on restructuring METI's energy agency and toughening safety regulations.

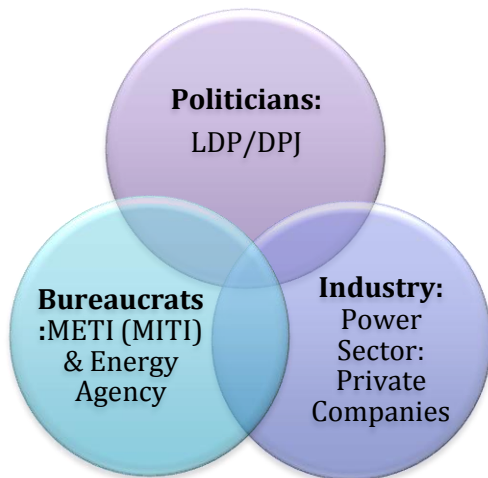
Implications for Japan's Energy Security Post 3.11

The implications of the Fukushima accident and lessons learned from it are key to the future development of Japan's energy sector. First, the crisis has made advocacy of nuclear energy a political liability. Second, a new consensus on energy security is emerging from the sometimes passionate discussions in the government, academia and think-tanks, and the media. At this point, it appears that energy security as revised will consist of four elements: 1) institutional reform and policy development; 2) a restructuring of the energy mix; 3) international collaboration; and 4) a re-commitment to dealing with climate change. The overall goal for Japan in the post-Fukushima era remains focused on sustaining energy security for civilian and military use. The goal of reducing greenhouse gas emissions based on international pledges will now depend on upgrading the energy mix and a new emphasis on renewable energy sources.

A More Independent Policy Triangle Under DPJ Government

What will energy sector restructuring mean for the traditional "cozy" policy triangle that has existed in Japan's energy sector since LDP rule? Will the system inherited by the DPJ government from the previous ruling party continue to dominate the energy sector? The energy sector has been characterized institutionally as the convergence of interest and strong cooperation among trading companies, financial institutions, and the regional power companies, and backed politically by the LDP when it was the ruling party. The triangular system had the blessings of the political world which had strong interests in energy-sector development. Regulation of the system was left to METI bureaucrats. Under the policy triangle, virtually all of

Japan's regional business federations have had power-company CEOs as heads, smoothing the way for liberal contributions of money to civic projects and influential incumbent politicians.



Because of the tight relationship, as illustrated in the chart here, Japan's energy power sector has been under a bureaucratic umbrella that ensures policy benefits and allows it to enjoy generous business profits from the integrated generation and transmission system. Once retired, METI officials, given traditionally close industrial ties, will usually take up executive positions in the private sector. Critics complained that when a government-picked committee drafted the Strategic Energy Plan of Japan in 2006, there were no anti-nuclear voices on the panel. Nuclear industry lobbyists, aligned with the scientists and bureaucrats in METI, formed a strong pro-nuclear wave, and finalized the long-term nuclear

policy to reach a 50 percent dependency on nuclear energy by mid-century. TEPCO, which enjoyed such typical connections with politicians and METI, became the world's largest private utility, managing 17 nuclear plants.

In the current antinuclear climate, breaking the fetters of the industrial lobby and enhancing transparency in decision-making will be crucial in determining whether METI can regain the public trust under a revised energy policy. Placing policy under the direct control of the Prime Minister's Office may help counter bureaucratic and industrial influence. However, there are still doubts that this often-criticized relationship will not be easily dismantled because of the tremendous and complicated benefits involved in Japan's giant energy sector.

Leadership: Naoto Kan was severely criticized for his handling of the response to the crisis that began on March 11, particularly the nuclear accident. His popularity sliding sharply, Kan tried to curry popular favor by first shutting down another nuclear power plant thought to be vulnerable to earthquakes, and then by promising to quickly move Japan toward a nuclear-power free society.

His pragmatic successor, Yoshihiko Noda, reversed Kan's absolutist course by promising only to reduce Japan's dependency on nuclear energy and eventually phasing it out. He admitted in his inaugural speech that it was "unrealistic" to build any new reactors given the Fukushima disaster, but he added, "It is also impossible to immediately reduce our dependence to zero." Noda basically has followed the business community's advice that Japan must cling to nuclear power to prevent electricity shortages that could further cripple the economy. He can be expected to continue a pragmatic policy line in dealing with Japan's nuclear power industry, but he must be able, too, to deal with the reawakening of Japan's strong nuclear allergy that previously had focused solely on nuclear weapons in the wake of Hiroshima and Nagasaki.

Bureaucrats: Noda appointed Yukio Edano as METI minister in September 2011, based on his outstanding performance coordinating the aftermath of the nuclear accident from his then vantage point as chief cabinet secretary during the Kan administration. Edano appeared daily on

national TV briefing the public with updates on the ailing reactors and the radiation issue. He has been frank in his assessments, telling the press in January that Japan may have no nuclear reactors operating during the peak power-demand season in the summer 2012, a troubling scenario that could upend domestic production and accelerate the flow of businesses from the nation.

Edano, interviewed by Dow Jones in January, said that he could not commit himself to a timetable for restarting Japan's nuclear reactors, most of which are currently offline pending the results of new safety stress tests in the aftermath of the Fukushima Daiichi nuclear accident.

Edano was frank: "If we reach a conclusion (that we will restart the reactors) first or if we try to come to a conclusion by a certain time, it means we're not really checking safety and we really cannot obtain understanding from the people." Only the day before, he was forced to intervene personally to stop protesters from disrupting a public hearing on nuclear power. "So we're pushing for measures to cope with both cases-including a possibility or option of no nuclear plant restarting by the summer," he continued.

Edano said the government was exploring contingency plans to deal with potential power shortages in the summer due to the lack of nuclear power. At the same time the government is also trying to revamp the safety of nuclear plants across Japan to prepare for their restarts, he said. "It would be extremely difficult to get through the summer without any nuclear power," Edano said. But he stressed that safety checks on nuclear reactors could not be expedited just to get reactors online in time for the peak demand in the coming summer. "It is obviously my duty to visit local communities in person and explain about the safety of nuclear plants, if I reach a conclusion that they are indeed safe based on opinions from experts.

In the meantime it will be necessary to "find as many alternative power supplies as possible to minimize any impact of power shortages in the summer," Edano said. But he conceded that while there is still plenty of time to deal with electricity shortages, power conservation would have to be the first choice to meet the shortfall.

Japan imposed mandatory power conservation orders in the summer of 2011 to avoid a similar power shortage and widespread blackout that brought the nation's economy to a standstill the days after the March 11 earthquake and tsunami last year. The situation would be far more serious this summer with all the nuclear reactors offline due to public opposition to restarting the plants.

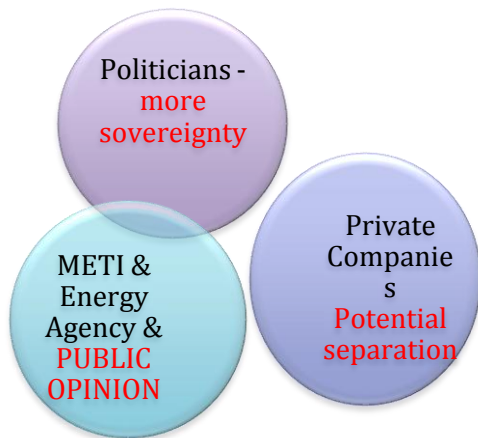
Edano, who is recognized as an extremely clever and powerful leader for METI, is eager to reform the electricity sector, drawing on his experience following the triple disaster on March 11. Edano initially has pressed METI officials to distance themselves from the private companies they regulate to ensure an independent perspective in reviewing the energy sector.

METI is in the process of revising the Strategic Energy Plan that would determine the future application of nuclear power both in the short term and long run. For the first time ever, the Basic Energy Planning Subcommittee of the Advisory Committee for Natural Resources and Energy includes anti-nuclear activists and METI is willing to listen to both sides. How to balance the public opinion became a big challenge for METI post Fukushima, and this powerful

institution is discussing every possibility for nuclear power and other energy source both in short term and long run. METI is also discussing the possibility and procedures to separate the electricity generation business from the transmission business to create a competitive environment and lure new potential power suppliers of renewable energy resources.

Politicians are taking more of a lead in energy policy following the Fukushima accident. Since Noda took over the administration late last August, the Democratic Party of Japan has been implementing solid and effective reforms affecting energy-sector dynamics. Noda understands how important the energy issue is to his cabinet if it is to have any longevity. Decisions are now made at the prime minister and cabinet level, which ensures that the energy sector will not be at the hands of industry-friendly bureaucrats. The energy security discussion and planned revision of the Strategic Energy Plan thus is under the direct and independent supervision of METI Minister Edano and Prime Minister Noda.

As a result, the Noda government is making efforts to ensure that the new Strategic Energy



Policy will be designed to limit the influence and pressure on the bureaucracy from private power companies. In this new policy triangle, METI has seriously taken into consideration public opinion, and is working directly with lawmakers on the pending planning changes and private sector reforms. It is hoped that the new energy policy will win back the trust of the Japanese people.

The Future of Nuclear Power

Although the consensus now in Japan is to reduce the use of nuclear power, the questions of how to reduce and how much to reduce have yet to be answered. Such discussion centered on different nuclear power

development scenarios is underway now in METI and various, research institutes.

Since the Noda administration has rejected Kan’s anti-nuclear stance, finding the right mix for is a major problem. Noda has pledged to build no more nuclear plants, but he also must deal with the existing ones, which need to be brought back into safe operation to save the country’s ailing economy. In his speech to the United Nations last September, Noda underscored the continuing need for safe and reliable nuclear energy in Japan. Currently, Noda administration wants first and foremost to consolidate his ruling party’s position and regain popular support. His ratings in the polls have slipped drastically, with non-support now outweighing support levels. Since he and his cabinet will be the last gatekeeper for the revision of New Energy Plan, the discussion of different nuclear scenarios will take into considerations both the security aspects for future reconstruction along with economy development, and the public’s growing antinuclear opinion. Most likely, Noda will adopt a nuclear power scenario that sets a lower target rate than before.

The majority public view, influenced no doubt by the mainstream media, favors phasing out nuclear power over the next 30 years. The “fade-out” strategy is prevalent given the vast electricity need in 2012 and tougher safety regulations governing nuclear plants, the so-called

“stress tests”. Business circles in Japan are willing to go along with a step-by-step decrease in the use of nuclear energy. Even nuclear critics argue that it is unrealistic to completely abolish nuclear power without the ability to fill the gap. At this point, there would be too much pressure on the traditional fuels to fill it, and renewable energies and other substitutes are not ready to offset the gap. Major nuclear utility companies are making the case for the low generation cost and the near-zero CO₂ emissions associated with nuclear power plants. The international community, represented by IAEA, is also featuring a Low Nuclear Case in the recent conference held in Tokyo, indicating that Japan will have to deal with a decline in energy self-sufficiency, a substantial increase in payments for energy imports, and expansion in carbon dioxide emissions and other changes in the Low Nuclear Case.

While debates continue, METI in early 2012 is drafting an amendment to its nuclear energy policy and will provide several options for the cabinet to decide. There are three fundamental principles being followed: security, sustainability and efficient supply in the energy sector. Cost of substitution power generation is another factor that will affect the nuclear future planning. Essentially there will be five scenarios for further discussion in Japan’s nuclear power future, which are outlined in the table below.

Japan's Nuclear Power Development Scenarios

Terms	Basic Energy Plan 2010	Delayed Construction Scenario 1	Low Nuclear Scenario 2	Nuclear Phase-out Scenario 3	Nuclear Abolition Scenario 4
New Construction	14 Units before 2030	Partly delayed or abolished	2 new NPPs	No new NPPs	-
Capacity in 2030	68.1 GW (19.3 GW - 14 units)	48.5 GW (8.8 GW - 6 units)	34.1 GW (2.8 GW - 2 units)	21.4 GW (0 units)	0 GW
Operating Year	-	60 yrs	50 yrs	40 yrs	-
Capacity Factor	90%	80%	80%	80%	-
Electricity Generation by Nuclear	537 TWh	340 TWh	239 TWh	150 TWh	-
Nuclear power Generating Ratio in 2030	53%	33%	23%	15%	0%

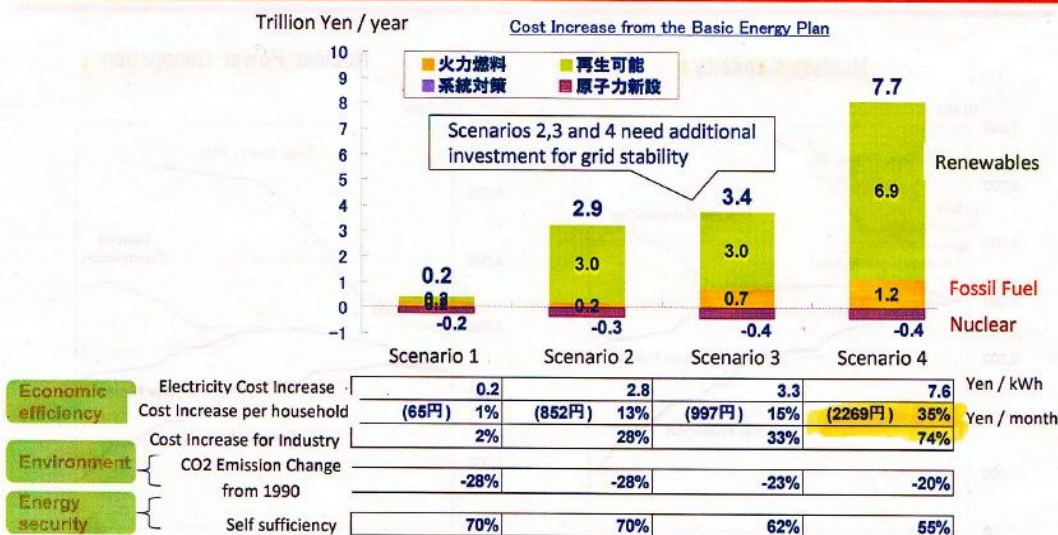
The first basic energy plan is the previous one under revision. Researchers at IEEJ, who contributed to these five major scenarios, believe that a “Delayed Construction Scenario” would be difficult to realize, since 33 percent in power generation is still very high. But this would be the most optimistic assumption for the future. There are two nuclear plants currently under construction and based on this fact, the Low Nuclear Scenario would be plausible solution both

from an economic as well as an energy-security viewpoint. The Nuclear Abolition scenarios would require extremely high growth of renewables to fill the gap, which is almost impossible given the investment circle, electricity cost for households and the massive grid upgrade for renewable resources. Some economists predict that GDP would fall by 3.6 percent and that 200,000 workers would lose their jobs if all of Japan's reactors are off-line by next spring.

At the same time, cost increase is another major factor to evaluate different nuclear scenarios due to the possible change in the energy mix. Currently, METI doesn't allow power companies to increase electricity rates after the Fukushima disaster, even though the cost of importing fossil fuels has been growing. In the future, there will be a foreseeable increase in electricity bills for households in Japan, given the charts on different develop scenarios below. Under the most likely Scenario 3, the cost of electricity per household will rise by 997 yen by 2030, a 3.3 percent increase.

Japan's Power Generation Mix (2030)

4



Nuclear Regulation and Nuclear Exports

Even though the Fukushima accident drastically affected Japan's energy sector, it provided valuable lessons in nuclear plant operation and risk management for future reference. A recent research report delivered to the Noda cabinet underscored that several lessons were learnt from the Fukushima accident that Japan's nuclear power sector should build into future plans for improvements. First, the possibility of a massive failure caused by a tsunami had not been predicted in the manuals for severe accident-management procedures. Second, the report recommended that to improve nuclear safety a wide range of countermeasures, ranging from the evaluation of the seismic design, accident management, and the nature of the plant must be introduced. In current stress tests of nuclear plants, there are various evaluation criteria and methods that experts are considering, including an Emergency Planning Zone radius for nuclear safety. These are all technical and crisis management experiences that Japan will be implementing in future nuclear operations and planning. These experiences will also be shared with the international nuclear community for risk assessment and nuclear disaster prevention.

Facing sharp criticism of NISA's regulation of the nuclear sector, the government is planning structural changes at METI. Reportedly, the government plans to merge the Nuclear and Industrial Safety Agency with the Nuclear Safety Commission to create a new nuclear safety agency under the Ministry of Environment. The change would occur by April 2012. METI might also consider nationalizing the nuclear power businesses of the utility companies. In addition, Japan and France plan to step up cooperation in nuclear safety, following a meeting between Prime Minister Noda and Prime Minister Francois Fillon on October 23, 2012. Cooperation would center on safety-risk evaluation, decontamination techniques, and food chain and health monitoring.

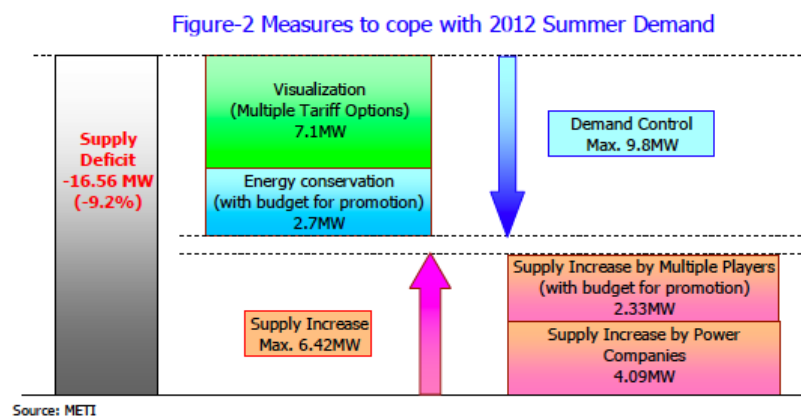
The Fukushima accident, by the same token, does not mean the nuclear era has ended for Japan. Based on the advanced technology and manufacturing in nuclear plants, Japan continues to look to promote nuclear plant exports as part of its economic growth strategy. In October, 2011, Japan and Vietnam signed a contract for a nuclear plant. Other projects have been sealed with Jordan, Russia, and South Korea. Future international nuclear cooperation projects are now being negotiated. Under the Kan administration, the policy was put on hold, but Noda disagreed. He has made a fresh start in promoting nuclear power and technology exports as a means of reinvigorating Japan's nuclear power business.

Challenges for the Power Companies

Reliance on energy imports and the growing demand for oil and LNG have long been the crux of energy security in Japan. Power companies are facing higher costs as they import more fossil fuels to replace lost nuclear power capacity. Whether such new import demand can be met and how much it will cost, given the spot price market, is still unclear for energy planning purposes. Japan has long been known for the reliability and quality of electricity, and the country has never experienced any major blackouts. But after the Fukushima accident, blackouts in TEPCO-served cities have occurred due to the shortage of energy supply. Such incidents could happen again as early as the summer of 2012 unless the government and power companies work together to line up sufficient supplies of fossil fuels, as well as expand use of renewable energy.

Managing Peak Demand in 2012

The gradual loss of power generation capacity will make it difficult for the utility companies to cope with peak electricity demand in the winter of 2011 and the summer of 2012, seriously affecting industrial activities. There could be a supply deficit of as much as 16.56 GW based on 2010 summer demand, especially in the regions



used to enjoying high nuclear-power ratios. Rather than triggering electricity use restrictions, METI announced plans involving budgetary provisions worth a total of 579.4 billion yen to

supply more energy from alternate sources and to implement more energy conservation measures (see chart above).

The government is drawing on all policy measures available and working to minimize the deficit during peak electricity-use times. On the demand side, there will be a saving of 9.8 MW in total from comprehensive pricing, employing clever market mechanisms, and investment in energy conservation. On the supply side, there will be a 6.42 MW increase from improving supply capacity at power companies, promoting subsidy-driven renewable energies, private generation and cogeneration, and home fuel cell systems. However, there will still be an electricity gap of 3.4 MW given the 2012 summer peak outlook. There might still be compulsory regulations and planned blackouts if nuclear plants are not in operation by then.

Growing Importance of the LNG, and Russia

Due to the Fukushima accident, almost 10 million MW of nuclear power have been lost and will not be recovered over the short term. The reduction of electricity output is to be compensated for by the increased use of thermal power plants. Fuel costs including coal, LNG and petroleum will increase by 3.5 trillion yen, based on the 2010 level. The electricity price will increase by 3.7 yen/kWh if charged directly to power consumers. The monthly electricity bill for an average household will rise by 18 percent (1,049 yen), and by 36 percent for industrial consumers.

On the one hand, the pricing system of electricity will ultimately change due to the growing cost of fossil fuels worldwide. Utility deficits will be controlled through income increases to offset the extra cost. On the other hand, utilities are trying to secure short-term and long-term fossil-fuel supplies. Post Fukushima, around 10 million tons of LNG will be needed to fill the power shortfall. Most LNG users exercise Upward Quantity Tolerance (UQT) of the existing long-term contracts, and LNG sharing. Utilities can procure additional demand through spot and short-term contracts. Various LNG suppliers have announced additional supplies. Qatar will expand LNG exports by up to four million tons and Indonesia is to supply an additional one million tons. Russia and Australia plan to provide additional supplies, too.

Russia will play an important role in Japan's energy security future. It presented a proposal to Japan after the earthquake as a move to cultivate the Japanese market. Russia will increase the volume of Sakhalin-2 LNG shipped to Japan, and has invited Japan to join the Kovykta and Chayanda gas projects. Russia has a competitive edge against other countries due to the short distance, safety, flexibility and large resource potential. Prime Minister Putin in the proposal is willing to supply up to 400,000 tons in additional LNG. Japan will also import more crude oil from Russia, up to 10 percent of such imports in 2012, for use by manufacturing and heavy industries. Russian crude will be of increasing importance to Japan's energy security. It is secure, for there is no concern about choke points like the Hormuz or Malacca straits. It is flexible. Compared with 20 days delivery from the Middle East, Russian crude oil only takes three to five days to reach Japan. It is easier to adjust to short-term fluctuations in demand as well.

Future of Renewable Energy

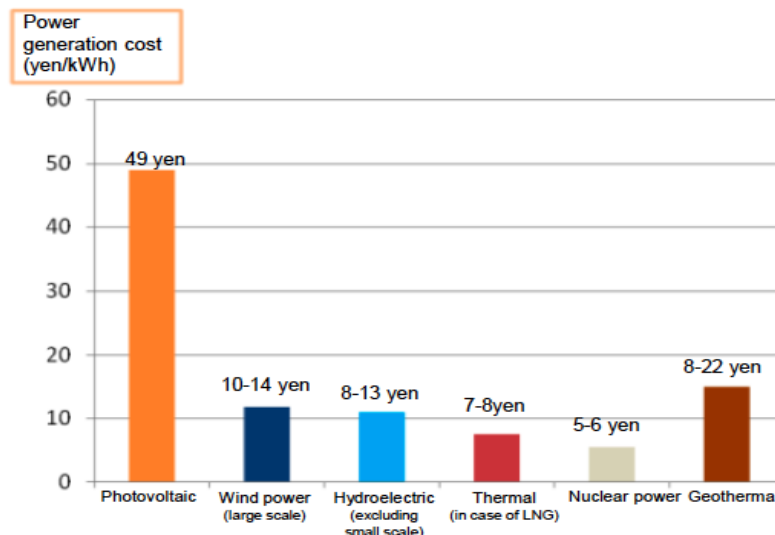
METI touts the three Es in Japan's energy policy: energy security, economic efficiency and growth, and environmental sustainability. Green energy sources, such as solar and wind power, have been brought into planning discussions after Fukushima. Such sources provide the only way under a dwindling nuclear power scenario for Japan to maintain self-sufficiency of energy

generation, as well as to keep its global commitment to reduce CO₂ emissions with a low carbon economic development. METI Minister Edano has called for renewable energy to be one of the pillars in the revised Basic Energy Plan.

According to the Energy White Paper for 2010, METI indicated that demand for renewable energy is expected to grow followed by an expansion of international investment in such resources. So far, Japan has promoted the introduction of renewable energy through the expansion of demand by supporting voluntary efforts by electric utilities to purchase surplus electricity, and by introducing the renewable portfolio system (RPS) system. A Feed-In Tariff system was carried out as a major policy to support the renewable energy market. The government is working on the expansion of Japan's renewable sector through three major measures: movements in the overseas market to secure supply, innovation in technology, and deregulation, according to a METI energy-planning report. In a recent Morgan Stanley research report projecting the end of fossil fuel and nuclear use by 2060, the share of renewables should increase by 5.8 percent per year, which would require breakneck pace of development of renewable energy and of conservation technologies.

The problem, though, is that renewable energy remains highly expensive. Based on the research of a project team on renewable energy, photovoltaics (PV) or solar energy is about 5 times, and wind and hydro energy is about 2 times more expensive than the nuclear power generation method. Views are thus split in Japan over moving toward heavy reliance on such sources of renewable energy given the high cost. Analysts taking a pessimistic view towards renewable cite the government's constraints on fiscal spending and the huge budget deficit. Advocates cite the diversification to such sources as geothermal and tidal power as cost effective.

[Power generation cost for major energy source]



The Ministry of Environment conducted research in April 2010 on the feasibility of introducing certain levels of renewable energy. For solar power, to achieve a target capacity of 56 GW, it would be necessary to install solar-panel systems in 550,000 houses every year. That would mean PV systems should be made mandatory for all new houses. For wind power, it would be necessary to carve out large spaces in national parks and state-owned land, as well as in offshore areas, in order to achieve a target of 10 GW in 2030. The cost of such systems would be high,

but the study showed that wind power offers the largest potential and could be expected to contribute 140 GW under a feed-in tariff (FIT) development scenario, while photovoltaic power could not be introduced under the present FIT system.

Northern Japan is abundant in wind power resources. It would be necessary to install regional power interconnections and backup capacities of a significant scale to deal with the intermittency of wind power. Also, the government would have to develop a power trading system and the software to accommodate the transmission of intermittent power into the electricity grid.

Potential of Renewable Energy in Japan (Ministry of Environment; March 2011)

	Potential	Scenarios			
		FIT	FIT+ Technology Progress	FIT+ Subsidy	FIT+TP+S
	GW	GW	GW	GW	GW
Photovoltaic (Non-residential)	150	0	0.2 - 72	0 - 26	69 - 100
Wind Power	1,900	24 - 140	410	130 - 590	1,500
Mini-Hydro (Smaller than 30MW)	14	1.1 - 3.0	4.3	2.7 - 5.4	7.4
Geothermal	14	1.1 - 4.8	5.2	1.5 - 4.3	4.6

Currently, METI is on the process of receiving different business proposals for joining the renewable energy sector. The Feed-In Tariff Law is now in effect, and the scheme will kick in early in 2012. Still, the outlook for Japan's renewable sector remains vague. Further government involvement and fine-tuning of the programs are needed.

Climate Change Protocols

Japan is part of the international convention designed to meet the danger of global warming. There is a driving need for new technologies that can supply large amounts of power without emitting carbon dioxide or other greenhouse gases. As a member of the Kyoto Protocol, Japan has pledged to reduce the CO₂ emissions by 3.4 percent per year, reaching a 53 percent decrease by 2030 from a 2007 baseline.

There is no question about Japan's will to cut Green House Gas (GHG) emissions. But 3/11 has made reaching its goal all the more difficult. A November policy report by the Ministry of Foreign Affairs renewed Japan's dedication towards achieving low-carbon growth and building a climate-resilient world. The report also called for collaboration between developed and developing countries to take voluntary actions. Japan also offered to share its accumulated experience through cooperation in the area of policy-making, using its strength in environmental technologies and products.

However, Japan's pledge to cut GHG emissions could be revised because of Fukushima accident and the impact on the nuclear power sector. Less nuclear power application will inevitably slow down the process of CO₂ reduction. Increased fossil fuel consumption is jeopardizing the 25 percent emissions reduction pledge now in the middle of being implemented. It is unlikely that the government will push for review of the originally planned climate change legislation, since it

would be hard for Japan itself to keep the promise. METI officials say there is no discussion on the bill within the government for now. An advisory committee is reviewing the country's global warming policies along with the revision of Basic Energy Plan. Japan's moves on climate change, particularly if there is major slippage, will have a profound influence in the future commitments of high energy consuming East Asia countries like China and India. With nuclear power on the decline, whether renewables can take up the lead to resume the protocol of emission reduction is questionable.

Conclusion

The Fukushima nuclear accident has had a drastic impact on Japan's energy security and forced a major revision of the existing energy plan, a process still underway at this writing. Coincidentally, there is change going on in the triangular structure -- politicians, bureaucrats and private sector -- that has long managed the energy sector in Japan. More accountability, better transparency and wider involvement of expert and public views are part of the major changes occurring in Japan's energy policy planning process post Fukushima.

However, there is no perfect energy source that can replace nuclear power, which supplies up to 30 percent of Japan's energy needs. As a result, diversification of energy sources and technological developments will be crucial. It will be important to mix a safer supply of nuclear energy, cheaper renewable energy sources, and cleaner fossil fuels, as well as to continue to promote energy conservation. In order to ensure energy security, METI will have to promote more independence for Japan in terms of fuel supply, lower fuel cost, a diversified energy mix and better management of the private utility sector. The current Noda government, under pressure on many policy fronts, needs time to consolidate its power for further reforms in the energy sector and to expand its influence in sector regulation and guideline supervision. But time may be the one commodity in short supply these days.

The nuclear power sector may only be able to grow if it looks to the outside world. The integration of technology transfer and nuclear plant exports will be the future growing space for the nuclear power industry. The government also must focus heavily on renewable energy to fill the domestic nuclear gap. The increased use of renewable can be accelerated with policy endowment, government subsidies, private investment and infrastructure advances. Here, too, the political will and leadership of the current ruling party are paramount for kick-starting this policy change.

JAPAN'S MONETARY POLICY CHOICES IN A WORLD OF FINANCIAL CRISIS: INTERVENTION AND BEYOND

Financial crises are grueling affairs. In the wake of the global crisis of 2008, economists have noted that the international system typically takes five to ten years to recover from such a shock. In a world already beset by striking changes, the financial crisis that raced across the world has shaken or shattered many cherished notions. American households, global financial institutions, and now European sovereigns, have all in turn seen their creditworthiness regarded as self-evident now being questioned, the high regard of investors suddenly turned into scorn, with tremendous consequences. Even the central role of the American dollar in international finance has been questioned.

Japan has not been immune from such global challenges. In addition to being battered from without by American and then European financial developments, the triple disaster of March 11 -- earthquake, tsunami, and nuclear accident -- has made 2011 among Japan's worst years since the end of World War II. The year 2011 offers us one of the most dramatic vantage points from which to watch the interplay of long- and short-term developments emanating from Japan and abroad by observing movements in the yen market. The drama of volatility and intervention are certainly intriguing and significant in their own right, but this episode can also only be understood by considering (and in turn, can help to inform us about) the broader political, economic, and ideational context in which they have played out.

This paper is written from the global perspective that not only creditworthiness, but also a host of ideas and structures which have characterized the world recently are being critically reevaluated. The continuing crisis has undermined -- though not definitively overturned -- international confidence in the current set of intellectual, policy, and market arrangements. Japan is a distinctive case, but a careful evaluation of its efforts to chart its way forward is useful both as a potential comparator and because Japan's continued importance in the global system mean its decisions will influence -- even as it is constrained by -- how the rest of the world acts.

The paper begins by charting the recent course of the yen, highlighting the dynamics surrounding its appreciation. The discussion then turns to the politics of exchange intervention, both domestically for Japan and internationally. Finally, yen policy is considered in the broader context of Japan's efforts to recover from the triple disaster, while also managing three longer-term challenges -- growth, balance of payments, and fiscal deficits -- in the face of a changing external environment.

Exchange Rates – A Primer

Exchange rates are among the most important prices in an economy. The value of a country's currency against those of the rest of the world is the key price which mediates the domestic and external economies, coordinating trade and financial flows. For all its importance, however, an exchange rate is notoriously problematic.

First, there is no single exchange rate to speak of. In markets, currency pairs, such as the yen and the dollar, are traded. While these provide the most up-to-date measurement of relative values and are what people must transact through, looking only at these exchange rates (particularly only one pair of traded currencies) is of limited use. For understanding the trade competitiveness of countries over time, real effective exchange rates – multilateral trade-weighted price-adjusted currency indices – are the most common measure.

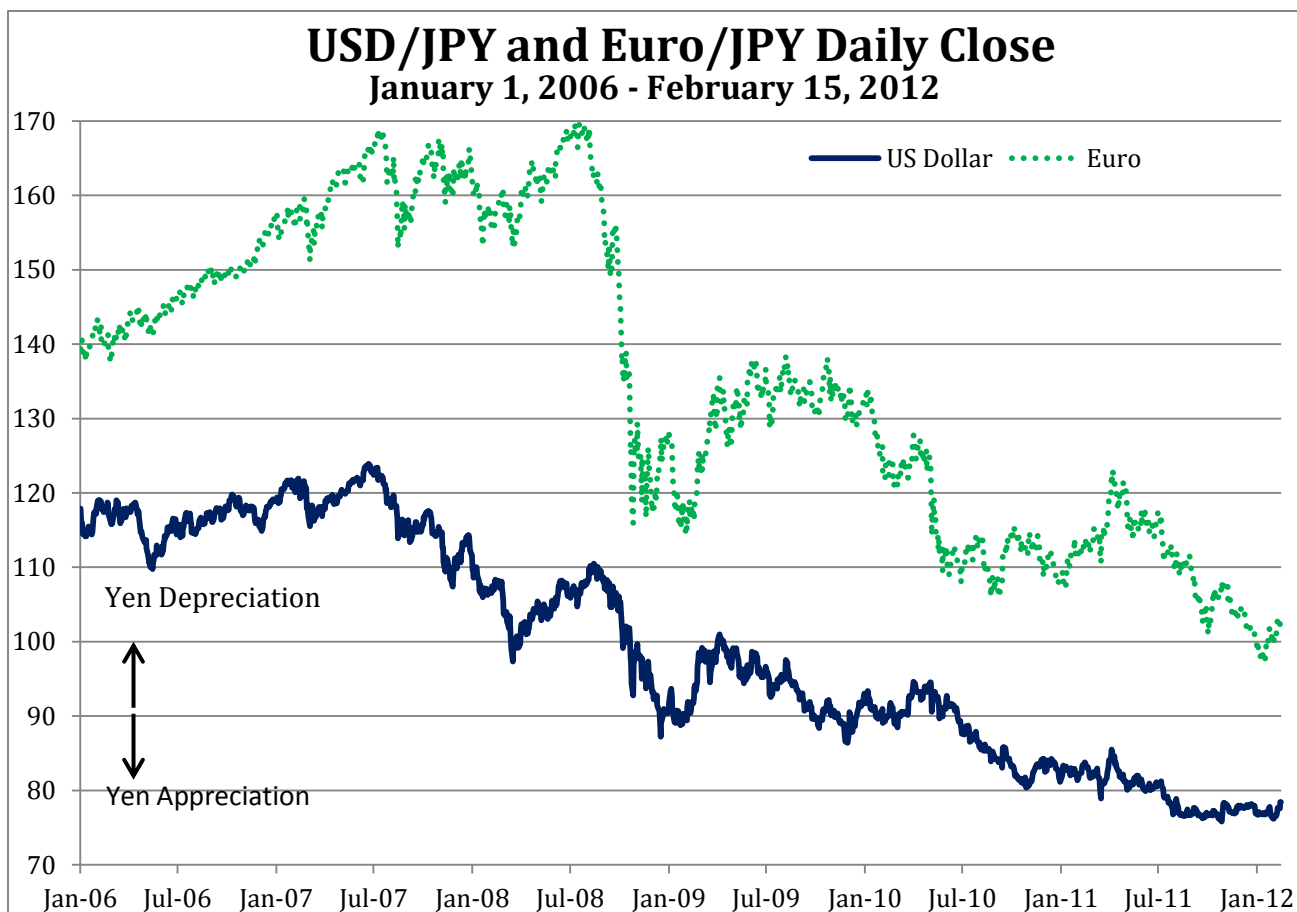
Second, exchange rates are extraordinarily volatile. Relative to other macroeconomic variables such as interest rates, exchange rates behave more like financial assets in terms of volatility. Though highly contested, economists have an expectation that exchange rates should follow purchasing power parity – meaning nominal exchange rates should adjust in line with changes in the price levels of the two economies. Which prices exchange rates should be reacting to – export prices, producer prices, consumer prices – is unclear, however. In reality, nominal exchange rates adjust much more quickly than the price of goods and services, meaning movements in the market exchange rate dominate in the short run.

The rough take away from this is exchange rates are strikingly important, yet their fickleness is frustrating to academics, policymakers, and businesses. There is an unending debate about where exchange rates should be and, if a determination of misalignment is made, what (if anything) should be done about it. Exchange rate intervention is a loud statement on the part of the Japanese government about the state of the yen market and a bold position on the appropriate response. Before considering the Japanese government's plunge into the markets, however, it is important to consider the conditions the government is responding to.

Coping with Appreciation – Japan's Travails with the Yen

Since the 2008 financial crisis, the yen has seen an uneven but dramatic appreciation, both against the dollar and in real-effective terms. Though initially acquiescing to the strengthening of the yen, the Japanese government started to turn up its rhetoric on the yen throughout 2010 until it snapped an over six year streak of not intervening on September 15th of that year.

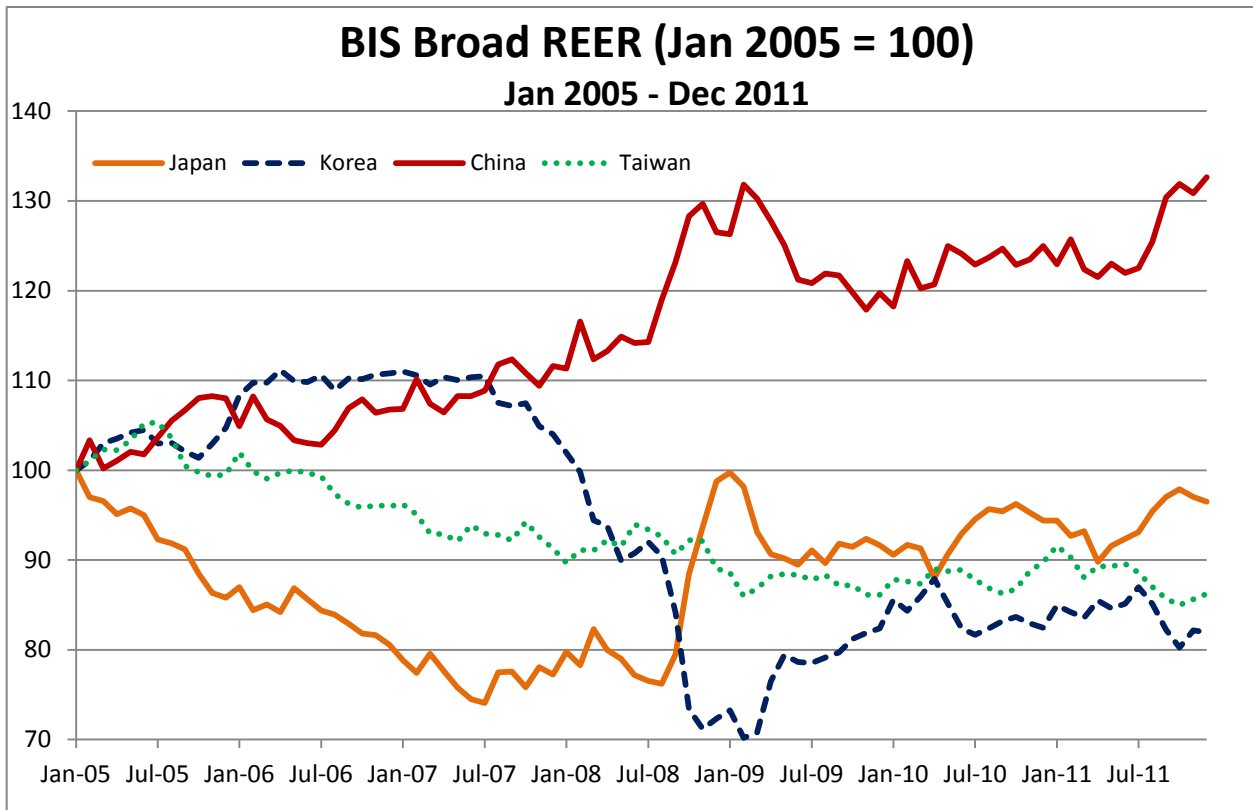
For the middle part of the 2000s, the yen was arguably mildly undervalued. This did not cause much concern as it helped Japanese exports take advantage of growth in Asia to recover from its lingering recession. Meanwhile, China's large current account surpluses and an excessively weak *renminbi* caused international concern about currency adjustment to be focused on Beijing rather than Tokyo. As problems began to emerge in the American financial system during 2007, the yen's depreciation reversed. After reaching at almost 124 yen to the dollar in June 2007, the yen saw significant appreciation. In March 2008, the yen briefly broke 100 to the dollar as the crisis at Bear Stearns rattled financial markets. The yen receded somewhat until Lehman Brothers declared bankruptcy on September 15th, 2008, an event that sparked an over 3% appreciation of the yen against the dollar in a day, and then sent the yen down below 100 in the following weeks. The pressure abated somewhat in the early part of 2009, where after racing to 88 in January, the yen again returned to 101 in April (6.9% stronger than the day prior to Lehman).



Source: Bloomberg

Since 2009, yen appreciation has been the order of the day. From the level of 101, the yen ended 2009 at 93 (8.58% stronger), falling again to 81 at the end of 2010 (14.65% stronger on the year, despite intervention in September). These gains consistently outpaced market expectations. At the end of 2011, the yen had appreciated another 4.44% against the dollar to 77.7 (having touched 75.8 in October, a 7.03% gain on the year). All-in-all, the yen is up 16.8% over two years ended 2011 against the dollar.

This story changes somewhat in the details when switching to the perspective of real effective exchange rates (REER), but the overall pattern is the same. Appreciation begins in 2007, with a sharp uptick in September 2008. After receding somewhat and stabilizing in 2009, 2010 and 2011 saw a resurgence of an appreciation trend. By the end of 2011, the yen's REER was back near its post-Lehman shock highs. These levels were last seen on a sustained basis from 2000 to 2005.



Source: Bank for International Settlements

The dynamics of financial markets have also been changing since 2008. The zero interest rate and quantitative easing policies Japan pioneered are now the order of the day, with the other major central banks (Federal Reserve, Bank of England, and European Central Bank) all dropping their interest rate targets and expanding their balance sheets. This has made financial outflows that had once supported yen weakness come to a halt. The carry trade, borrowing cheap in yen while investing in higher yielding assets such as Australian dollar, was popular during the mid-2000s and helped to generate outflows which served to weaken the yen. With other currencies now at the zero bound on interest rates and global growth prospects in doubt, the spreads which drove this trade in yen are no longer present. Evidence of the decline of the carry trade can be seen in correlations with global equities – the relationship to the yen has weakened, while the US dollar has tracked equities closely. The unwinding of carry trade positions is seen as explaining the large appreciation of the yen in the immediate wake of the Lehman bankruptcy. The quip among currency traders is that the carry trade goes “down by the stairs, up by the elevator.”

In addition, so-called safe haven flows have favored yen strength. Since the advent of the European sovereign debt crisis, the financial markets narrative has focused on a risk-on/risk-off paradigm. This dynamic led to large inflows into Japanese money-market or highly liquid assets, but the yen has not proven liquid enough to absorb these flows without moving significantly. The volatility associated with being caught up in risk-on/risk-off dynamics also further undermined the incentives for a yen carry trade. Among risk-off assets, the discussion has centered on what is the ‘least ugly’ place to be – British pounds, US dollars, gold, yen, Swiss francs, or other G10

currencies. For a time, the franc and the yen were the unhappy winners of this contest. In the wake of major action by the Swiss and Japanese authorities and the continued resilience of US Treasuries, the US dollar has become the new belle.

The last intervention, on October 31st, has proven resilient for the moment. Even as pressure has continued to mount on the euro and the Swiss National Bank has kept its floor on the franc, the yen/dollar rate has maintained a level tended to trade between 77 and 78 (the yen/euro rate has continued to fall, however). Japanese authorities must still be concerned to some degree. The argument for structural yen appreciation remains, given continued deflation, the demands of earthquake reconstruction and fiscal financing, a declining household savings rate, and continued real demand for yen from Japanese exporters.

In addition to trade-weighted effective exchange rates, it is also useful to consider how the yen has moved against important competitor countries in East Asia – Korea, Taiwan, and China. The Korean Won and New Taiwan Dollar both depreciated sharply in the wake of the Lehman bankruptcy and have not made much movement back towards their 2007 levels. The won in particular has depreciated significantly. The Chinese *renminbi* was initially re-pegged at 6.82 to the dollar following the Lehman bankruptcy, and in June 2010 the People's Bank of China began a controlled float which has led the RMB to appreciate 7.12% over the past year and a half. Inflation in China over that time meant there was a larger real appreciation. In the new off-shore RMB market in Hong Kong, however, pressure for appreciation has decreased dramatically as concerns have grown about near-term Chinese growth.

Is the current level sustainable? It depends who you ask. By most measures, the yen is somewhat overvalued given underlying price changes with major trading partners. However, as recently as June 2011, the IMF assessment of the yen's valuation deemed it to be reasonable based on the 20-year average of the real effective rate and in-house exchange rate estimations. Until recently, the Bank of Japan appealed to a similar logic to argue that yen appreciation was not a concern. Based on price-adjusted exchange rates, the yen has been somewhat overvalued this year. For businesses, the most important measure is the export price competitive level of the yen. While the actual competitive level of the yen is firm specific, consensus estimates are for a level around 78, with a range from 82 to 70. For its part, the Nippon Keidanren, Japan's main business association, has been a vocal supporter of action to weaken the yen.

The Politics of Intervention

Once upon a time, nominal appreciation was a diplomatic affair. Under the Bretton Woods system set up after World War II, countries committed to fix their exchange rates to the dollar at levels which were only occasionally adjusted by mutual agreement. In 1971, after years of growing conflict, this system finally collapsed. The advent of a floating rate system during the 1970s did not obviate the need for exchange rate management, however. In Europe, the exchange rate mechanism established a regional system of fixed exchange rates. In the 1980s, the Plaza Accord attempted to coordinate currency market intervention and monetary policy to achieve a depreciation of the US dollar.

The removal of the strict Bretton Woods exchange rate targets, changes in economic thinking, and increasing central bank independence undermined the use of currency policy, however. As

central banks moved towards inflation targeting as their focus rather than exchange rates (as had been the target under Bretton Woods), the conflict between monetary and currency policy led to an increasing tolerance for market determined exchange rates. Currency market intervention has a similar effect to other open market purchases of financial assets, in that a purchase of foreign currency increases the supply of domestic currency. To limit the impact of currency intervention on money supply, central banks would purchase other financial assets to net out the impact on the money supply – a procedure called sterilization.

As currency policymakers, usually finance ministries, lost the cooperation of central banks and came to agree that currency intervention was an ineffective tool, countries gave up the fight. In 1989 the Federal Reserve ceased intervening on its own account. By 1995 the US, German, Swiss and UK authorities had abandoned regular intervention. This transition was slowest in Japan, however. Among G7 countries, Japan was the last to abandon regular intervention, which it finally did in March of 2004. Among major central banks, the Bank of Japan has only a weak inflation target; it is also distinguished by consistently managing to be below this target.

Even prior to the large shift away from foreign exchange intervention, Japan was seen as being more eager than other countries to engage in intervention. Writing in 1994, C. Randall Henning made a structural argument that relatively low independence of the Bank of Japan together with the close ties between major Japanese banks and industrial, particularly export-oriented, manufacturers led to a stronger ability to lobby and reach consensus on exchange rate intervention.

The evidence surrounding exchange intervention suggests that on its own it is a policy tool of limited utility. Economic studies analyzing foreign exchange intervention have found limited effectiveness at changing the level of the exchange rate. The effectiveness has decreased over time, in part because the strategies that are thought to be less effective – sterilized, unilateral – have become more common, and as financial flows have increased in magnitude.

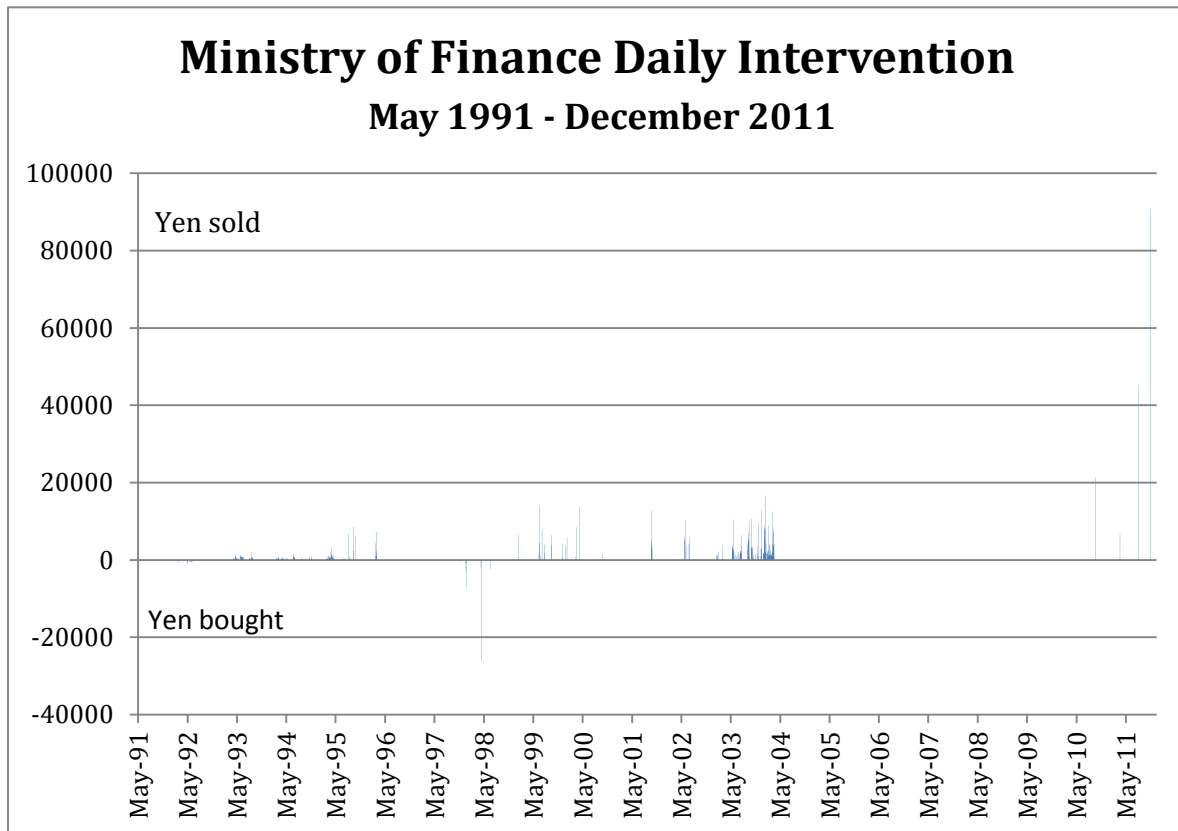
The challenges of creating a credible policy mean that for intervention to be successful agreement (or at least accommodation) must be found on a variety of fronts. In Japan, the Ministry of Finance is responsible for currency policy, but it must coordinate with the Cabinet Office, the Bank of Japan, and foreign monetary and fiscal authorities in formulating policy. The comments and actions of all these actors have the potential to move financial markets and affect the ultimate outcome. Finally, the success of intervention must be considered in light of the goals of the policy.

Below we consider the key issues these structures raise. Why has intervention returned as a policy instrument? How and why has intervention changed since it was last used? What kinds of understandings have been reached so as to reach consensus on such a contested policy? This discussion is broken into considerations of the domestic debate, and then turns to the international process. Looking at the international level highlights both the unique challenges and approaches to policy that characterize Japan.

Domestic Bargaining – Coalition Building

Japanese politics – in both bureaucratic and democratic terms – has seen a number of significant changes in the past decade and a half. In 1997, financial sector reform was implemented, reducing the power of the Ministry of Finance (MOF) by increasing BOJ independence and setting up the Financial Services Agency as an independent financial sector regulator. The late-90s reform also removed restrictions on foreign exchange transactions and opened up the Japanese market for foreign inward mergers and acquisitions.

In August 2009, Japan experienced a change of government with the victory of the Democratic Party of Japan (DPJ), replacing the Liberal Democratic Party (LDP), which had ruled the country since 1955, save for one year. This victory was a major transition to a party with a different demographic base – generally more urban, younger -- and a commitment to a divergence from previous policy. In its final election push and then, under its first prime minister, Yukio Hatoyama, the DPJ viewed its mandate as reforming the orientation, development, and conduct of policy in all spheres. In particular, the DPJ called for a move towards “politician-led” government rather than bureaucracy-led government. The administrations of Hatoyama and later Naoto Kan, however, were plagued by difficulties in implementing the DPJ’s ambitious reform agenda, and eventually discarded much of the platform it had run on. Particularly on the economic policy front, the two administrations ran into acute funding problems, sometimes raucous internal debate within the government and a party that still lacked a coherent policy-formulation apparatus.



Source: Ministry of Finance (Japan)

After the Hatoyama administration collapsed over policy mishaps, including the mishandling of a delicate U.S. basing issue in Okinawa, the Kan government, after an initially good start, quickly lost the public's confidence in managing the country's affairs competently. This perception was exacerbated by the LDP's gaining control over the Upper House in the July 2010 election and continued tensions between the DPJ and the business community. The DPJ's internal discord – essentially a power struggle between two powerful wings of the party that had policy ramifications -- and the renewed vigor of LDP opposition, blocking legislation in the Upper House, stymied the DPJ's agenda and created acute difficulty in completing a budget for fiscal 2011. Prior to the Tohoku earthquake on March 11, 2011, Kan was already seen as on his way out. He hung on until late summer, passing the budget and special measures for post-earthquake recovery, when he resigned, handing the mantle to his onetime finance minister Yasuhiko Noda.

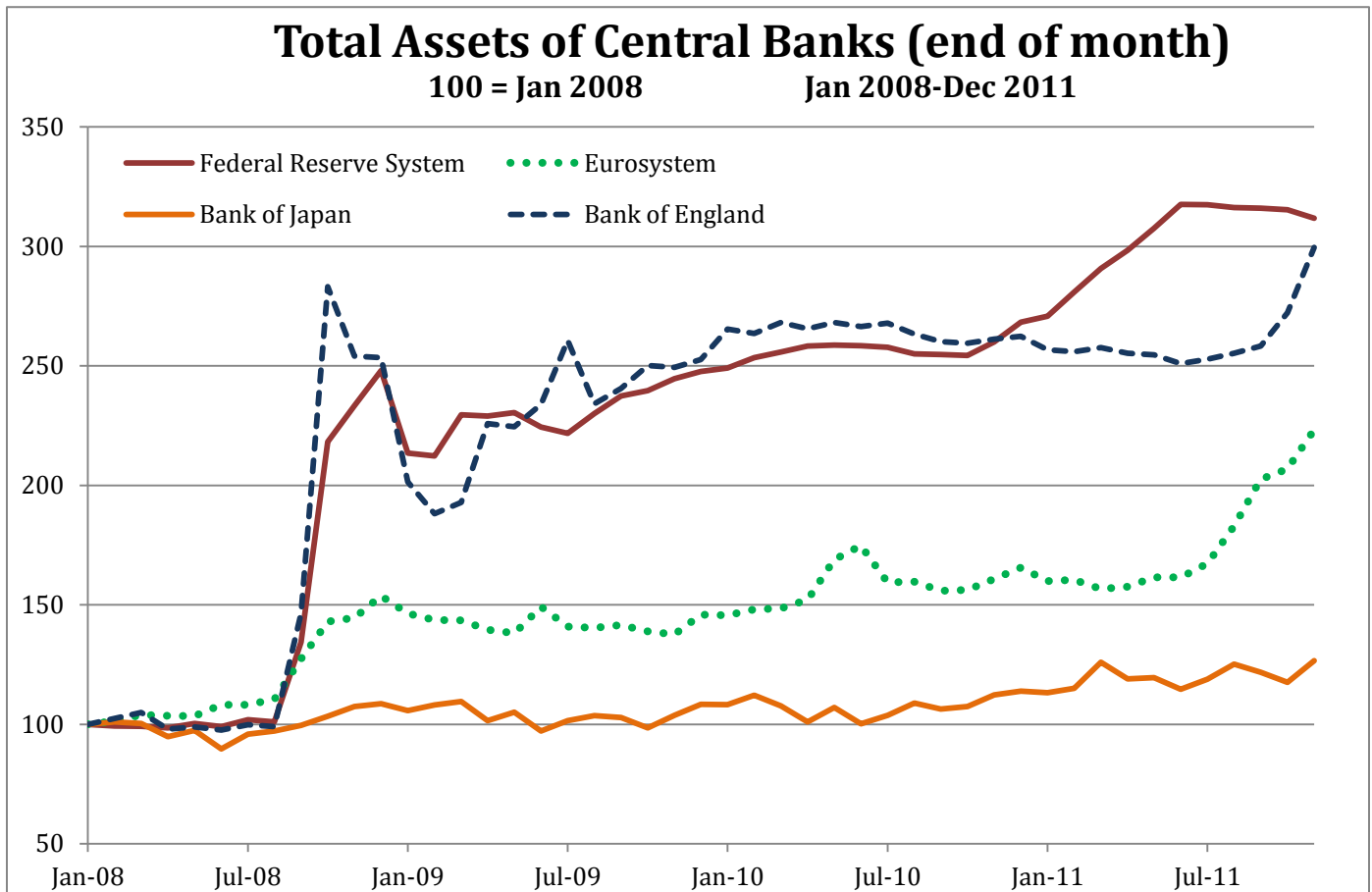
It was against this chaotic political backdrop, along with the exchange rate dynamics discussed above, that DPJ policy formulation has been taking place since late 2009. During the election campaign and in the early period of DPJ rule, the prospect of a strong yen was discussed as a possibility Japan should welcome, if not exactly relish. But as the yen continued its upward course during 2009 and 2010, the specter of the excessively “strong yen” again raised its ugly head. While the impact on broader sentiment is difficult to discern, the appreciation of the yen has taken place alongside a downward trend in the Nikkei 225. Major manufacturers have complained loudly about the impact of a strong yen on the value of their earnings and on the viability of continuing to base production in Japan. The broader fear is that a strong yen will add to deflationary pressures and encourage a “hollowing out” of Japanese manufacturing, as companies pull up domestic operations and move offshore. Small and medium enterprises are thought to be more sensitive to the value of the yen due to poorer operational diversification and limited access to financial hedges, though this tendency has been declining over time. The investment community has generally looked favorably on yen interventions, regarding such episodes as a boost for the stock market.

The impact on both consumer and business sentiment, together with a high sensitivity to perceived competitiveness of the export sector, make yen intervention a politically potent tool. Increased pressure from the business community for intervention came alongside important changes within the DPJ. Though the party won dramatically in the 2009 lower-house election, it failed to deliver on key promises and prominent figures became tainted by political funding scandals. The cabinet and the party's popularity dropped rapidly. The party's internal disarray and the legislative logjam in the face of a newly empowered LDP further helped to drive its popularity ever-lower. To combat these pressures, the DPJ has tried to strengthen its policy-making apparatus, and retreated from its initial reticence to work with the bureaucracy and with big business. The current prime minister, Yoshihiko Noda, has abandoned many of the party's original commitments.

What about the DPJ's approach to currency policy? There remains a fascination for currency intervention as an attractive policy option. With it, the DPJ government is able to forge closer ties with the bureaucracy and take advantage of a policymaking channel that affords easier implementation. In theory, such a course of action has the potential of courting the business

community, and it could ameliorate public sentiment, turned negative by a series of perceived policy failures. The moves made by Noda are illustrative. Noda was finance minister for the first three intervention episodes and prime minister for the fourth. He has overtly sought to improve ties with the bureaucracy and improve the perception of efficacy in DPJ governance. In addition, he has attempted to move closer to the LDP in order to undermine the basis for some of their criticisms of DPJ rule, but this stratagem has seen limited effectiveness.

Given the concern surrounding yen appreciation and the political incentives for the DPJ to try to do something about it, there is a clear concern about maximizing the effectiveness of intervention. This requires coordination with the BOJ, but the bank, as discussed above, continues to demonstrate a lack of concern with the level of the yen. In addition, BOJ has been reluctant to engage in the kind of quantitative easing policies it carried out prior to 2006 and currently being pursued by other countries. The BOJ argues that earlier quantitative easing policies were not effective, and that any substantive impact on the real economy was due to quantitative easing acting as a time commitment mechanism for a low interest rate environment rather than having a direct impact. When asked why Japan fails to respond to quantitative easing while other developed economies appear to, officials point to the relative importance of banks rather than capital markets in Japan's financial sector. Why this should make a difference, especially after implementation of banking reform and stabilization, is not clearly explained.



Source: Federal Reserve Board of Governors; European Central Bank; Bank of England; Bank of Japan

In addition to questions about the usefulness of quantitative easing, the central bank has concerns about continuing to help fund large fiscal surpluses. A concern for all central banks, the BOJ has more concern than others due to the large gross debt of Japan – over 200% of GDP -- and its desire to assert its hard won independence from MOF. This reticence to use further monetary policy instruments has meant there was little room for complimentary monetary policy. For the first intervention, on September 15th, 2010, further quantitative easing had yet to be announced. On October 5th, the BOJ instituted a new “asset purchasing program” totaling 35 trillion yen, predominantly in lending against pooled collateral with only 5 trillion being committed to outright asset purchases. Since then, the asset purchasing program has increased to 55 trillion yen (20 trillion in asset purchases, 35 trillion in lending), but purchases have targeted short-term assets (expiring in less than 2 years) rather than the longer-term instruments targeted by the Bank of England and the Federal Reserve. The BOJ’s actions have failed to impress currency markets on their own.

The timing of increases in the asset purchasing program does seem to be coordinated with MOF interventions, perhaps lending strength to intervention by providing a mild monetary policy alignment with currency policy. In addition, BOJ has been ambiguous about if and how it sterilized interventions, particularly following the massive Tohoku earthquake. Perhaps most important of all has been the somewhat favorable comments on the part of BOJ regarding intervention, including a statement by Governor Masaaki Shirakawa on October 31st, 2011 the day of the most recent intervention announced intervention. Subsequent statements have acknowledged the dangers of yen appreciation, but focused on structural adjustments to take advantage of a strong yen.

In a surprise move, the BOJ announced on February 14, 2012 an explicit medium-to-long term inflation target of 2%, but hedged its near-term commitment by saying that it would target a 1% level for the time being. This decision, in the wake of a similar exposition of a formal target made by the Federal Reserve, was seen by many as a political move to contain pressure for further easing action by the BOJ or changes in legislation to limit BOJ independence. This announcement was coupled with an increase of asset purchases by an additional 10 trillion yen, all of which would be allocated to Japanese Government Bonds (JGBs). What further actions the BOJ will actually take to achieve this target are as yet unclear, given its departure from previously stated policy preferences and the mixed message implied by the lower short-term target.

So far, Japan has succeeded in arranging a domestic coalition around intervention, combining MOF bureaucrats, politicians, and the BOJ. The third leg is somewhat weak, however. In contrast to the commitment of the Swiss National Bank (which oversees both currency and monetary policy), Japan does not have a commitment to unlimited inflation to support a hard floor. Instead, MOF has instilled an impression of a soft floor where intervention looms anytime the yen reaches a new high. In addition, overvaluation is no longer questioned by official commentators helping to lay the ground for intervention to move the yen back to a level ‘in line with economic fundamentals.

The domestic jockeying is but one half of the delicate preparations MOF must make for intervention. Japan must also navigate the international stage – it is to this set of constraints that we now turn.

International Bargaining – Making Space

The pressure on Japan to avoid intervention has been extremely high. As discussed above, policymakers in other advanced economies have become increasingly inhospitable towards currency intervention. In earlier periods, Japanese intervention was frowned upon but tolerated. In the 1990s and early 2000s, Vice Ministers of Finance for International Affairs famously regularly communicated their interventions to their American counterparts. Under Vice Minister Mizoguchi, the US Department of Treasury reached an understanding that foreign exchange intervention was meant to help stabilize the Japanese economy and act as a form of quantitative easing, but that this strategy would be limited in duration. Although the US Treasury never formally declared Japan a currency manipulator, the Congress was concerned enough that it directed the Government Accountability Office (GAO) to question why Treasury had failed to make such a determination.

In 2003, towards the end of Japan’s regular interventions, the US had language inserted into G7 communiqués which committed member countries to avoid intervention. The language which eventually became stock reads:

We [the G7 Finance Ministers and Central Bank Governors] reaffirm that exchange rates should reflect economic fundamentals. Excess volatility and disorderly movements in exchange rates are undesirable for economic growth. We continue to monitor exchange markets closely and cooperate as appropriate. In this context, we emphasize that more flexibility in exchange rates is desirable for major countries or economic areas that lack such flexibility to promote smooth and widespread adjustments in the international financial system, based on market mechanisms.

This position was subsequently used to try to push countries that intervene on a significant basis – and China explicitly – to limit their interventions. This policy is best seen as an attempt on the part of Washington to inculcate an international norm of liberalized exchange rates with which to coax emerging markets into allowing their currencies to appreciate. At a minimum, this gave those calling for less intervention a principled negotiation position. Japan ensured language that allowed for the possibility of currency intervention was retained, while it largely submitted to the strictures of ceasing intervention. Though Japan lost a favored tool, it had a large incentive to encourage appreciation of Asian currencies. The policy slowly bore fruit, as China began to allow the *renminbi* to appreciate (slowly), beginning in 2005. As previously discussed, the yen also experienced a depreciation trend during this time and so the government was happy to leave it be.

Japan never fully quit the intervention game, however. ‘Verbal’ interventions – pronouncements to help massage movement in the yen markets – were occasionally undertaken. Japan seemed, for a time, to be willing to endure a stronger yen after 2008. The continued use of verbal intervention however showed that a serious commitment to non-intervention was not in the

cards. The underlying belief, so strongly held by American policymakers and implicit in the G7 statement, that markets function better autonomously was not held either in Japan or other Asian economies. Even if some of Japan's policymakers did feel this way, its businesses felt the pinch of intervention by its neighbors more than other developed economies.

To fit its interventions within the strictures of its G7 commitments, Japan has designed a unique intervention strategy. Rather than the regular interventions employed by other countries, Japan initially made large one-day interventions, attempting to maximize the initial impact. These are accompanied by intonations that the exchange rate is misaligned with fundamentals, volatility is high, speculators abound, and that further action will be taken as necessary. These statements in part speak to markets, emphasizing the commitment to intervention, but also fit MOF's actions within the G7 framework. These large one-day interventions do not allow it to maintain a floor as effectively as was realized from 2000 to 2004, but has helped to reverse the seeming one-way direction the yen had taken recently. Following the large, announced intervention on October 31st, MOF continued to intervene on smaller scale through November 4th.

In the wake of the Tohoku earthquake, there was significant instability in Japanese financial markets, with drastic falls in the Tokyo stock market and a sharp appreciation of the yen. The magnitude of volatility and the threat such a sudden appreciation posed to the domestic economy led MOF to request a "phone summit" of G7 finance ministers, which announced on March 17th that coordinated intervention would take place the following day. The desire to stand behind Japan in the wake of the devastation of the triple disaster along with rumors of currency market manipulation added to the appeal of engaging in coordinated action. This marked only the third time since 1995 that coordinated intervention had been undertaken.

Despite the hopes of the Keidanren, G7 support would not be forthcoming in subsequent episodes of intervention. To the contrary, unilateral action was frowned upon by the US and European finance ministries. For their part, Europeans may have kept quiet their criticism muted as they tried to attract Japanese participation in fundraising – either through the IMF or a dedicated facility – to cope with the European sovereign debt crisis. American forbearance is somewhat harder to parse, as Japan's action put upward pressure on the US dollar when weakening the dollar seems to be unofficial policy. In its semi-annual report on foreign currencies, the US Treasury Department emphasized that it does not support unilateral intervention and, similar to BOJ (or the IMF in Greece for that matter) called for structural measures to deal with the economic challenge. Japanese interlocutors suggested that negotiations with the Americans would be tough, but that an 'all cards on the table' negotiation position could not be excluded – where the US accepted intervention if Japan was prepared to make greater progress on other priorities such as Trans-Pacific Partnership (TPP) and Futenma relocation.

Recent dynamics in the yen market suggest intervention has made an impression for the time being. With the transition to Noda's term as Prime Minister, some questioned whether Finance Minister Jun Azumi, picked for the cabinet without regard for his lack of financial policy expertise, would continue to push for action on the yen. The October 31-November 4 intervention, in the midst of a G20 summit, seems to have impressed upon the minds of financiers the resolve Japan's government brings to addressing appreciation and its tolerance for international rebuke.

That Japan has this much leeway within the fold of the G7 framework, however, threatens the meaning of the commitment to market determined exchange rates. In addition, the potential that Japan may have to trade short-term goals – intervention policy supporting DPJ and business concerns – for longer-term priorities – opposing emerging market currency intervention, TPP politics – highlights how the currency issue is at the nexus of a number of other important issues. It is to this broader ideational sphere that we now turn.

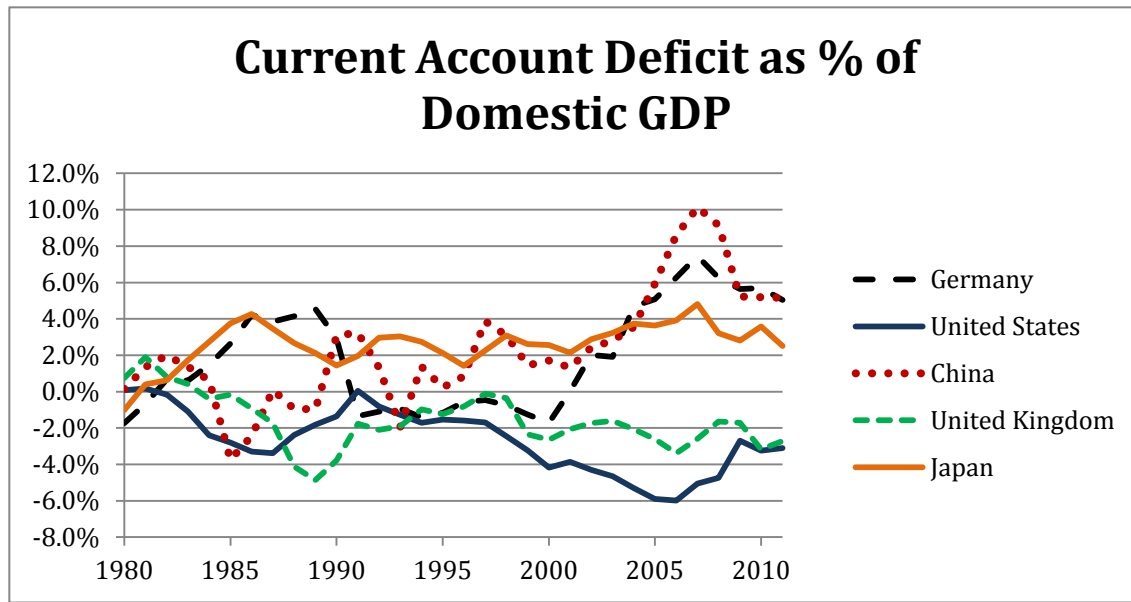
Charting the way forward

The challenge of how to continue growth in Japan is not a new one. While the mid 2000s finally saw a revival of modest growth, underlying questions remain. The rapid ageing of Japan's society continues apace, the end of sustained current account surpluses looms on the horizon, and government debt complicates the delicate balancing act of how to attempt to generate growth. So far, the BOJ's limited quantitative easing policies have seemed to also preclude a monetary stimulus to help generate growth.

The triple disaster on March 11 may have been an opportunity to mobilize around an alternative. Despite the extent of the shock, it offered a respite of growth as the economy recovered. Prime Minister Noda's efforts to reposition the DPJ and improve its appearance of competence have also led to a decline of its initial reformist impulse. The lesson for the moment seems to be to limit the party's ambitions.

Given that monetary policy and fiscal policy are off the table, the only policy options left are growth through exports or structural reform. The BOJ seems to be pushing for structural reforms, and this may in fact explain its reticence to use more expansionary monetary policy and limited support for yen intervention. The government and big business are more content with pursuing expansion abroad. On the part of MOF, maintaining a current account surplus is important as it helps to prevent the government from needing to finance its deficits through foreign borrowing. On the part of businesses, this arrangement allows them to continue their strategy of expanding abroad while utilizing a high-value added base in Japan. They may even end up enjoying state support for overseas investment. A policy of avoiding current account surpluses will require generating sufficient capital outflows, which will become more difficult as households become net dissavers. Thus, high corporate savings will need to be maintained and directed towards foreign investment.

Supporting these flows will be difficult and may in fact simply subsidize the hollowing out of Japanese manufacturing. Even those who accept a strong yen say it should be used to mobilize outward investment, which will eventually bring the yen down again. A strategy used by other Asian surplus economies has been to create sovereign wealth funds funded out of foreign exchange reserves. Given the sensitivities in Japan surrounding public finances, consensus has been hard to reach on how or even if to invest abroad. Recent discussion has turned to using the Japan Bank for International Cooperation (JBIC) as a potential medium for investing abroad. JBIC offers the advantages of already specifying international investment priorities, including increased ownership of energy assets, and a paradigm of crowding in private investment.



Source: World Development Indicators

For Japan to grow through exports, in addition to maintaining a positive savings-investment balance, it will need to find willing recipients for its money. If all of Asia continues its recent spate of large surpluses, there will have to be an ex-Asia source of deficits. So far, the countries of North and South America have been the main deficit countries, but they seem less and less inclined to take that role. If a source of deficit cannot be found outside Asia, then intra-Asia imbalances will have to grow. In recent years, India and Indonesia have become current account deficit countries, but how long their governments (or their economies) will allow this pattern to continue is unclear. As the European debt crisis deepens, the possibility that the euro zone might become a net current account surplus area has not become a more serious possibility. A world in which every country wants to be increasing its surplus or reducing its deficit is one which quickly reminds itself of the fallacy of composition.

When discussing America's position as a deficit country, there is a certain degree of double speak among international critics. In one instance, they criticize the US for using its key currency status to run up huge deficits. In the next, they insist America should not do too much to impose adjustments on the rest of the world because the US is in a special position to be able to sustain borrowing from the rest of the world. At least for the moment, the US seems less willing than before to run deficits and this will require others to consume more, save less, or find somewhere else to invest.

The structural reform path is much more difficult for a variety of reasons, not least of all Japan's dysfunctional electoral and party systems. The rise of TPP politics seems to be a return to a form of *gaiatsu* – America threatens exclusion from the trading regime if liberalizing reforms are not undertaken. The scope of TPP, both in terms of geography and domestic policy, is striking. The quiet consensus so far in Japan is that joining TPP is a good idea, if only to avoid being left out. In this way, the United States and others hope to leverage Japan's desire to export to wring concessions.

TPP politics and the *gaiatsu* it recalls activate a set of deeply emotional debates within Japan. What is the country's relationship with the United States? Is it being bullied or abandoned? Should Japan look towards Asia for its strength? And if so, should it do so alongside the US or by striking out on its own? The transition to a new trade regime shifts the grounds of the debate for the US with Japan and with other emerging Asia economies, particularly China. The US seems to understand that it has lost the battle for the moment in the area of liberalizing capital flows and so is turning to the stymied but time-tested trade channel. How Japan decides to act towards TPP will likely be significant for its prospects and its impact, but it is already proving divisive within Japan.

Domestic alternatives to US sponsored structural reform appeal to a paradigm of 'taking maturity seriously.' That is to say, accept the lower growth potential of being an advanced economy but try to leverage Japan's large stocks of wealth to chart a new way forward. Some even suggest countering the conventional wisdom of inevitably declining consumption. For the time being, however, such ideas are likely to remain simply ideas – neither of the two major political parties appears to have the dominance or the courage to address this issue head-on.

Timeline of Significant Events

September 15, 2008	Lehman Brothers declares bankruptcy, yen appreciates 3.1% on the day and 19.0% through the end of the year to 90.68
August – September, 2009	Democratic Party of Japan wins general election, forms government under Yukio Hatoyama
May, 2010	Greece receives first bailout package
June 8, 2010	Naoto Kan becomes Prime Minister
July, 2010	LDP performs well in upper house elections
September 15, 2010	MOF intervenes unilaterally a day after yen closes at 78.9, selling 2.12¥ billion; yen weakens 3.2% on the day and 0.8% over two weeks
October 5, 2010	BOJ announces asset purchasing program, including 5¥ trillion in asset purchases, targeting short-term instruments and 30¥ trillion of 3- to 6-month lending
March 11, 2011	Great Tohoku Earthquake strikes northeast Japan, which together with an ensuing tsunami and nuclear accident cause untold tragedy and wreak havoc on the economy and financial markets
March 14, 2011	BOJ increases its asset purchases from 5¥ to 10¥ trillion
March 17, 2011	Following a request by MOF, the G7 announces it will undertake a coordinated intervention to weaken the yen. Having closed at 78.9 on the 17 th , yen weakens 2.1% on the 18 th , when the intervention takes place, and 4.5% by April 17 th .
July 21, 2011	The IMF, European Commission, and ECB announce that Greece will receive a second bailout, predicated on extensive losses on outstanding Greek debt (private sector involvement).
August 4, 2011	MOF intervenes unilaterally a day after yen closes at 77.06 by selling 4.5¥ billion. The same day, BOJ increases assets purchases from 15¥ to 20¥ trillion and lending from 30¥ to 35¥ trillion. The yen depreciates 2.3% on the day, but appreciates 0.6% over two weeks.
September 2, 2011	Yoshihiko Noda becomes Prime Minister
September 6, 2011	Swiss National Bank announces it will temporarily impose a ceiling of 1.2 Frank per Euro, asserting it is prepared to defend this level by buying foreign currency “in unlimited quantities.”
October 27, 2011	BOJ increases asset purchases from 15¥ to 20¥ trillion. Total purchases of JGBs and Treasury bonds reach 9¥ trillion and 4.5¥ trillion, respectively.
October 31, 2011	MOF intervenes unilaterally a day after yen closes at 75.83 by selling 8.1¥ billion. The yen appreciates 3.0% on the day.
November 1 – 4, 2011	MOF continues to intervene unannounced, selling a total of 1.0¥ billion. G20 meeting in Cannes focuses on European debt crisis and revisions to terms of second Greek bailout.
December 27, 2011	US Treasury states that it does not support Japan’s unilateral interventions in its semi-annual report on foreign exchange
February 14, 2012	BOJ increases asset purchases from 15¥ trillion to 20¥ trillion, with all of the increases being allocated to JGBs. In addition, the BOJ refines its stated monetary policy stance by saying it has a ‘goal’ of 2% inflation in the medium- to long-run, and will focus on achieving a 1% rate in the immediate short-term.

A GOLDEN OPPORTUNITY: JAPAN AND THE TRANS-PACIFIC PARTNERSHIP

On December 11, 2011, *Nippon Hoso Kyokai* (NHK), Japan's national broadcasting company, aired a morning show called *Asaichi* that discussed the merits and demerits of Japan joining the Trans-Pacific Partnership (TPP), a comprehensive trade agreement under discussion. Kazuhito Yamashita, a researcher at the government-affiliate Research Institute of Economy, Trade and Industry, made pro-TPP arguments while Satoshi Fujii, a professor at Kyoto University, staunchly opposed Japan's participation. Yamashita argued, among other items, that a Japan participating in TPP would be able to export more freely to other countries and see medical costs decrease with the advent of foreign-funded hospitals with better service. On the other side, Fujii argued that average salaries in Japan would decrease due to competition with developing countries and that a division between those who could afford decent medical care and those who could not would arise. Male broadcasters nodded in agreement to points raised by both sides, while the sole female broadcaster sat in confusion. In the end, all were confused.

This morning television program aptly serves as a microcosm of the debate in Japan. Both pro and anti-TPP camps are well established, the debate having started in 2010, and Japan seems hopelessly divided on the issue whether it be the academic, political or media worlds, or the general populace itself. There seems to be a great deal of confusion regarding TPP within the government and ruling Democratic Party of Japan as well. Simply put, Prime Minister Yasuhiro Noda's intention to join TPP is a much larger commitment than simply signing another free trade agreement, for Japan has many of them tucked away already. There are huge political and economic implications for the decision: opting to join TPP over favoring the ASEAN + 3 or ASEAN + 6 FTA agreements would position Japan closer to the West, while joining the latter would pull Japan closer to its Asian neighbors. Some pundits suggest that Japan join both. While there is no way to clear through all of the confusion gripping Japan, this paper aims to explore the political and economic implications of Japan's decision, both within Japan and abroad, positing some general conclusions about the merits of Japan making the final plunge and joining TPP.

After a brief introduction on how TPP developed from its humble beginnings to the present and then a rundown of the internal debate in Japan, this paper in delving into the political and economic implications of joining TPP, focuses especially on the agricultural sector, seen as the soft-underbelly of the Japanese political economy. The usefulness of the recently signed free trade agreement between Korea and the U.S. as a precedent will then be explored for further comparison. The wrap up analysis and suggestions are intended as food for thought for Japanese and U.S. policymakers.

The Origins of TPP

In November of 2009, President Obama announced the intention of the United States to participate in a then little-known initiative called the Trans-Pacific Partnership or TPP, a scheme that aimed to bring true legitimacy to the concept of a comprehensive free trade agreement. The initiative grew out of the so-called P-4, an arrangement that only included Brunei Darussalam,

Chile, New Zealand and Singapore when it went into effect in 2006. As of early 2012, the US, Australia, Malaysia, Peru, and Vietnam plan on participating in the program, a total of nine countries, but Japan, Canada and Mexico, following the November APEC meeting in Hawaii, have also expressed their desire to be involved in the talks.

In the words of one trade official, Japan joining TPP would be “epoch making,” in that Japan would be forced to take on a myriad of reforms, particularly in the agricultural sector. The P-4 and subsequently TPP allow for virtually complete liberalization of all goods, including agricultural ones. The P-4 agreement includes a clause that calls for Chile, New Zealand and Singapore to reduce all tariffs to zero by 2017, and for Brunei to do the same with the exception of a few goods. The removal of all tariffs creates a dilemma for Japan, since drastic and politically difficult reforms in the affected sectors would first be necessary. Japanese rice farmers, for example, are protected by tariffs of nearly 800% on imported rice. The agricultural sector, despite its relatively small size, remains extremely powerful politically.

On November 11, 2011, just before the Asia Pacific Economic Cooperation (APEC) forum, Prime Minister Noda announced in a carefully worded statement Japan’s intention to join TPP talks. The same day Noda assured the Japanese public that the “world’s renowned Japanese medical system, its traditional culture and beautiful farming villages” would be protected. Should it join, Japan’s negotiations are not going to be smooth, as even Noda’s initial comments regarding the talks were open to interpretation and debate. The White House stated publicly that at the APEC forum Noda told President Obama that all goods and services would be put on the negotiating table and subject to potential liberalization. The Japanese government quickly denied this, arguing, “It is not true that Prime Minister Noda made such a comment in the summit meeting.”

Despite Noda’s intentions, it is still unclear whether or not Japan will actually be able to formally join the negotiations both for domestic and external reasons. One external issue is that the ideal completion date for those negotiations is slated for December 2012. New Zealand Trade Minister Tim Groser noted that he could not “imagine that we can complete this negotiation with economies as important as [Japan, Canada and Mexico] by the end of 2012.” Another is Japan’s notorious unwillingness to negotiate the complete opening of its agricultural sector, particularly since Groser had stressed that talks “must include rice.” Before exploring external issues the internal workings of the Japanese government, the Democratic Party of Japan (DPJ), Japan’s ruling party since September 2009, and the various interest groups involved must be described.

TPP and Japan: The Internal Debate

TPP and other free trade agreements (FTAs) in general have been staunchly blocked by Japan’s farm lobby led by Japan Agricultural Co-operatives (JA Nogyo). This is one reason why Japan has preferred to negotiate economic partnership agreements (EPAs) that make agricultural exceptions. With regard to TPP, Akira Banzai, president of the Central Union of Agricultural Cooperatives, claims: “Farmers are already trying to consolidate their operations and to expand their scale. But given Japan’s small size and mountainous terrain, there is little chance of them becoming as competitive as the U.S. or Australian farmers.” Although agricultural protectionism is countered by business interests that promote trade liberalization, the political clout of farmers in Japan remains formidable.

The Japan Business Federation (Keidanren) has been a vocal supporter and lobbyist for TPP. In their “Growth Strategy 2011” publication, Keidanren argues that the Japanese government “should participate in TPP negotiations at the earliest possible date,” in addition to pursuing FTAs with China and South Korea. Keidanren’s outspoken chairman, Hiromasa Yonekura, who reportedly has close ties to Prime Minister Noda, went as far as to publicly lambast Agricultural Minister Michihiko Kano, calling him “weak-kneed.” The fiscally-strained Japanese government, however, is likely to find it difficult to respond to either interest side soon in terms of macroeconomic policy, and as of early 2012, remains mired politically in a struggle to double the consumption tax rate to 10% to pay for growing social security expenditures in Japan’s rapidly aging society.

The question of whether to maintain protectionist policies with regards to agriculture has created rifts in the Japanese government in the past. The last time Japan liberalized agriculture to any extent was in the early 1990s with the conclusion of the Uruguay Round of the GATT. Like the Liberal Democratic Party (LDP) before it, the ruling DPJ from the start has been inconsistent in its trade liberalization policies as its agricultural policies have been designed to attract farm votes. This is evidenced by the direct income subsidies the DPJ uses in order to placate small-scale farmers. The LDP used indirect subsidies to achieve the same goal.

As an opposition party, the DPJ saw Japan’s agricultural cooperative organization, Nokyo, as a vote-gathering machine for the Liberal Democratic Party (LDP), and therefore as a hostile group. The DPJ’s direct income subsidies aim to win the votes of individual farmers while bypassing Nokyo and ultimately successfully dividing Nokyo’s farm membership. But the policy has effectively made Nokyo an enemy of the DPJ. As the DPJ’s political strategist between 2006 and 2009, party bigwig Ichiro Ozawa espoused direct income subsidies and other agricultural policies for the sole purpose of winning the votes of small farmers. Approximately 80% of Japanese farmers are part-timers, dependent on subsidies to survive. Ozawa’s stratagem did not have an economic or true policy basis since it serves to keep marginal and unproductive farmers in business and does nothing to enhance the agricultural sector’s competitiveness and productivity. But as a political strategy, Ozawa’s plan worked, for in the 2007 and 2009 national elections, farmers did not follow Nokyo’s recommendations and instead voted for DPJ candidates.

In its 2009 manifesto, the DPJ declared that “small farms play a role in supplying food and in preserving the environment so there is no need for policies that provide incentives to farmers to expand their production scale.” Former DPJ Prime Minister Naoto Kan was inconsistent in terms of support for trade liberalization. In 2009 he stated that “[the DPJ] will give clear consideration to agriculture, and the brakes have just been applied to the liberalization of trade in agricultural products.” Later he suddenly became a TPP supporter, and spoke of “opening up the nation,” to trade.

Despite his eventual TPP support, Kan did not have much backing for his decision in the DPJ and the outright opposition of the Ministry of Agriculture, Forestry and Fisheries (MAFF). In an unusual move for a top bureaucrat, Takashi Shinohara, the deputy minister of MAFF, publicly displayed his distaste for Kan’s willingness to opt for the policy change. In 2010, Shinohara in an interview with *The Economist* rebutted pro-TPP advocate Seiji Maehara’s argument that shying

away from trade liberalization in order to protect farmers who generate less than 1.5% of GDP was, “completely silly.” Shinohara charged that the former foreign minister had “ruined the pride of people in the countryside.” In February of 2011, an anti-TPP group called the “national council to consider TPP,” was launched within the DPJ led by former MAFF minister Masahiko Yamada, which further divided the party on the issue of trade liberalization. The ruling DPJ was just as internally conflicted on this issue as the LDP before it.

Prime Minister Noda faces an even more vocally divided government than did Kan. Noda, backed by Minister of Economy, Trade and Industry Yukio Edano, is pressing the party and government to support joining TPP, while MAFF Minister Michihiko Kano and party members linked to agriculture interests remain vocally opposed, claiming liberalization would ruin the agricultural sector. There is an additional lack of consensus amongst prefectural governors regarding TPP. In late October 2011, a Kyodo News survey revealed that only six out of the 47 prefectural governors supported joining TPP, whereas a full 14 were opposed.

The regional bias is not particularly shocking as manufacturing and trade-focused prefectures such as Aichi, Shizuoka and Osaka had supportive governors, whereas agriculture-focused prefectures were opposed. Fukui prefectural governor Issei Nishikawa claimed that at least 90% of his prefecture’s rice production would be wiped out if Japan joined TPP because farmers could not compete with cheaper rice imports. None of the governors, even those in favor of TPP, felt that the government had provided sufficient information on the agreement.

The divided stance on TPP is not limited to the government, as the Japanese population follows suit even amongst DPJ and LDP supporters. A November 2011 *Yomiuri Shimbun* poll showed a bare majority, 51%, of the public supported a decision to join TPP talks. While 63% of DPJ supporters favored Japan’s entrance to TPP talks, 45% of LDP supporters felt the same way. This still seems relatively high for LDP supporters as the party nominally opposes the move. One must assume that the public is amenable to such change and could be further convinced if provided with a simplified explanation by the government of the merits of Japan’s TPP membership. Many people are still unsure because of the conflicting information floating about. The Noda government is now concentrating on persuading members of its own party, as well as the holdouts in the government ministries to look on TPP with favorable eyes.

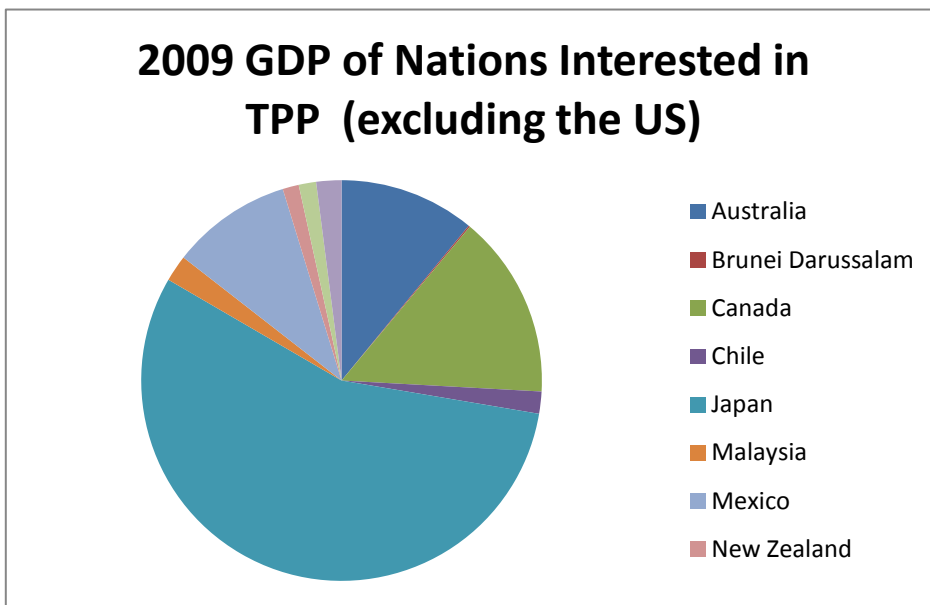
In late October 2011, it released a document analyzing the advantages of joining TPP talks, and the disadvantages of failing to join. The report claims that joining the talks would “enable the U.S. to declare that ‘with Japan’s participation, TPP will become a full-scale free trade agreement.’” It additionally sheds light on the implications for further bilateral and multilateral trade negotiations in the future. Specifically, the document notes that failing to join would give the EU more power in bilateral trade liberalization talks, as Japan’s relative position would be weakened. Referring to Japan’s ongoing FTA talks with South Korea and China, failure to join TPP talks would render Japan unable to demand trade policy liberalization from China, the report concludes. If this were to occur, China and South Korea would continue talks while Japan would be left out of the international framework.

In order to placate farmers, the Noda government released a basic policy outline on October 20, 2011, that proposes a dramatic reform and revitalizing of the agricultural sector, as if treating it

as a potential growth industry. The policy plans to expand the scale of farming, and reiterates the goal of raising food self-sufficiency above 50%- far above its current level of 39%. Regardless of whether the plan ultimately is accepted by the agricultural sector, it is not likely to buy support from them for TPP, so great the fear of annihilation.

Economic implications of Japan joining TPP

Much of TPP debate regarding Japan focuses on the economic change that would occur in Japan should the nation join the agreement. It is arguable that Japan joining TPP would create a multiplier effect of economic changes for the participants in the agreement. When omitting the one TPP participant with the highest GDP, the U.S., the implications are clear. Japan’s 2009 nominal GDP was over 2.8 times the combined GDP of the seven countries involved in the talks outside of the U.S. When including Canada and Mexico, which have expressed interest in joining the talks, Japan’s GDP is still almost 1.3 times the combined GDP of the nine countries. Figure 1 displays the GDP composition of the nine countries that have at least expressed interest in the talks outside of the US; Japan accounts for 55.7% of combined 2009 nominal GDP figures.



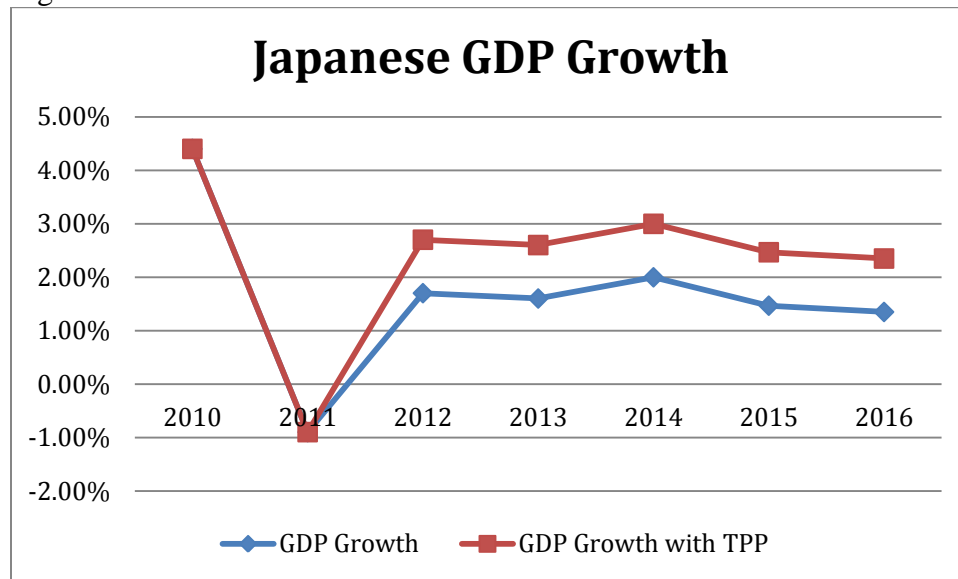
Economists differ in their predictions of the effect that TPP membership would have on the

Japanese economy, but most estimates hover around a 1% GDP boost. Asian Development Bank (ADB) economist Ganesh Wignaraja, for example, is in that camp. A 1% increase in GDP seems relatively insignificant before one considers the current growth rate of Japanese GDP. The IMF estimates that Japan’s GDP will grow an average of 1.2% per year from 2011 to 2016. A 1% overall GDP increase would amount to an average of 2.2% growth per year, or GDP growth 83% higher than current growth rates. Figure 2 displays this difference in Japanese GDP growth from 2010 to 2016, assuming TPP goes into effect in 2012.

An additional issue regarding this commonly quoted 1% figure lies within the economic models that are used to create the estimate. Professor Syujiro Urata of Waseda University, who has utilized such models in the past notes that they cannot accurately predict the effects of such a complicated agreement, and that they are easily manipulated as, “what you input is what you get.” Urata added that trade models traditionally only estimate the impact of trade liberalization, and do not include the trade of services, investment liberalization or closer geopolitical ties and therefore underestimate the effects of TPP. Entering TPP, therefore, may easily affect the Japanese economy more substantially than 1%. Agriculture, the oft-mentioned roadblock to

Japanese trade liberalization, could be either more significant or less significant than the media portray it to be, and this seeming contradiction must be explored further.

Figure 2



Source: IMF and ADB estimates

Note: 2010 – 2013 figures are based on IMF estimates released in January, 2012. 2014 – 2016 figures are based on estimates released in September, 2011.

Agriculture: The Great Stumbling Block?

As described above, the international media tend to agree that agriculture will be the key choke point for Japan as it enters TPP negotiations. Rice, the staple of the Japanese diet, is an oft-used example as such imports have an extremely high tariff rate in order to protect local growers. One specialist, Tokyo-based Promar Consulting’s Chris Clague, believes that agriculture will play a contentious role in the negotiations, but not in the way the media has portrayed it.

Clague argues that the state trading of wheat, for example, will play a much more important role in TPP negotiations than rice. State trading is defined as trading where “a government or a government-backed agency determines the essential conditions (including prices or quantities) on which exports and imports have to take place.” Clague notes that MAFF engages in the state trading of wheat, among other products such as dairy and rice. MAFF actually imports virtually all wheat to Japan, marks up the price and then sells it for a profit of roughly \$400 million per year. The U.S. aims to expel state trading activities from TPP member countries, but Japan, along with Vietnam, Malaysia and New Zealand engage in state trading or activities similar to state trading. As a result, trade liberalization will affect Japan in an unexpected way just as it will those other countries.

The rice issue is overblown, Clague claims. He sees the commodity as simply a bargaining chip for the U.S. in negotiations with Japan. Within the U.S. Japonica rice, a water-intensive crop, is only grown in California, a water-starved state. Therefore even if U.S. rice saw increased access to the Japanese market, it is unlikely that U.S. producers would be able to expand production to

capitalize on this. Clague uses the South Korean-U.S. Free Trade Agreement (KORUS-FTA) as a comparison, noting that despite American rhetoric that emphasized complete trade liberalization, rice in the end was carved out of the recent agreement with South Korea. He also argues that MAFF has campaigned to forge a foreign-rice averse Japanese consumer through such devices as popularizing the kokusan, or “Made in Japan” label on rice products. This would seem to be supported by a *Yomiuri Shimbun* November 2011 poll where 89% of the 3,000 randomly selected Japanese respondents said they “would primarily choose Japanese rice over foreign brands even if the latter cost less after rice imports were liberalized.”

Based on the poll information and Clague’s comments, it may indeed be that rice is not as important an issue as the U.S. claims, and even more importantly, even if the rice market in Japan was significantly liberalized, it may not adversely affect Japanese rice farmers as some fear, for consumers would still opt for the domestic brands. Clague notes that current TPP members cannot produce and export anywhere near the amount of Japonica rice Japan demands annually. In fact, the U.S. and Australia are the only TPP members that even produce Japonica rice. Indeed, since imported rice was granted minimal access to the Japanese market in the 1990s, such products have rarely found their way to the consumer table. In the case of TPP, the agreement could present an opportunity for Japanese farmers producing high-quality rice, as Urata foresees, to export their product to countries already interested in it. In short, the implications of TPP on Japan’s agricultural sector depend on the eye of the beholder, and it is conceivable that even the politically sensitive product of rice could survive and thrive under a carefully conceived import liberalization scheme.

Japan and TPP: The Geopolitical Implications

A decision to join TPP, proponents argue, would significantly tighten Japan’s ties with the West, particularly the U.S. Japan’s participation in the potential ASEAN + 3 and ASEAN +6 FTAs, on the other hand, would be seen as a significant shift in emphasis toward the East, most obviously China. There are those who propose that Japan should ultimately join both FTA regimes. The two ASEAN FTAs, as the names suggest, would include member nations of the Association of Southeast Asian Nations (ASEAN): Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), the Philippines, Singapore, Thailand, and Vietnam. In addition, the plus 3 would consist of Japan, China, and South Korea, and plus 6 would further include India, Australia and New Zealand. Regardless of which scheme comes to fruition, the implications of a Japanese move towards these FTAs and away from TPP would be significant. At the APEC summit in November 2011 Prime Minister Noda, the quintessential diplomat in this case, expressed interest in both TPP and ASEAN + 3/6 agreements, but whether he is serious about the latter is unclear.

TPP advocate Tsutomu Kikuchi, a professor at Aoyama Gakuin University, believes that the option to strengthen ties with either the East or West, combined with the economic implications of Japan joining TPP, put the country in a strong negotiating position. Kikuchi believes that countries involved in TPP negotiations operate under the assumption that TPP will be expanded. He adds that as TPP further liberalizes trade, meeting expectations will become increasingly difficult. Vietnam in particular, Kikuchi believes, presents real doubts as to the feasibility of a trade agreement with such purportedly high standards

China, the country with the second highest GDP in the world, is a key factor in the ASEAN +3/6 and TPP discussions. If TPP negotiations expand to still other countries, as Kikuchi believes, then China may take the opportunity to join those discussions in the future. Kikuchi guesses that TPP could be used, once the arrangement is attractive enough, as a tool to coerce China into accepting high trade liberalization standards. TPP could at first serve as a regional trade bloc that both surrounds and excludes China, limiting its economic growth. This has already aroused concern among Chinese scholars, such as Yang Bojiang, a professor at the University of International Relations in Beijing. He notes, “[TPP] risks undermining the current economic cooperation framework such as APEC and ASEAN-plus-three, and reducing China’s economic influence.” It is as of yet unclear what approach China will take on the TPP dilemma or how TPP negotiators will coax that country to join the talks. On November 11, 2011 Chinese Assistant Commerce Minister Yu Jianhua said that China had not received an invitation to join the talks, but would “seriously consider” one if it came in. U.S. Trade Representative Ron Kirk replied by noting that no invitation is needed to join the talks, for it is not a “closed clubhouse.”

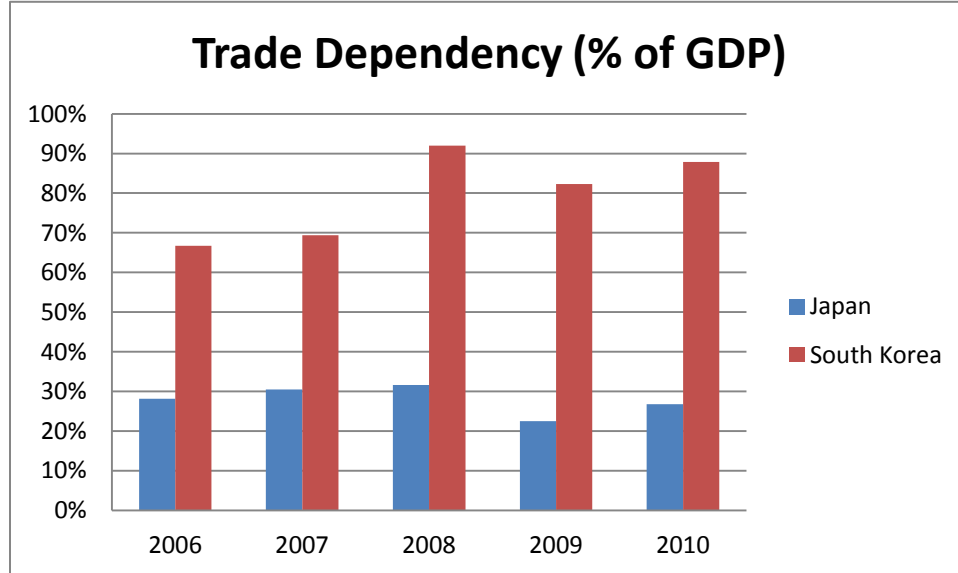
Much has been made about the internal roadblocks that Japan faces in opting to jump on the TPP bandwagon. But are there any past FTAs that mirror Japan’s current dilemma on entering TPP negotiations that could be used to shed some light on the feasibility of the process? On the surface, South Korea’s recently signed FTA with the U.S seems like an apt precedent for use as a comparison.

KORUS FTA as a Precedent?

The Korea-United States Free Trade Agreement mirrors Japan’s potential entrance to TPP in many ways. It is a recent comprehensive trade agreement between South Korea, a nation with a similar agriculturally sensitive export-oriented economy, and the U.S., a nation with a liberalized economy and a key member of TPP. The KORUS FTA was signed on June 30, 2007. A few years later in 2010, further agreements were concluded and eventually the FTA was approved by the U.S. Congress on October 12, 2011. South Korea, however, was in a different economic position facing the KORUS FTA than Japan is in facing TPP.

Japan is arguably less dependent on trade than South Korea, and its agricultural sector may be less politically sensitive, when compared to South Korea. From 2006 to 2010 merchandise trade as a share of GDP, an indicator of economic dependency on trade, was exponentially higher in South Korea than in Japan. In 2010 South Korea’s trade accounted for roughly 88% of its GDP whereas Japan’s accounted for only 27%. It is because of this lack of relative dependency on trade that Japan has more options available when it comes to free trade agreements. Not joining a free trade agreement would not have as large an effect on the overall economy in Japan as it would in South Korea. Figure 3 displays the trade dependency discrepancy between Japan and South Korea.

Figure 3:

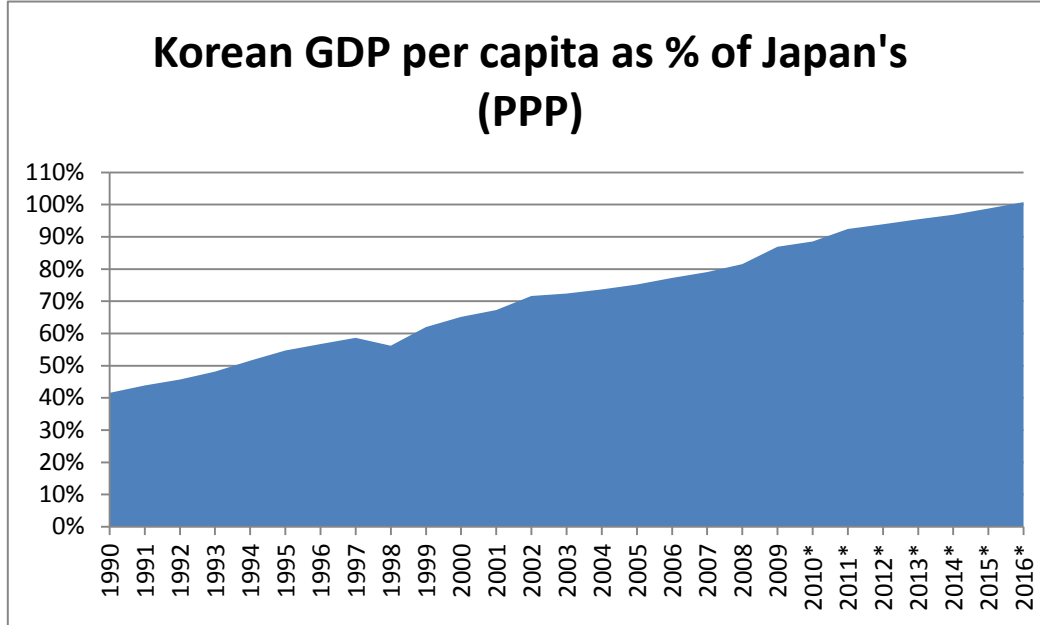


Source: World Bank, Presentation by Richard Katz at the Brookings Institution

The fact that Japan is not as dependent on trade as South Korea is not an indicator that Japan should not join TPP. The KORUS FTA is likely to increase South Korea's GDP and the International Monetary Fund recently forecasted South Korean per capita GDP (on a Purchasing Power Parity basis) to exceed that of Japan by 2016. This forecast should serve as a warning to the anti-trade reform camp in Japan. Figure 4 displays South Korean per capita GDP as a percent of that of Japan between 1990 and 2016.

Agriculture, as discussed earlier, remains a contentious issue in both countries. However, a closer look into the relationship between the agricultural sector and the governments in the respective countries explains why South Korea has traditionally been more inclined toward trade liberalization than Japan. On the surface, it seems that South Korea would be more against trade liberalization- most farms in both countries are small-scale family owned operations that average less than two hectares. That being said, the majority of farmers in South Korea gain most of their income from farming, whereas only 20% of Japanese farmers engage in agriculture full-time. The ministerial composition of both governments hints at the true reason for this disconnect. In 1998 South Korea established its Ministry of Foreign Affairs and Trade (MOFAT) which reigns over all foreign trade policy, including that affecting the agricultural sector. In Japan, as explained earlier, METI and MAFF both conduct trade negotiations: MAFF in the agricultural sector and METI for the rest.

Figure 4



Source: International Monetary Fund, Presentation by Richard Katz at the Brookings Institution
*2010 – 2016 figures are IMF estimates

As Japan is not as economically dependent on trade or as unified on the ministerial level, it is unclear whether or not the KORUS FTA is an apt comparison to the prospect of Japan entering TPP. Both South Korea and Japan have similar economies and similar interest groups, but Japan is unable to move toward trade liberalization as quickly and uniformly as South Korea can.

Conclusion

Japan's involvement in the TPP negotiations is a complicated process that involves various interests that divide the ruling DPJ, the government, the Japanese public, and ultimately the international community. Should Japan join TPP, it would finally liberalize its long protected agricultural sector and allow for increased trade and economic growth. A move toward TPP would signal a move toward strengthening ties with the West and the U.S.

Japan must carefully consider not only the economic but geopolitical implications of joining TPP, and explore the option of joining both TPP and ASEAN + 6 negotiations. Joining a China-averse TPP could alienate China and other Asian neighbors, yet it would bolster ties with the West. Joining ASEAN + 6 without joining TPP talks could arguably alienate its only ally, the U.S. In addition, in order for involvement to be feasible, the Noda administration must gain support for TPP from all affected parties in the political and bureaucratic worlds, as well as the general public.

Given the potentially enormous economic impact of Japan joining TPP, the U.S. should express its desire for Japanese involvement, rather than feign indifference as it has until now. The U.S. is undoubtedly aware that a TPP including Japan would be completely different in economic and geopolitical terms than a TPP excluding it. The Obama administration should work towards

gaining domestic support for Japanese involvement by putting a positive spin on that possibility, for such a commitment would be in the interest of the U.S., in both economic and security terms. It would be ironic if the Noda administration risked its political longevity by forcing domestic support for TPP, only to find that the U.S. had failed to lay out a welcome mat.

DAMAGE CONTROL: NUCLEAR FEAR AND JAPANESE EXPORTS AFTER 3/11

Introduction

“So what’s your take on the nuclear accident? Would you still be comfortable eating food from Niigata these days?” This is what the governor of that northwestern prefecture in Japan asked me as we were introduced on June 22, 2011. Local *sake* and other Niigata specialties filled tables all around the room as businesspeople with various connections to the seaside prefecture enjoyed finger food and conversation on the 15th floor of Tokyo’s Prefectural Meeting Hall. Affable, earnest, and recalling Matthew Broderick’s baby face, Governor Hirohiko Izumida had just hosted a policy seminar keynoted by a health ministry official entitled: “Ensuring food safety in light of the Great Eastern Japan Earthquake.”

Before introducing Technical Deputy Director-General Tetsuya Yajima of the Ministry of Health, Labor and Welfare’s Secretariat two hours earlier, Governor Izumida had addressed the forty or fifty in attendance for a few minutes on the juncture Japan was facing. He warned:

We must consider the future direction of Japan. Foreign employees are leaving Tokyo firms due to nuclear fears. Some prefectures are registering higher levels of radiation than others, but we who make our home in this country are all seeking reassurances about the safety of our food and water supplies, and the exposure of our children to radiation.

After Deputy Yajima lectured on sieverts and grays, half-lives and health risks, and how the government determined which leafy green vegetables from Fukushima to keep off the market, Mr. Izumida asked about the safety limits provisionally set in March. Will they be strict enough, he wondered, to inspire the shaken confidence of consumers across the country and around the world?

First came the magnitude 9.0 (M_w) earthquake, felt as far as 400 kilometers (km) away, then minutes later a devastating 40.5 meter high tsunami that flowed as far as 10 km inland. The compound disaster would kill a confirmed 15,844 and cause damages of \$235 billion, according to World Bank estimates. Hours later, a slow-motion nuclear crisis began to unfold at the Fukushima Daiichi Nuclear Power Plant, damaged by the tectonic disaster and the tsunami. Within a week, three of the reactors had undergone a meltdown; over several weeks, 770 petabecquerels ($770 \text{ PBq} = 7.7 \times 10^{17} \text{ Bq}$) of the dangerous radioactive isotopes cesium-137 and iodine-131 were released into the atmosphere, according to a June 2011 estimate by Japan’s Nuclear and Industrial Safety Agency cited by Dennis Normile in the June 17, 2011, issue of the academic journal *Science*. As if the direct risk to populations downwind of the plant were not enough, Japanese authorities soon had another job on its hands: damage control, and not just to calm anxieties at home. In the aftermath of the nuclear accident, countries around the world imposed import bans and restrictions on various Japanese products because of suspicions of radioactive contamination. The fact that no radioactive products were ever shipped out of Japan did not matter; fear seemed to be the driving force for decisions in most cases.

This paper seeks to examine the validity of foreign governments' concerns, the actions taken domestically and internationally to shore up food safety, the measurable impact of foreign governments' import restrictions on the Japanese economy, and the policy response of the Democratic Party of Japan governments under Prime Ministers Naoto Kan and Yoshihiko Noda to international attitudes regarding Japan's exports.

Extent of Radioactive Fallout

As its exports faced unusual scrutiny in foreign ports in the weeks after the quake struck, fears of “rumor damage” (*fūhyō higai*), referring to financial losses stemming from the circulation of (usually unsubstantiated) rumors, sprang up within Japan. Did foreign governments overreact, or were their fears of radiation poisoning justified? Just how serious were the radiation leaks? While this paper cannot hope to give a comprehensive summary of the extent of nuclear contamination from the Fukushima Daiichi accident, the mood of the public can be surmised based on the following snap-shot of the spreading disaster.

Within three weeks after the tsunami disabled Fukushima Daiichi's cooling system, a plume of radioactive ash (composed of the dangerous isotopes iodine-131 and cesium-137 as well as the radioactive but benign xenon-133) had “dispersed across the Northern Hemisphere,” as Declan Butler put it in the March 29, 2011, issue of the scientific journal *Nature*. Measurable quantities of radioactive iodine and cesium were deposited worldwide within weeks of the quake. In general, these amounts added only slightly to background levels of radiation, in contrast to some areas near the plant. Indeed, according to a study published in October in the European Geosciences Union's *Atmospheric Chemistry and Physics Discussions* online forum, the cesium-137 deposited on Japanese soil through April 20, 2011, was on average about 3,600 times as concentrated as that which fell on the rest of the world's land surfaces (Stohl et al.). Yet the uneven distribution of leaked radioactivity belies such oversimplified numbers, and an early French model by Victor Winiarek's CERE team showed western Japan with less fallout than the United States.

The quantities of radio nuclides deposited in Japan's 47 prefectures from the air depended largely on their proximity to the power plant and on the direction of the prevailing winds in the early weeks of the disaster. On March 27, 2011, the International Atomic Energy Agency (IAEA) reported that less than 860 becquerels (radioactive decays of an atomic nucleus per second) per square meter (Bq/m^2) of iodine-131 and less than 100 Bq/m^2 of cesium-137 were being deposited each day in 16 of Japan's prefectures, implying higher rates of deposit in the remaining 31 prefectures. Indeed, the IAEA reported deposition rates of 7.5 kBq/m^2 for iodine-131 and 1.2 kBq/m^2 for cesium-137 in Yamagata Prefecture northwest of Fukushima Daiichi, which “exceeds recommended contamination levels for growing green leafy vegetables,” according to Butler in *Nature*. By way of comparison, the radioactivity of a typical adult male of mass 70 kilograms (kg) caused by the occurrence of natural potassium in the body is approximately 4.3 kBq (or 62 Bq/kg), according to findings by Supian Bin Samat's team published in *Physics in Medicine and Biology* in 1997.

Radiation levels at Fukushima Daiichi Nuclear Power Plant itself registered up to 400 millisieverts per hour (400 mSv/h , equivalent to 3.5 kSv/y) during the crisis, a level “likely to result in a lifetime risk of fatal cancer of 2–4%” after one hour's exposure, according to

University of Manchester's Professor Richard Wakeford in the UK, as cited in Richard Warry's "Q&A: Health effects of radiation exposure" from BBC News on July 21, 2011. Highly radioactive water carrying dose-equivalent radiation of 1 Sv/h (or 8.8 kSv/y) was also discovered on March 27, 2011, to be "flooding the basements of Fukushima's reactors [and] seeping into piping trenches less than 70 metres from the sea shore," raising fears of "serious contamination of the sea and groundwater" near the plant, according to Butler in *Nature*.

A US Department of Energy survey from March 22, 2011, cited in the same article, showed a narrow band of radiation with dose-equivalent rates greater than 0.125 mSv/h (1.10 Sv/y) but less than 0.3 mSv/h (2.6 Sv/y) extending from Fukushima Daiichi about 25 km toward the northwest, and radiation significantly higher than the average global background level (of 0.23 μ Sv/h or 2 mSv/y) covering most of the eastern third of Fukushima Prefecture (the Hamadori area) and extending along the coast north into Miyagi Prefecture and south into Ibaraki Prefecture. These dose-equivalent rates of radiation fell over the next few months so that a rate of 25 mSv/y in Iitate in July northwest of the plant drew attention from the BBC's Warry for being high.

Soil contamination measured on March 20, 2011, in a location 40 km northwest of Fukushima Daiichi showed cesium-137 concentrations of 163 kBq/kg, roughly 2,600 times the natural concentration of potassium-40 in the human body cited above and in excess of the 100 kBq/kg level University of Portsmouth environmental physicist Jim Smith in the UK cites as leading to "effectively permanent" evacuation, in Butler's words. But as early studies conducted by University of Tokyo plant radio physiologist Tomoko Nakanishi and colleagues suggest that very little radioactivity was being absorbed from the soil by plants in Fukushima Prefecture, many of northeast Japan's farmers may safely be able to plant again in 2012, according to David Cyranoski in *Nature*, July 12, 2011.

Health Implications of Radiation

The government of Japan has sought since the beginning of the nuclear crisis to convey an impression of engagement and competence, ordering early evacuations of those residing near the troubled reactors and rigorous testing of the nation's food and water supplies. Perhaps inevitably with a disaster of such tremendously challenging proportions, the results have been mixed. Early projections of cancer deaths resulting from radioactive contamination in and around Fukushima range from about 100, given by Peter F. Caracappa of the Rensselaer Polytechnic Institute in June 2011, to about 1000, given by Frank N. von Hippel in the September/October 2011 issue of the *Bulletin of the Atomic Scientists*. Von Hippel implies that the Japanese government could have prevented some of these projected deaths if it had been prepared to echo the U.S. Nuclear Regulatory Commission's advice to Americans residing in Japan and conduct early evacuations of the two million people living within an 80 km radius of Fukushima Daiichi.

Nevertheless, von Hippel also predicts Japan's ban on supplies of contaminated milk will keep the number of thyroid cancer cases to about 1% of similar cases in Chernobyl. In general, nearby residents must be seen as the population with the greatest health risk from the Fukushima accident, so long as radiation contamination is not spread to other areas. This risk of nuclear contagion is almost entirely limited to food products. "Unlike industrial products," William Alden explained, "food is grown outdoors and cannot always be easily cleaned if it comes into

contact with radiation” from contaminants in rain, soil, or the air (Huffington Post, March 28, 2011).

Contaminated Food and Water

Japan’s Ministry of Health, Labor and Welfare announced the detection of radiation-contaminated spinach and milk as early as eight days after the earthquake, according to Mark McDonald in *The New York Times*, March 19, 2011. By month’s end, sweet potatoes and water had seen spikes in radiation levels as well, though not above legal limits, Alden reports.

In an effort to separate fact from fiction and prevent panic, famously safety-conscious Japan began a massive campaign to test food for harmful radiation and report the resulting data to the public. Between March 19, 2011, and January 10, 2012, authorities tested 89,462 food samples from all across Japan for nuclear contamination, and found 1,049 foods from 14 prefectures (Fukushima, Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Nagano, Iwate, Miyagi, Akita, Yamagata, and Shizuoka) which tested positive “at levels exceeding provisional regulation limits (action levels),” according to online ministry sources. As a result of this ongoing testing, the health ministry in 2011 published 88 separate directives at frequent intervals regarding foods prohibited for consumption or distribution, frequently adding or subtracting just one item to the list of interdicted foods. Most of the domestic food bans imposed in 2011, however, remained in effect in at least some areas into 2012.

Fukushima Prefecture, home to the crippled nuclear power plant and to 595 suspect food samples (as of last check in January 2012), has seen the highest number of domestically banned foods. Starting with a prefecture-wide ban on raw milk, spinach, and green leafy vegetable *kakina* on March 21, 2011, the bans narrowed geographically to specific municipalities even as they broadened in types covered.

Eventually, the distribution bans applicable to at least parts of Fukushima would include 22 product categories, to wit: **raw milk**; various types of **vegetables**: leafy vegetables (both head and non-head types, such as cabbage and spinach), flowerhead brassicas (such as broccoli and cauliflower), turnips, log-grown *shiitake* mushrooms (grown both outdoors and in greenhouses), log-grown *Pholiota nameko* mushrooms (widely used in miso soup), wild mushrooms, bamboo shoots, ostrich ferns, Japanese apricots (*ume*), *yuzu*, chestnuts, and kiwi fruit; **rice** harvested in 2011; various **fishery products**: juvenile sand lances, cherry



A billboard photographed March 12, 2009, along National Route 288 in Miyakoji Borough, Tamura City, Fukushima, pictures a wagyu bull and reads “Miyakoji: Home of Wagyu.” This spot lies just outside the 20 km exclusion zone around Fukushima Daiichi Nuclear Power Plant from which 110,000 people were evacuated two years later on March 12, 2011. (credit: B. Lauer)

salmon *yamame* caught wild, Japanese daces, and *ayu* (sweetfish) caught wild; and various types of **meat**: beef (though cattle managed in accordance with Fukushima's August 2011 shipment and inspection policy are exempt), boar meat, and bear meat.

A smaller list of products has been banned not only for distribution beyond Fukushima Prefecture but also for local consumption: leafy vegetables, flowerhead brassicas, log-grown *shiitake* grown outdoors, wild mushrooms, juvenile sand lances, and boar meat, with different municipalities affected by each type of food ban.

Parts or all of seven additional prefectures, namely Ibaraki, Tochigi, Gunma, Chiba, Kanagawa, Miyagi, and Iwate, have faced limited food distribution bans as well. At different times and in different parts of these prefectures, distribution of the following food types to outside areas has been prohibited: raw milk, spinach, *kakina*, garland chrysanthemum, baby bok choy (*qing-geng-cai*), *sangchu* Asian lettuce, parsley, celery, log-grown *shiitake* mushrooms, log-grown brick cap mushrooms grown outdoors, log-grown *Pholiota nameko*, beef, boar meat, deer meat, and tea leaves.

Consumption of tap water by infants due to spiked levels of radiation was discouraged in various municipalities within the five prefectures of Fukushima, Ibaraki, Chiba, Tokyo, and Tochigi between March 21 and May 10, 2011, and consumption of tap water by the general public due to even higher radiation levels was discouraged in the village of Iitate, Fukushima, between March 21 and April 1, 2011, according to health ministry records.

When reports surfaced in July 2011 that beef distributed to stores had been contaminated by radioactive rice straw fed to cattle, a massive recall campaign was begun amidst what Hiroko Tabuchi in *The New York Times* termed "a public uproar" (Sept. 25, 2011). As of November 30, 2011, the health ministry's list of cattle, which might have ingested the tainted feed and should be tested numbered 4,859 and included 1,084 from Fukushima Prefecture. In January 2012, radioactivity data were available for only some of the cattle, suggesting that meat from other animals has yet to be tested.

In late December 2011, Japan's health ministry proposed new stricter limits on radioactive cesium in food and water in an apparent effort to quell any remaining fears at home or abroad that the Japanese food supply was tainted, as Mizuho Aoki reports in *Japan Times* (December 22, 2011). The Japanese government had already touted the provisional limits set in March 2011 as conservative. The new standards were intended to keep consumers well on the safe side of the 1 mSv/y legal limit per person, and will begin to be enforced starting April 2012. The maximum radioactivity in regular food is due to fall from 500 Bq/kg to 100 Bq/kg. Milk and infant food must contain no more than 50 Bq/kg under the new limits and drinking water no more than 10 Bq/kg, both down from 200 Bq/kg.

Domestic Reaction

According to the weekly magazine *Shukan Shincho* (April 14, 2011), the nuclear accident created a panic mode inside Japan about contaminated food that took a long time to be eased. Despite the government's warning, harmful rumors swept across the country. Fukushima Agricultural Produce Distribution Safety Division Chief, Yoshio Sawada commented in early

April: “Our agricultural products are being rejected in the market right now. There are no restrictions on tomatoes, cucumbers, and strawberries, but there's no demand for our products. There are no concerns for consumer health or safety, yet buyers don't want our products or they're trying to buy them for next to nothing.”

Fukushima Nuclear Safety and Countermeasure Division Chief Hisami Katase lamented: “There's a sense of distrust in the national safety standard and buyers are blindly rejecting our products—not only agricultural products, but even liquor and industrial products. The *sake* we currently sell was produced from water and rice last year so it has nothing to do with the level of radiation we are currently experiencing, yet buyers are demanding that we ‘prove’ that the products are free of radiation. Even manufactured products are asked to be labeled with proof that they're not tainted with radiation. The harmful rumors are out of control. Even evacuees who are requesting to be placed in temporary shelters in other prefectures are being asked to prove that they are not contaminated by radiation.”

One of the evacuees confided to *Shukan Shincho*, “I was actually told that radiation will impact young girls’ ovaries, so no one will ever want to marry girls from Fukushima.”

Eventually such vicious rumors died down domestically, in part due to central and local government campaigns to assure food safety, aided by a responsible media. But the international dimension of rumor mongering was much harder to tackle.

International Reaction

In the early days of Japan’s triple disaster, there was an extraordinary outpouring of aid and compassion from all over the world for the victims of the earthquake and tsunami. But at the same time, international audiences demonstrated notable uncertainty about the extent of the danger due to radiation leaks at Fukushima Daiichi. Confusion about the comparatively small levels of radiation reaching lands beyond the seas caused supplies of potassium iodide pills to run out as far away as North America (Jonathan D. Rockoff, *Wall Street Journal*, March 15, 2011). In parts of China, shoppers even bought up supplies of iodized salt in vain hopes of protecting themselves from iodine-induced thyroid cancer, although actual levels of radiation remained low throughout the country (Sharon LaFraniere, *New York Times*, March 17, 2011). A panicky response occurred in Japan as well, particularly among the foreign population, whose information on the extent of the nuclear disaster was at best spotty and at worst flat out wrong. There were ridiculous stories in the popular press, one claiming that drinking beer would protect one from radioactivity.

Internationally, the fears of a worldwide invisible airborne killer soon subsided, to be replaced with a stigma against potentially contaminated products sourced from Japan. Within three weeks, Bloomberg News was reporting that many overseas consumers, including Japanese living abroad, were avoiding food products grown in Japan, “taking their cue from governments that have started restricting food imports from Japan on fears of radioactive contamination” (Billy Chan and Nichola Saminather, March 25, 2011). The *New York Times* reported threats to two of Japan’s “iconic brands: sushi and Kobe beef” (Mark McDonald, March 19, 2011). What either item had to do with the actual nuclear accident is unclear.

By the end of March, according to Huffington Post reporting, China had banned some Japanese food products, South Korea had banned food from prefectures affected by the nuclear crisis, the EU was heightening scrutiny of food from Japan, and the US was moving to block all milk, fruits, and vegetables from four prefectures (William Alden, March 28, 2011). At the end of June 2011, forty countries—among them Japan’s main trading partners—had import bans in place against at least some Japanese food products, and generally these bans were more comprehensive than the restrictions already in place within Japan (“Japan to dispel food safety fears,” Kyodo News Service, June 30, 2011).

Kanazawa University Professor Masayoshi Yamamoto lamented to *Shukan Shincho*: “There is an image in China, in Korea, and even in the US that all products from Japan are tainted by radiation. Some have limited the level of radiation to be below a certain amount of microsieverts to be considered for purchase. This is essentially a boycott towards Japanese products.” Yamamoto continued: “Such discrimination is not limited to food. Even industrial products from where I live, which is Ishikawa Prefecture, are required to have a certification which proves that the products are below a certain amount of radiation level. This is only going to get worse and will have an impact on our economy.”

As Japan regained its footing over the course of 2011 and successfully labored to bring the reactors at Fukushima Daiichi to a cold shutdown state, the international community’s stance on Japanese food products remained in flux. Throughout the months since the accident, MAFF has maintained a webpage monitoring and commenting on foreign governments’ evolving attitudes, entitled “Response to various countries’ and areas’ strengthening of restrictions on imports due to the TEPCO Fukushima Daiichi Nuclear Power Station accident.” The page currently provides links to a number of supporting documents, including of particular note the frequently updated Japanese document “Regulatory measures in foreign countries and areas.”

After March 11, 2011, some countries added restrictions on Japanese imports; others replaced outright bans with inspection regimens or increased paperwork. Brazil removed countrywide regulations and began requiring radioactivity inspections only on food from 12 prefectures as early as one month after the quake. Singapore between mid-April and mid-May removed 3 prefectures from its list of banned origins for Japanese food imports, while Mainland China in June cut 2 prefectures from its import suspension regimen. Malaysia at first banned all food from all of Japan, in August restricted the ban to 7 prefectures, and then added Saitama Prefecture in September before taking Kanagawa and Gunma Prefectures off the list in October; now it bans no prefectures at all but requires certificates of origin on all food imports so that it can inspect all lots originating in 9 prefectures. Canada (on June 13), Mexico (June 17), and Chile (on September 30) even removed all their regulatory measures completely, leaving control of the safety of Japanese food imports in the hands of Japan’s domestic bureaucracy.

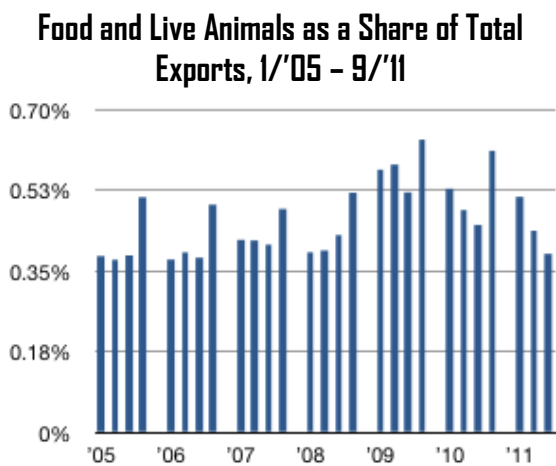
At last check in January 2012, some 14 countries maintained outright bans on at least some Japanese food products sourced from at least some Japanese prefectures, with some countries or areas requiring that certificates of prefectural origin or of radioactive materials testing accompany any foods they did allow (see Appendix A). Forty-two other countries or areas had no bans in place as the 2012 began but instead opted for a policy requiring certificates of origin

or inspection only (see Appendix B). Eight countries required no pre-obtained certificates but followed stringent inspection policies in port (namely Australia, India, Iran, Myanmar, Nepal, Pakistan, New Zealand, and Ukraine). Three countries, as noted above, had removed radioactivity-related trade barriers previously in place. Import restrictions in the 138 other recognized or disputed countries of the world either have not been imposed at all or went unnoted in the available literature.

The other major Japanese export category affected by foreign governments' regulations after the Tohoku quake is foreign tourism, classified as a subset of exported services. When the earthquake struck on March 11, 2011, Japan was just over two months into a 15-month tourism campaign dubbed "Visit Japan" targeting the following 15 countries and areas: Australia, Canada, mainland China, France, Germany, Hong Kong, India, South Korea, Malaysia, Russia, Singapore, Taiwan, Thailand, the United Kingdom, and the United States. Of these countries and areas, the vast majority initially cautioned their citizens against travel to large parts of Japan near Fukushima Daiichi Nuclear Power Plant, before relenting somewhat between April and October 2011 with more permissive guidance (Nisshi Ono, "MOFA's Efforts after the Earthquake Disaster: 'Open Reconstruction' and Economic Diplomacy / Overseas Public Relations Efforts" (Japanese), Ministry of Foreign Affairs, November 16, 2011). Needless to say, markedly fewer foreign tourists have come to Japan since March 2011, compared to previous years.

Measurable Economic Impact

During the full last quarter before the 2011 Tohoku earthquake struck, the total volume of exports was ¥17.3 trillion (\$213 billion), according to the Ministry of Finance, accounting for approximately one-sixth of that quarter's share of Japan's \$5.46 trillion 2010 GDP. Thus the seasonally adjusted shortfall of 6.5% in the real value of Japan's exports over the period between April and September 2011, compared with pre-earthquake forecasts from the Japan Center for Economic Research, represents a loss of ¥2.36 trillion (\$30.2 billion), or roughly 1.1% of six months' GDP.



Quarterly data from the Ministry of Finance

Much of this export shortfall was due to supply-chain disruption following the earthquake. We can posit that import restrictions imposed on Japanese goods by other countries also had an impact, but import bans have largely been restricted to food products and the like. Food, meanwhile, represents a very small share of Japanese exports: generally somewhere under 1%. Thus, even a 100% drop in Japanese food exports would put a dent of only about 0.1% in Japan's GDP.

Food and live animal export figures from the Ministry of Finance for the second and third quarters of calendar year 2011 reveal a six-

month yen total of ¥134 billion (\$1.73 billion), a 15.1% year-on-year shortfall. Some of this is likely to have been caused by individual consumers' choices, a strong yen, and a lack of produce available for sale abroad due to tsunami damage or actual contamination. However, even if we naïvely assumed the entire ¥24.0 billion (\$308 million) shortfall were directly caused by foreign governments' import bans, this impact would still be only 0.011% of Japan's 2010 GDP.

Turning to tourism, official records from the Japan National Tourism Organization show that the number of foreign visitors to Japan during the six-month period from April 1 to September 30, 2011, fell 40.4% in comparison to the same period in 2010. The nadir was in March and April 2011: March registered a 50.3% drop, year on year, even though the first 11 days of the month occurred before the disaster struck, and April registered a 62.5% drop (with sightseeing numbers down 81.9%). Since then, the shortfalls improve steadily each month through September, while early estimates for October and November show gaps of only 15.3% and 13.1% year on year. Since foreign tourism accounts for such a small proportion of Japan's GDP—just 0.14% in 2000 according to MLIT data reported by the OECD—we can expect a 40.4% drop in foreign visitors over six months to amount to a loss of just 0.055% of six months' GDP, or roughly ¥120 billion (\$1.5 billion), (“National Tourism Policy Review of Japan,” OECD Directorate for Science, Technology and Industry, July 2002).

Since official guidance overseas warning against tourism to parts of Japan was promulgated just after the earthquake hit and toned down throughout the spring, summer, and early fall of 2011 as tourism numbers recovered somewhat, we may postulate that these warnings had a direct impact on economic losses due to forgone tourism. Such knock-on effects as, for example, decisions by individuals to avoid or delay travel to parts of Japan acknowledged by their own governments to be safe may also have been a factor. A strengthening yen during this period likely also depressed tourism to some degree, but it seems unlikely this alone could account for such dramatic numbers.

Taken together, year-on-year falls in food and tourism exports in the middle two quarters of 2011 come to about ¥140 billion (\$1.8 billion), or 0.066% of GDP.

訪日外客数 Visitor Arrivals			
月 Month	平成22年 2010	平成23年 2011	伸率 Change %
1 Jan.	640,346 (437,752)	714,099 (505,543)	11.5 (15.5)
2 Feb.	664,982 (514,106)	679,398 (506,446)	2.2 (-1.5)
3 Mar.	709,684 (484,298)	352,666 (190,723)	-50.3 (-60.6)
4 Apr.	788,212 (601,872)	295,826 (108,820)	-62.5 (-81.9)
5 May	721,348 (536,880)	357,783 (183,800)	-50.4 (-65.8)
6 June	677,064 (511,123)	432,883 (282,167)	-36.1 (-44.8)
1~6 Jan.-June	4,201,636 (3,086,031)	2,832,655 (1,777,499)	-32.6 (-42.4)
7 July	878,582 (714,623)	561,489 (396,639)	-36.1 (-44.5)
8 Aug.	802,725 (613,413)	546,503 (373,195)	-31.9 (-39.2)
9 Sept.	717,756 (498,421)	538,727 (323,971)	-24.9 (-35.0)
10 Oct.	727,278 (507,872)	*615,800	*-15.3
11 Nov.	634,818 (435,315)	*551,900	*-13.1
12 Dec.	648,380 (506,299)		
1~11 Jan.-Nov.	7,962,795 (5,855,675)	*5,647,100	*-29.1
1~12 Jan.-Dec.	8,611,175 (6,361,974)		

Notes: the figures for 2011 are provisional or, where marked with an asterisk (*), merely preliminary. Tourist arrivals as a subset of visitor arrivals are noted in parentheses ().

*Credit: Japan National Tourism Organization
(December 16, 2011)*

Since foreign government policies cannot be solely held responsible for these drops in value, this estimation must be seen as a first approximation and an upper bound of the direct impact of the bans and guidance.

By banning or strictly regulating Japanese food imports and warning citizens against travel to Japan, many foreign governments weighing the health risks of their citizens are erring on the side of caution. Where policy makers lack the resources to devote to detailed policy formation, blanket proscriptions and lags in policy revisions may substitute for appropriately targeted guidance. In the cases both of banned food and of denounced tourism, official policy painted with too broad a brush runs the risk of over-restricting citizens' consumption of Japanese goods and services, hurting the very regions of Japan already most affected by the tsunami, and straining relations with Japan as the country faces what former Prime Minister Naoto Kan called Japan's "toughest crisis" in the postwar period.



Posters at Narita Airport, thanking visitors for their support of Japan and promoting further tourism, photographed August 15, 2011. (credit: B. Lauer)

Japanese Government Policy toward Import Bans

At the domestic level, the government of Japan has had to balance its responsibility to keep consumers safe with its moral imperative not to harm producers unnecessarily; the result has been a complex and ever-evolving matrix of restrictions on the sale and consumption of specific products from specific places. The government's aim on the international stage, in many ways mirroring the tension inherent in its domestic policy, has been to publish timely, detailed, credible information on contaminated products in order to allay any unnecessary fears of the world community.

The various ministries and agencies of Japan's national government have collaborated with prefectural and municipal governments to fulfill this mandate. All told, the government appears to be running a coordinated campaign of information sharing and information dispersal. The Ministry of Health, Labor and Welfare (MHLW), for example, has collected and promulgated information on the safety of the Japanese food and water supply, as has the Ministry of Agriculture, Forestry and Fisheries (MAFF)—which has also maintained a list of each foreign country's import restrictions on Japanese products as noted above. The Fisheries Agency (an arm of the MAFF) has filled a similar role for fish. The Japan National Tourism Organization has published the incidence of radioactivity around the country regularly since March 2011 (using data from the Ministry of Education, Culture, Sports, Science and Technology), and resumed its tourism promotion efforts after a brief hiatus. The Ministry of Economy, Trade and Industry (METI) and the Japan External Trade Organization (JETRO) have joined the information campaign: METI is seeking, according to its website, to "prevent excessive safeguards taken by other governments" by "explaining to them the safety of Japanese products,"

while JETRO is conducting information seminars on the nuclear situation in foreign countries and helping Japanese exporters arrange for Japan-side radiation inspection where required by foreign ports. The Ministry of Land, Infrastructure, Transport and Tourism (MLIT) has published assurances of the safety of radiation levels at Japan's ports and airports. The Ministry of Foreign Affairs has lobbied foreign governments to model their product restriction rules after Japan's policies. In response to the world's fear of radioactivity-contaminated produce, Japan indeed seems to have taken "a united stand," as a page on MLIT's website put it, putting into action a sentiment often expressed in Japan following the earthquake.

The trade union JAMA (Japan Automobile Manufacturers Association) played a similar role to dispel misinformation by testing of new vehicles manufactured in Japan for radioactivity prior to shipment overseas. Not only is the thorough testing "showing results . . . within the range designated by the Nuclear Safety Commission of Japan as being unthreatening to human health," JAMA's website soothed on April 18, 2011, "JAMA's test results are also significantly lower than the maximum allowable limit recommended by the International Atomic Energy Agency (IAEA)."

If the stigma attached to food products from Japan in 2011 had extended to Japan's more important export categories such as industrial goods, we could have expected a louder diplomatic outcry. Indeed, the government has expressed dismay about the testing of non-food items in foreign ports when it has been required. Still, the ongoing mistrust of Japanese foods remains a constant irritant to Japanese officials already working hard to alleviate the concerns of the domestic public. This explains the growing effort by various governmental agencies to plead the case for fair treatment of the relatively small quantity of food Japan exports. Admittedly the ¥27.3 billion (\$334 million) in food products and live animals Japan exported in February 2011, the month before the disaster struck, represented only 0.5% of Japan's total exports during the same period (¥5.59 trillion or \$68.2 billion). Nevertheless, on the microeconomic level of firms and households, this represents the livelihoods of many farm families already feeling concerned this year about the impact of Japan's expected participation in Trans-Pacific Partnership (TPP) negotiations.

When Naoto Kan was prime minister, he downplayed the issue of discriminatory treatment of Japanese foods due to his own fears that they had been radiated. An idealist, he has since taken on his own anti-nuclear cause in Japan and international circles. His successor, Prime Minister Noda, is a pragmatist who has sought to retrench Kan's absolute opposition to nuclear power. On the food issue, he has repeatedly urged the international community to judge Japanese exports even-handedly. In his address to the United Nations General Assembly (UNGA) on September 23, 2011, Noda warned against overreacting to the nuclear crisis:

Although some countries, regrettably, are still imposing undue restrictions on imports from Japan, our government will continue to provide prompt and accurate information on this matter, with transparency. I would request that all countries make sound judgments based upon scientific evidence.

In a press conference held after his address, the prime minister explained the message he wanted to convey to the international community at UNGA in the wake of the triple disaster Japan was

seeking to overcome. Noda's message was fourfold: first, he wished to thank the many countries which had offered assistance to Japan in the aftermath of March 11 and to assert Japan's commitment to rebuild from the tsunami and stabilize Fukushima Daiichi. Second, Noda aimed to share lessons from the triple disaster. Third, he sought to deliver assurances of continued engagement from Japan in international affairs in spite of a pressing domestic crisis. Finally, the premier hoped to build trust with world leaders.

Taken as a whole, this multi-part message seems designed to revive the world's confidence in Japan's stability and functionality, which reinforces efforts to repair the Japanese "brand," damaged as it was by the specter of nuclear fallout. At first we needed your help, Noda seems to acknowledge, but now we are ready to step back into a leadership role in the world. His message concluded that Japan's recovery effort was well under way, and it is prepared to share with others what was learned from the tragedy.

The thrust of the final point in Noda's message was for other countries to put their confidence in Japan again. In his words: "My fourth aim was to build relations of trust with the leaders of various countries. . . ." In other words, we have the situation under control, and Japan is safe once more. In this return to the familiar narrative of reliability, the Prime Minister avoided directly referencing concerns about nuclear contamination of Japanese products or the domestic countryside.

Several weeks later, Noda reiterated his message that Japan is open for business in a video message delivered at the APEC CEO Summit on November 10:

Let me turn to the nuclear power plant accident in Fukushima. The reactors are within a steady cooling-down process and the incident is being resolved faster than we initially expected. In terms of business environment, the nuclear incident is NOT an obstacle against business in Japan any more.

With a view for future revitalization of agricultural production in northeast Japan, he addressed the Fukushima Conference 2011 on November 11, promising a comprehensive clean-up effort by the national government:

We must also work to decontaminate areas where radiation has already spread. The International Atomic Energy Agency (IAEA) has recognized Japan's basic direction for decontamination operations, and we will continue concerted Government efforts to develop a structure for addressing this issue, taking responsibility for properly assessing the actual situation and carrying out large-scale decontamination operations, and working to relieve the concerns of surrounding residents and the entire nation as quickly as possible.

Trading Partner Relationships

The words of a prime minister, however, did not diminish the impact on Japan's trading partners that often feared the worst and reacted that way. The United States, however, kept a scientific perspective on the matter in its reaction. For the US, Japan remains one of its most important trading partners in the world. In the agricultural sector as in trade in general, the United States

holds the number two spot for value of imports from Japan. In 2010, Japan's overall share of U.S. import share was 15.4% (¥10.4 trillion out of ¥67.4 trillion) and its agricultural import share was 13.9% (¥69 billion out of approximately ¥490 billion). Though the appreciation felt by Japanese officials for American support in the immediate aftermath of the tsunami was likely tempered somewhat by months-long State Department recommendations that U.S. citizens stay outside an 80 km radius around Fukushima Daiichi, Washington has generally been relatively balanced on the issue of food imports from Japan. At present, the U.S. maintains a ban on select food products from eight of Japan's prefectures, requires radiation inspection certificates on certain items from three of those prefectures, and conducts sample inspections of other food and animal feed arriving from Japan.

In the context of a long-standing Japanese ban on the import of U.S. beef from animals over 20 months old due to the bovine spongiform encephalopathy (BSE) scare of the first decade of the 21st century, it has been U.S. policy to support Japan's case for the application of scientific standards in this realm. Had the U.S. been perceived as overreacting to the risk of radioactive contamination in Japanese food imports, charges of *quid pro quo* toward a loyal ally would likely have arisen. Meanwhile, Japan may decide that one good deed deserves another: in December, reports surfaced that Japan was set to reconsider the risks of importing US beef, prompting a statement from US Trade Representative Ron Kirk urging Japan to "further open its market to U.S. beef exports as quickly as possible based on science, international standards and commercial viability."

Mainland China, meanwhile, is Japan's largest importer overall, capturing 19.4% of Japan's export market in 2010 (¥13.1 trillion out of ¥67.4 trillion), though it was only the fourth-largest importer of Japanese agricultural products in 2010, with 11.3% of the market (¥55.5 billion out of approximately ¥490 billion). (Hong Kong's 24.6% market share of Japanese agricultural exports is counted separately.) Imports to Mainland China of Japanese agricultural products have fallen sharply since the accident at Fukushima Daiichi, with the value of agricultural imports losing 44.4% year-on-year in July 2011 alone. China's continued ban on all food from 10 Japanese prefectures is likely to have had both direct and indirect impacts on these declines in import totals.

At the Japan-China Summit Meeting held on November 12, 2011, on the sidelines of the APEC Economic Leaders' Meeting in Honolulu, Hawaii, with President Hu of the People's Republic of China, Prime Minister Yoshihiko Noda "requested the further relaxation and early lifting of China's import restrictions on food and other products from Japan," according to notes from the meeting published by the Prime Minister's office. President Hu responded that "while some restrictions [had] already been relaxed, China [would] consider the further relaxing of restrictions based on . . . available scientific information and food safety." After numerous food safety scandals over the years exposed China to scrutiny from its more developed neighbor, the shoe is now on the other foot. In China and around the world, Japan faces a potentially long-term diplomatic battle to reassure trading partners of the safety of its food supply.

Conclusion

More a psychological blow than a true macroeconomic injury, foreign bans on Japanese food exports and official guidance advising against travel to parts of Japan have had a significant

impact at the microeconomic level on the order of \$2 billion or less. Measurable direct effects are difficult to extract from available data, since various factors could be simultaneously moving the figures away from previous-year baselines.

Nevertheless the persisting bans cannot be helping Japan's earthquake recovery, and remain something of a diplomatic sore spot during a vulnerable period. Nor do bans in excess of Japanese domestic policy achieve much real additional food security in the countries where they are in force, unless products containing harmful levels of radioactivity are escaping Japanese officials' notice on their way out of the country.

Regaining the trust of the international community in food and tourism will likely require further demonstrations of competence, transparency, and patience on the part of the Japanese government; on the other hand, the stigma attached to these Japanese brands has fortunately remained contained and has not affected Japan's more economically significant industrial exports.

Appendix A: Some or All Food Imports Suspended (as of 1/2012)

<i>Name of Importing Country or Area</i>	<i>How Much Food Suspended?</i>	<i>From How Many Prefectures?</i>	<i>Certificate Required for Permitted Food Imports?</i>
Kuwait	All	47	N/A
United Arab Emirates	Some	47	All Food, All Prefectures
South Korea	Some	13	All Food, All Prefectures
Macau	All	12	None Required
New Caledonia	All	12	All Food, All Prefectures
Saudi Arabia	All	12	All Food, All Prefectures
Mainland China	All	10	All Food, All Prefectures
Brunei	Some	8	Some Food, All Prefectures
Singapore	Some	8	Some Food, All Prefectures
The United States	Some	8	Some Food, 3 Prefectures
Russia	All	6	None Required
Lebanon	Some	6	All Food, All Prefectures
Taiwan	All	5	None Required
Hong Kong	Some	5	Some Food, 5 Prefectures

Source: MAFF



Photograph taken at Narita Airport on November 26, 2011 (credit: B. Lauer)

Appendix B: No Imports Suspended, but Certificate Required (as of 1/2012)

<i>Name of Importing Country or Area</i>	<i>How Much Food Requires a Certificate?</i>	<i>Certificate of Inspection for Radioactive Materials Required for Food from How Many Prefectures?</i>	<i>Certificate of Origin Required for Food from How Many Prefectures?</i>
Egypt	All	47	0
Bahrain	All	47	0
<i>Chile</i> cancelled 9/30	<i>Some</i>	47	0
Dem. Rep. of the Congo	All	47	0
Indonesia	All	47	0
Iraq	All	47	0
Oman	All	47	0
Qatar	All	47	0
Vietnam	Some	47	0
Iceland	All	13	34
Morocco	All	13	34
Norway	All	13	34
Brazil	All	12	35
<i>Canada</i> cancelled 6/13	<i>All</i>	12	35
Croatia	All	12	35
French Polynesia	All	12	35
Liechtenstein	All	12	35
Switzerland	All	12	35
Ecuador	Some	12	35
European Union (27 countries)	All	11	36
Thailand	All	9	38
The Philippines	Some	2	45
Malaysia	All	0	47
Colombia	All	12	0

Source: MAFF

Note: All non-food items imported to Egypt from all 47 prefectures of Japan are subject to radiation inspection.

STARTUP JAPAN: ENSURING FUTURE ECONOMIC GROWTH

Introduction

The prevailing pessimistic perception of Japan's future both economically and geopolitically stands in stark contrast to the miraculous might that Japan enjoyed just a couple of decades ago, before the economic bubble burst in 1990. With tongue in cheek, many political scientists, policymakers, economists, and pundits have offered a playful suggestion that Japan may one day resemble a country somewhat like Italy—a wonderful place to visit with exquisite culture and good food, but no real weight in global affairs. Certainly, it is hard to make a case for Japan remaining center stage in the East Asian region, let alone, the global community, given the rise of China, and other emerging nations that provide new and exciting destinations for investment. Moreover, the postwar security paradigm that the world has relied on for generations is being altered, creating new challenges for Japan in its alliance with the United States. Despite changing perceptions and realities, Japan remains for many observers and analysts a potentially viable player in the global economy. This paper seeks to establish a plausible case for Japan's revitalization not based on the tried and true manufacturing icons of Japan, Inc., but based on a dynamic venture startup community in the Internet economy that could boost Japan into a global center for innovation. Japan's "soft power" indeed includes the creative talents of a whole new breed of entrepreneurs who are rewriting the book when it comes to the country's international potential.

There is no dearth of policy research in Japan focusing on the ways to facilitate economic growth, as well as industrial and technological innovation. The economic impact of the devastation of northeastern Japan by the 3/11 triple disaster has turned such discussions into a frenetic national dialogue. Some pundits have referred to the aftermath of the earthquake and tsunami as a "Sputnik moment" for Japan, with the expectation that the disaster will be a catalyst for productive change in the economy.

Indeed, the Japanese people now have the choice of: 1) how they wish to rebuild; 2) what that will look like; 3) what industries will reestablish themselves; 4) how policy will adjust to promote growth; and 5) what the primary drivers will be to bring long-term economic growth stability not just to the Tohoku region but to the rest of Japan, as well. The first four questions may be impossible to answer in the near term, but the last one provides an opportunity to at least eliminate other infeasible variables necessary for long-term growth and determine the most plausible scenario. The tenets of the classical growth model, which assumes capital accumulation leading to growth (far from a complete picture of the factors that contribute to the rate of growth), would portend continued economic stagnation for a Japanese economy that has long-sustained a capital surplus. The Solow-growth model introduces technology as a critical growth factor once an economy has achieved a 'steady state' of growth brought about by diminishing returns to capital and labor. The work of Paul Romer endogenized the technology factor and introduced the concept of human capital—which can be augmented by both education and technological innovation. Theories of creative destruction, which assert the need for

entrepreneurship to advance new technologies in order to promote growth, further emphasize the role of technology in promoting growth. Japan is a nation of limited resources, with an increasingly aged population and a low birthrate. The country also remains averse to an inclusive immigration policy, which would help the economy and add to social capital. As a result, theories that pit economic growth on population growth, or an increasing capital stock, are untenable in Japan. Instead, technological innovation, entrepreneurship, and the development of human capital are the primary factors that can ensure Japanese economic growth. Strategic factors such as research and development, software, human capital and new organizational structures have accounted for 20% to 25% of labor productivity growth in some OECD countries.

This paper focuses not on theory but on the companies, or more specifically the personalities that run them, in probing the potential for economic growth in Japan. It is the new breed of corporate leaders who at this juncture can help Japan pivot to a more entrepreneurial and outward looking economy. In other words, this paper bypasses the macro perspective of economic recovery and growth, leaving policy recommendations that address structural change to others, and instead focuses on the human element – the entrepreneurs who have now become critical in affecting change through their innovative business activity. This largely anecdotal perspective from that community presents an alternative to the projections of the Japanese economy offered by traditional analyses, and reveals specific factors that can catalyze a movement toward growth and the establishment of new Japanese global brands. This is not to disregard the importance of policy, but rather, to highlight the tremendous change in the business culture that can occur without having to first radically transform social custom or pass new laws.

Setting the Stage

The reputation and might of the Made-in-Japan brand rose from the dust of WWII on the back of a consensus-manager driven system that won the respect of the West, and on the superlative quality of the technology and products developed from it. Japan, Inc., also was famous for the organizational structure that penetrated throughout the corporate world. Japan still exudes the image of strict hierarchical corporate and social structures that demand discipline and order, commitment and conformity. These have largely been the tenets of Japanese strength and innovation. Paradoxically, this paper asserts that the prospects for long-term economic vitality in Japan will be dependent not on tried and true business formulas, but upon the strength of individual entrepreneurs – and not necessarily on the collective strength of the Japanese people. The paper postulates that the ingenuity of a handful of sharp entrepreneurs in cutting-edge areas can potentially spark a new consensus transforming the way Japan does business. Highlighting a select few of those personalities, the paper not only outlines their achievements but also examines the formidable obstacles entrepreneurship faces in Japan. Perhaps in a generation, the world will know a global brand created by a Japanese entrepreneur that is as pervasive as a Google or Apple.

In fact, Japan has long been a leading global innovator. It has consistently ranked in the top ten in the World Economic Forum's Global Competitiveness Index (GCI) since the ratings began in 2004. In the most recent rankings, Japan was 6th out of 139 economies, receiving the top ranking in business sophistication, and fourth in innovation. In fact, Japan accounted for 21% of invention patents within the United States—the number of patents originating from Japan has

doubled within the last ten years, while the number from the United States has declined slightly. In 35 technical areas that the World Intellectual Property Organization (WIPO) classifies patents, Japan ranked first in 26 of them, second to the United States in eight of them, and third to the United States and China in the remaining category. Despite all of this innovation, Japan has struggled to sustain the creation of well-known global brands. They rank number 2 in the production of intellectual capacity, but the 2009 Global Economic Development Index nevertheless ranks Japan 29th out of 31 economies in entrepreneurial activity among nations with leading innovative capacity. The Japan brand has been lagging behind the competition.

Japan's anemic economic growth has produced an environment that is slowly transforming the socio-economic landscape. The era that can now be called the "lost [two] decades" starting in 1990 has created a push for new risk taking as the traditional employment systems and socially accepted pathways toward success have become increasingly unavailable. Prior to the bursting of the bubble in the 1990s, the ideal of success was to either find employment with the government or with a large corporation. Entrepreneurs were generally the leftovers—those who could not succeed in the traditional venues of employment. During the lost decades both traditional outlets for success became less feasible, leaving a growing pool of trained university graduates with shrinking employment options in both the private and public sectors. This, interestingly, has created a new surplus of talented and trained workers who, forced by employment conditions, have become more and more willing to take risks and pursue their own ventures, according to Ernest Higa, a well-known Japanese-American entrepreneur in Japan. Hiro Maeda, director of the Open Network Lab, of which more later, explained the rise of entrepreneurship in Japan as fueled by a generation that sees the social mandate of the traditional employment system expiring, and the harmony assumed within the Japanese social structure disrupted.

Startup Financing

A significant challenge for startup enterprises in Japan is the underdevelopment and limited amount of venture capital. Japan has traditionally relied on bank-centered financing, which is generally preferential, favoring projects of companies with strong relationships to the bank. Once a bank loan is secured, the risk is transferred completely upon the borrower. In the event of default, the credit of the borrower is often ruined, greatly diminishing the chances to secure such loan financing in the future. This system runs counter to the venture capital community in Silicon Valley, for example, which not only tolerates failure, but also rewards it, as even a failed venture adds value to an entrepreneur's resume in the eyes of investors. Venture capital (VC) in Japan has gone through various stages of development, beginning in the 1970s, with most domestic firms starting in the early 1990s, and private capital only truly becoming available after 2000. According to some estimates, VC firms in Japan total only 200, as opposed to the over 600 that exist in the United States. Additionally, venture capital investments have declined in recent years as the total number of Initial Public Offerings (IPOs) has also declined. In 2010 total venture investment only totaled 15.1 billion yen compared to 21.9 billion yen in 2009, and 37.8 billion yen in 2008. In the US, venture capital has actually increased over the past several years totaling \$16.7 billion in 2010—a 29% increase over the previous year. Total value of venture funds in Japan stood at about \$22 billion as compared to \$190 billion in the US. It is no mystery then that Japanese startups suffer high failure rates; 30% of ventures fail within the first 12 months, not because of business cycles, but because financing options are so limited.

Because many VCs are tied to larger financial institutions they tend to favor more low risk, debt-driven instruments to finance fledgling start-ups rather than equity financing. In this way, venture capital funding structures often defer risk onto the entrepreneur as well. It is not uncommon for shareholders' agreements to include a covenant that obliges the founder to push the venture towards IPO within a set amount of time. Failure to do so would trigger a put option of the investors' shares against the investee company; i.e., the founder would have to buy back the equity stake of the investor. This essentially eliminates any risk from the investor and transfers it completely on the investee company. The underdevelopment of secondary markets for shares of companies that have not yet gone public also adds to the risk of investee companies in the event that the investee company fails to fulfill the shareholder agreement. Another consequence of VC funds being tied to larger financial institutions or companies is that investors are often only rotating through an assignment within the firm and have no particularly expertise in startup financing or the specific industry that the fund might be targeting. The short duration of their rotation also prevents them from gaining the necessary experience to become informed investors. In the US, most VCs have sectoral expertise, or have at least been entrepreneurs previously, maximizing the management value of the investment to the investee company. Many younger entrepreneurs are also critical of the reliance that loan officers and venture capital arms of banks have on collateral, and managerial experience as criteria in making investment decisions. Matthew Romaine commented that trying to raise funds from some Japanese investors takes too much time, because for many investors, investments are made based off of relationships, which take months to foster. This stands in contrast to Romaine's experience raising two seed-rounds from an international pool of investors predominantly in Silicon Valley, some of who agreed to investments something as simple as a one-hour long Skype call or, in the extreme case, a single email exchange. The relative lack of equity financing augments the already deep negative risk profile inherent in Japanese society.

The Galapagos Effect—and modern Sakoku

Japan has experienced what many have referred to as the Galapagos Effect; i.e., an overreliance on demand driven by the domestic market has created an environment in which products evolve independent of the world market. Former USTR official Glen Fukushima has even gone so far as to say that Japan is experiencing a modern-day "Sakoku." The word indicates a conscious rejection of the outer world, as did the Tokugawa Shogunate during the 17th to mid-19th centuries. During Japan's decades of sometimes contentious trade negotiations with the US on market access issues, such exceptionalism often emerged in arguments by the Japanese side. This inward focus was backed, for example, by such spurious claims as the snow being so different in Japan that it prevented the import of US and French ski gear, or that the Japanese intestinal system was different enough to justify blocking American beef imports.

The early Japanese cell-phone industry is perhaps the primary example of the Galapagos effect. Domestic cell phones offered state of the art functionality that other cell-phone markets did not have access to. By 1999, NTT DoCoMo's subsidiary introduced "i-mode" bringing email and limited Internet connectivity to users. Two years prior to that, Sharp and Kyocera were among the first companies to bring camera phones into the market. In 2004, the "osaifu keitai" (wallet phone) was introduced allowing the user to use their cell phones as a credit card. In 2006, the first web television offered through cellular service was introduced, followed by GPS. The list goes on and on. The hardware continued to advance at breakneck speed, yet, still today, none of

the major Japanese cell phone producers are significant global players. The products are geared specifically, and often exclusively, for the domestic market.

For years, the Japanese market was large enough to satisfy and sustain the growth of the major manufacturers. Even today, Japan's total market boasts 125 million cell phone users, 120 million of which have 3G handsets, and with 98.6 million of those using mobile data services. To gauge the depth of the potential market tapped through that stock of mobile internet users it is useful to note that this number is more than double the usage rate in the United States or top European nation. And, despite only having 3% of global mobile phone subscribers, Japan's online mobile market accounts for 15-38% of total global mobile online advertising depending on the estimates that are used. Because of this high growth, domestic producers developed chips that were not compatible with the GSM and CDMA systems that major foreign markets were using. In other words, the mobile telephone market and associated markets are still huge, but manufacturers have rationalized an evolution of devices incompatible with the global market. Japan will continue to have to resist the temptation to focus solely upon the domestic market and embrace a more global perspective. As demographic pressures reduce the size of the domestic market, this shift may occur naturally, but it is long overdue.

Another significant factor that contributes to the modern-day Sakoku, or Galapagos syndrome, is the notorious lack of English proficiency among Japanese professionals. The number of Japanese students studying abroad has dropped dramatically in recent years. The number of foreign Japanese students studying at US universities peaked during the 1997-1998 school year at 47,073, but has fallen consistently over the past 5 years, and was only 24,842 during the 2009-2010 school year. It has dropped even further to 21,000 students in 2011. This phenomenon has been attributed to several factors—two of which can be correlated to the general stagnation of the Japanese economy over the last two decades. The first factor is that waning demographics have cut into the demand side of higher education making university acceptance in Japan less competitive domestically. The second factor is a rising perception that studying abroad negatively affects the job search process, which generally starts during the junior year of college. These factors point to a critical and growing deficit of young Japanese who can compete in a global system that largely relies on English. In order to address this problem the Japanese education system needs to either promote study abroad more aggressively, or to create curricula within Japan that provide opportunities for Japanese students to learn English more effectively than the current system allows. Sadao Nagaoka, of Hitotsubashi University in Tokyo, suggests that the education system in Japan should be less concerned with teaching English, and more concerned with teaching in English.

A Changing Tide—The Entrepreneurs

However, there is evidence that this phenomenon is already changing in favor of a more open society. On a recent trip to Japan I sat down next to an aging salaried worker on the Tokyo Metro. His appearance was typical—a standard dark suit, briefcase in hand, facial expression strained by the crowded commute. Yet, when I looked over his shoulder, he was checking his updates on Facebook on his new iPhone 4S. This was a telling sign. I had not been to Japan for several years, and the appearance of an American cell-phone platform was surprising to me. In fact, the iPhone was everywhere. The smart-phone market in Japan lags behind the US, but is quickly growing. The Google Android platform (available on phones made by Ericsson and

Toshiba) and the Apple iPhone, represent 87% of the smart-phone market in Japan, and iPhone sales in Japan grew 17% in the first half of this year. When I first lived in Japan in the early 2000s, it would have been unthinkable for an American cell phone to have such a significant stake in the domestic Japanese market.

A large part of this development is thanks to the outward looking and innovative entrepreneurs who are opening Japan up and addressing, however slowly, the issues affecting entrepreneurship that were discussed previously. Masayoshi Son is largely responsible for the proliferation of iPhones that I witnessed on my recent trip. Son is the founder and CEO of Softbank, one of Japan's largest mobile carriers and the company responsible for introducing the iPhone to the Japanese market. In 2011, Softbank controlled the third largest market, behind NTT DoCoMo and KDDI au, in Japan with sales focused in the Tokyo region.

Son was born a Zainichi Japanese, or Japanese-born Korean, and grew up in Saga Prefecture until moving to California as a 16-year-old high school student, finishing high school in the Bay Area. He then entered the University of California Berkeley studying economics and computer science. It was the late 1970s, and the computer industry was starting to visibly redefine the Bay Area's economy. Inspired by the microchip, Son committed himself to the computer industry, developing a translation device at the age of 19, which he eventually sold to Sharp for \$1 million. With the capital earned from his early success, he imported the Space Invaders arcade game system and distributed them around the UC Berkeley campus. Upon graduation, Son started Unison, a small computer company based in Oakland that was eventually bought-out by Kyocera.

His return to Japan in 1981 was followed by the founding of Softbank Inc., financed with \$80,000 of his own savings and a \$1 million loan secured from Dai Ichi Kangyo Bank after extensive negotiations—made difficult because he lacked a reputation as a young entrepreneur, and because of an apparent unwillingness of the bank to consider him because of his Korean ancestry. Softbank, after many ups and downs is now capitalized at \$43.52 billion. Son himself is now the richest man in Japan, with a net worth of \$7.5 billion, despite having lost more money than any other person in Japanese history (an estimated \$70 billion).

Open Network Lab and Hiro Maeda

Katherine Ibata-Arens has done extensive research on the value of regional cultures in creating eco-systems that foster innovation. Her work has focused on Kyoto, and the “Kyoto way”, or what has been termed, “Kyoto cluster culture”. The region has produced some of Japan's most well-known postwar global brands including Omron, Nintendo, Kyocera, and Horiba. The Kyoto example illustrates the importance of clusters that provide the right mix of skilled human capital and infrastructure. Rosabeth Moss Kanter, a strategy and innovation professor at Harvard Business School, has stressed the importance of collaborative environments, saying, “The biggest innovators involve employees company-wide to help generate ideas... [through] interdepartmental brainstorming sessions...web forums for recommendations or offer funding for creative projects.” This is the basic logic behind incubation spaces that have become prevalent in technology corridors in the US to spur greater innovation. In Japan, incubation spaces have been existent for decades, but have started to emerge in the digital space more recently. Open Network Lab in Tokyo is one of the most well-known examples.

I met Hiro Maeda on an introduction from a mutual acquaintance. Maeda originally hails from Kobe and grew up attending International School, mainly because his mother, a Filipina, could not speak Japanese. He went on to study computer science in the U.S. at Bucknell University and inspired by the spate of web startups emerging at that time, Hiro pursued several startups of his own for two years in the fashion and music verticals. Through his work he met Sato Teruhide, the CEO of NetPrice.com, who was very interested in driving startup entrepreneurship in Japan. Through this relationship he subsequently met Joichi Ito, who then introduced him to David Cohen, the founder of TechStars.com. TechStars, one of the world's premier incubator spaces, which currently boasts a portfolio of 76 active companies, inspired Maeda to create an analogous incubation space in Tokyo. With the help of NetPrice and Ito's company, Digital Garage, Maeda created the Open Network Lab or ONLab in April 2010. ONLab, similar to TechStars, Y-Combinator, and other incubation spaces, selects prospective entrepreneurs through an application process who participate in a three-month program, which exposes them to a catalogue of experienced entrepreneurs and service professionals who act as mentors, and to a voluntary program that trains them in idea validation, agile development, and basic finance. Every Wednesday, the participants meet and discuss their ventures interacting with a rotation of mentors who provide insights and coaching. Toward the end of the program, ONLab ventures participate in a "demo day", which provides an opportunity to pitch their ideas to investors. The most recent round of ONLab ventures brought about 100 VCs, primarily Japanese, but with a smattering of American as well as French investors, to their demo day. Notable attendees included David McClure, representatives from CyberAgent, Gree Investments' Tsutsumi Tatsuo, and Kobayashi Masayoshi of Infinity Venture Partners.

ONLab teams, which typically consist of up to three members, can receive up to about \$10,000 in a seed grant in return for ONLab receiving a 5% equity stake in each venture. Currently, ONLab has a stable of 15 active companies, and according to Maeda, five or six of those companies will be "winners"; i.e., they will achieve a successful exit either through a sale or an IPO. All of the companies except for two (based now in the Bay Area) are headquartered in Japan. The backers of ONLab, Ito and Teruhide, who already have a well-established reputation within the online community, provide ample leverage to attract top investors to ONLab's program. According to Maeda, 83% of ONLab graduates have raised at least their first round of funding. This impressive network, and thus reputation by association, is essential in building this credibility. Within the startup community in Japan, generally, Hiro commented that he often hears complaints about investors—either that they are scarce and inaccessible, or that they lack institutional and technological understanding—however, the participants of ONLab generally do not have to worry about these phenomena. This principal of established networks and social capital is consistent with traditional prerequisites to funding in the Japanese system, but what the incubator eco-system provides upfront, other entrepreneurs have to struggle to attain. This is critical in an environment that is still building a base of entrepreneurs-turned-investors, which is one of the reasons that startups in Silicon Valley can raise capital in relatively large sums and in a relatively shorter amount of time than their Japanese counterparts. Institutional investors who either benefit from firsthand experience as an entrepreneur, and who have specific industry expertise can better understand and accelerate the ventures that they are investing in than those investors whose only experience is in finance or consulting, as tends to be the case in Japan. The individuals who color ONLab's attractive space in Ebisu, an upscale, hip neighborhood of Tokyo bordering Shibuya, are upbeat, engaging, extremely intelligent, and according to Maeda,

possess a charisma that borders on manipulative. They have proved that they are adept at perhaps the most critical part of the entrepreneurship process: execution. Every entrepreneur that I met at ONLab spoke at least fluent English, but many, with time spent overseas, possessed what I would judge as being close to native level.

As indicated by the name, ONLab is committed to creating an open environment that communicates what it does with the outside world. Maeda commented to me that other incubator spaces that he was aware of in the Tokyo area, such as Movida and DeNA (which is run by Son Masayoshi's younger brother) are not as transparent with their projects. ONLab's open culture of informational exchange is one of the primary drivers of what Maeda hopes will be transformational for the Japanese economy and for its society. In his own words:

"Entrepreneurs in Japan haven't realized the benefits of transparency and sharing information. People are afraid of sharing ideas and experiences — thinking that it is their only competitive advantage."

As a result of this open culture, he says that people trust ONLab, and in only their third year, the incubator is already set to expand. This is impressive considering that they do not engage in marketing beyond word of mouth references. Open communication has long been a flagging characteristic of business in Japan, but with the help of social media platforms, some of the barriers to communicating ideas may be breaking down. Edzard J.C. Overbeek, President of Cisco Asia Pacific and Japan, sees social media as having a potentially significant impact on the way things are done in Japan. He says that Japan has both a complex and exclusive social structure, but he adds that if that "social intelligence could be automated and shared in a collaborative platform, the result could be powerful." Allen Miner adds that the main conduit through which tech startups find an audience, and consequently investors, beyond the face to face networking that meet-ups and incubators provide, is through the use of online forums and journalistic sites such as TechCrunch.com, or Wired.com, which provide a critical space for startups and investor news. Most of these publications are exclusively in English, pointing again to the importance of developing English skills in Japan.

There are several universities in Japan that have English-language programs, including Waseda University, Tsukuba University, Tokyo University, Ritsumeikan, Yokohama National, and Keio University, among others, but there is still a dearth of interest, not just among students, but among university faculty, as well. In addition to English language programs, the types of programs available could play a significant role in the capacity of students to innovate and create. For example, Keio University's fifth campus, located in Shonan-Fujisawa, a coastal community southwest of Yokohama, stresses the importance of both cutting edge technology and a "rich natural environment". The programs the school offers seek to leverage the strengths of various faculties to create unique multidisciplinary programs. Not surprisingly, about 30-40% of ONLab's participants are graduates of Keio SFC.

Some companies such as Hiroshi Mikitani's Rakuten, have started to hire staff from overseas, conduct all meetings in English, and require employees to pass English language proficiency as a prerequisite to promotion. Rakuten, capitalized at about \$10 billion, has become one of the largest e-commerce market places in the world, by far the largest in Japan, and with an aggressive record of acquisitions in the United States, China, Russia, Brazil, and Germany, it now ranks among the top 10 internet companies in the world. Such scale could give Rakuten a

profound influence upon other major corporations and their usage of English in the work place. This is not the only way that Mikitani has veered from convention. Rakuten is not a member of Keidanren or the Keizai Doyukai, both bastions of the status quo way of doing business in Japan. Mikitani recently asserted at an event hosted by the US-Japan Council that Japan lacks the leadership necessary to remain successful in the modern globalized world, and that his decision to withdraw his membership from Keidanren and Keizai Doyukai was a very deliberate one. As more “unconventional” corporations such as Rakuten emerge, their aggregate influence upon business culture could have a lasting and transformative effect.

This is essentially ONLab’s grandiose, but not completely unrealistic, vision. In his own words, Maeda’s ultimate goal is to transform Japan. He sees the day when Japanese entrepreneurs will create the next Google or Apple. Maeda says that the pay-it-forward culture that pervades Silicon Valley does not yet exist in Japan, but that it is something ONLab is trying to promote. As this generation of ventures is established, they will then pay-it-forward through investments of their own—investments that will have the backing of experience and technical know-how to pick the winners of tomorrow. This is already happening on a small scale at ONLab. The incubator’s mentors, who provide invaluable support for the incubator’s projects, are experienced Japanese entrepreneurs, some who are now located overseas, but who have come back wanting to assist the next generation of innovators. Maeda said that with time, as the stock of serial entrepreneurs grows in Japan, as they turn into the investors who will fund the next big idea, as Japanese understanding of foreign markets grows, and as product management improves and adapts, Japan will be able to produce major global brands in the Internet economy along with the West.

MyGengo.com and Matt Romaine

Matthew Romaine is the CTO of myGengo.com, a crowd-sourced online translation startup with over 4,000 registered translators representing 15 languages. The web-based translation market is currently capitalized at \$3 billion with clients ranging from Ecommerce sites, media, and business communications. The model uses qualified human translators for all projects, and in 2010 debuted an API that allows developers to plug-in to websites, apps, widgets, social networks, and other platforms with on-demand human translation.

The service was launched in December of 2008, approximately eight months after an online forum connected Matthew Romaine and business partner Robert Laing over their unique appreciation for a lesser-known content management system, ExpressionEngine. Matthew, whose mother is Japanese, was born in the United States and had spent his childhood growing up in London and Tokyo. After graduating from Brown University with a Bachelors degree in Computer Science and Music, and a Master’s degree in Music from Stanford University, he worked for several years in an R&D division of Sony Corporation, Japan. After his time at Sony, but prior to joining myGengo.com, Matt had founded another company, K.K. Majides, which was responsible for the creation of MiiStation.com—a website that lets Nintendo Wii users create avatars—and a TIME Magazine Top 50 website.

Romaine remarked in a 2011 interview that starting a web-service company is relatively easy because little startup capital is necessary at first. Approximately 5 months after launching, Romaine and Laing decided to pursue a round of seed-capital to fund growth. Their first attempt was entering a business competition called “Start” run by one of Japan’s leading internet

companies, CyberAgent. The competition offered a \$1,000,000 seed grant. Their attempt was unsuccessful. They had also floated their plan by Japanese Internet pioneer (and current MIT Media Lab Director) Joichi Ito several times over the course of a year. Romaine commented that their prospects for raising capital as two foreigners with seemingly little relevance to Japan might have been an obstacle to raising seed capital from the local investor community. Meetings with investment arms of banks proved fruitless, as well, due to the Japanese business culture of investing based on existing relationships and proven reputations. The experience of start-up entrepreneurs is fairly consistent on this point. Japanese financial institutions are not equipped to engage in rapid financing that is commonplace in the United States.

For example, a common capital raising technique amongst start-up entrepreneurs is “convertible note” financing, which is a simple debt offering with the option of an eventual conversion into equity used by companies to raise capital when articulating a valuation is difficult or costly early in a startups lifecycle. This is a safe way for Investors to invest in a start-up that has no proven cash flows and thus cannot be valued. But, it is a method that Japanese financial institutions do not yet understand, though they are learning. Mechanisms like these allow for rapid capital fundraising and are essential to the survivability of small ventures. In Romaine’s estimation, Japan lags anywhere from six to eight months behind the US in appreciating such financial instruments relevant to entrepreneurial environments.

Instead of relying on Japanese investors, myGengo turned to a diverse group of overseas investors including heavyweights such as Dave McClure (whose portfolio includes over 250 firms) last.fm cofounder Felix Miller, and Japanese angel investors who all shared the experience of growing up overseas in multi-lingual environments. myGengo had to travel to Silicon Valley to raise its first official seed round, giving over 30 presentations during a 10-day trip. The initial seed round fundraising was very successful bringing in upwards of \$650,000.

Romaine also points to other institutional problems as simple as renting space to house the new venture. Rent can be complicated in a sprawling metropolis such as Tokyo. Most office rentals require six month’s rent up front as deposit money. Luckily, alternative brick and mortar options exist. One such example is COLAB, managed by a Tokyo-based architect, who, understanding the difficulties of starting a small enterprise, converted an abandoned building into a creative space for fledgling architects, designers, and startup ventures, requiring no deposit and charging month to month.

PeaTix.com and Taku Harada

I met Taku at a hip feaux-Americana restaurant ala Southern California surf culture in Sendagaya, right around the corner from the myGengo.com headquarters, called the Ron Herman Café, a clone of the trendy Melrose Ave. restaurant. Taku is the CEO of Peatix.com, a web platform geared toward the Japanese market that provides a very similar service to EventBrite—an online event management system that can sell tickets, or market an event. Taku grew up primarily in New York City, a son of two accomplished musicians, and moved back to Tokyo in high school. Taku returned to the United States to attend Yale University. Following graduation, he began what he thought would be an exciting career at Sony producing music. However, his mastery of English sent him straight into a management track. He left Sony when it became apparent that he would never be involved in music production. He landed a job as a project

manager at Amazon.jp, where he worked for seven years. He left Amazon for a year to work for Apple, launching iTunes in Japan, but returned to Amazon only to find that the corporate culture left him restless. It was then that, equipped with a wealth of human resource from Apple and Amazon Japan, he formed a team of his own and started Orinoco—a consulting firm that provided services in Japanese market entry, product localization, and sales and distribution for overseas companies interested in the Japanese market. The members of the team are predominantly Japanese, but share Harada’s grasp of English and diverse background—most of them having completed schooling in the United States.

Peatix’s first round of funding came in 2009, when the company officially started with full-time staff, and originated primarily from Japanese investors who were either family or friends, with a few angel investors in the mix as well. Since that time, Peatix has realized relative success and is now targeting expansion and a new round of funding. For this reason, the company will officially move to San Francisco, while keeping its office in Tokyo. The rationale behind this move is that seed-stage and Series A funding is not hard to come by in Japan anymore. According to Harada, raising \$2-\$3 million is not terribly difficult; however, move into Series B or C when the desired capital ranges from \$10-\$20 million range and Japanese VCs are not deep enough. Additionally, there is still a shortage of skilled human capital in Japan to fill the gaps when expansion is on the agenda. This leaves companies little choice but to move somewhere like Silicon Valley where they can access both the necessary human and financial capital easily. Frustratingly, there is an asymmetry between financing and services in the Japanese system; venture capital and angel investment is available for seed-round ventures, but does not exist in the size necessary for second or third round funding. Conversely, services (legal, accounting, consulting) do not yet exist in a critical mass for startup size enterprises, but do for larger firms. This is a fundamental mismatch that is critical to the sustainability of startups as they move from seed stage towards growth.

Harada commented that American VCs go to China, India, and Korea, but Japan largely remains a fly-over zone for foreign VC and private equity. He cites this inattention due to the low probability for successful exits in Japanese ventures, and communication barriers too high. Due to these structural issues that persist in Japanese society, Taku doesn’t feel like Japan will be able to create major global brands in the near future. For starters, he feels that Japanese firms lack the motivation and the know-how to solve real problems with their ventures. Further, Japanese society still lacks enough skilled human capital to be successful in the startup world. This comes back to a problem with education, and in particular English language acquisition. And, finally, the financing that is available is insufficient to support the kind of critical mass of startups needed to produce a major global brand.

Looking Forward

The current US ambassador to Japan, John Roos, spent his career in Silicon Valley at one of the most prestigious intellectual-property law firms. And, although it would be unrealistic to assume that one man could change the tenor of US diplomacy in Japan, or to change Japan, he has made it his personal mission to promote entrepreneurship all across the country. Ambassador Roos reputedly has made a huge impact on the approach of embassy public diplomacy related to such promotional efforts. The Embassy is currently spearheading several initiatives – reportedly ideas from the Ambassador to promote economic growth through innovation – such as the US-Japan

Dialogue to Promote Innovation, Entrepreneurship, and Job Creation; the US-Japan Clean Energy Dialogue; and the US-Japan Dialogue on Internet Economy. In October 2011, Roos held a public forum with Son Masayoshi, the founder and CEO of Softbank, on the importance of entrepreneurship, student exchange in the United States, and post 3/11 recovery. The event was held as an open forum near the posh area of Omotesando to a capacity crowd of 300—with approximately 50,000 viewing the event online or on TV. This tremendous demonstration of interest is a telling sign of a changing appreciation for the value of the individual and the influence of the entrepreneur in Japanese society. Over time, a growing stock of entrepreneurs in Japan can provide the human and financial infrastructure necessary to perpetuate a dynamic and growing base of innovation and new companies. With this in place, Japan's reputation as a source of major global brands will be restored. Of course, whether or not the venture capital community can continue to deepen sufficient to provide the necessary startup capital for growth, whether or not emerging entrepreneurial success stories will be sufficient to fill the pipeline with future risk-takers, and whether or not the recent negative trajectory of educational exchange and English proficiency can be reversed, are all critical factors that remain unknown. The future of Japan, despite the travails of 2011's triple disaster and an ongoing economic slump, can be increasingly bright if such new economy ventures are nurtured as vital elements in rebuilding Japan as a new dynamic player in the global market.



The students with Dr. Calder after Thanksgiving Dinner



Max Helzberg bowing during a traditional Japanese Tea Ceremony



The Class and Dr. Brooks viewing Tokyo City at the top of Roppongi Hill

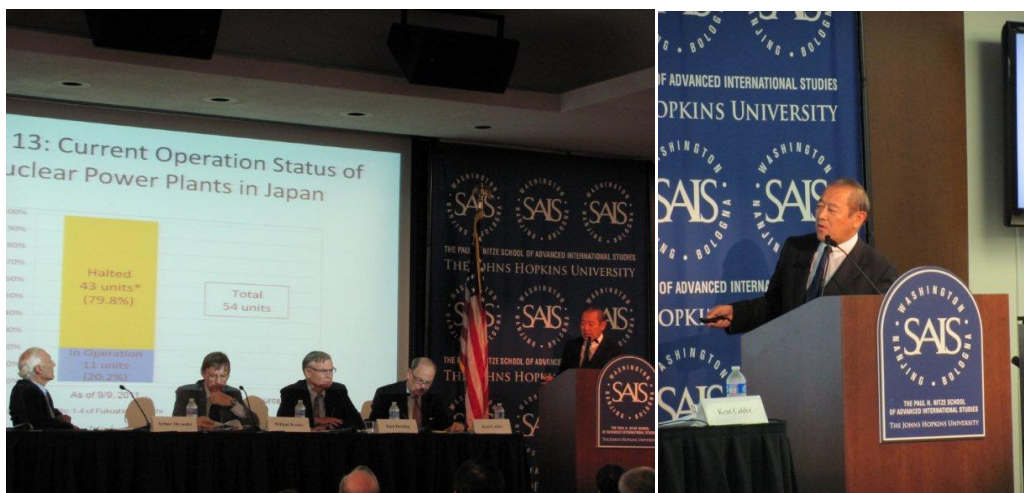


The Class with their Japanese Tea Ceremony Instructor

A YEAR OF SOLIDARITY IN U.S.-JAPAN RELATIONS: SUPPORTING JAPAN'S RECOVERY AT THE REISCHAUER CENTER

The March, 2011 earthquake and tsunami extracted a tragic toll in Japan, with over 19,000 Japanese lives lost, over \$200 billion in property destroyed, and nearly 400,000 people rendered initially homeless. Yet the tragedy also brought forth its own wave of global cooperation and compassion, which found powerful ramifications at the Reischauer Center. Throughout the 2011-2012 academic year, students, faculty, and researchers were remembering. Yet they were also striving to move on, and to transform the tragedy into a catalyst for new insights and for new ways to strengthen US-Japan relations.

The initial event of the fall term was a comprehensive assessment on September 15 of Japan's recovery, barely six months after the tragedy of March 11, featuring observations by four distinguished SAIS Japan Studies faculty, and keynoted by Japanese Ambassador to the United States Ichiro Fujisaki, as shown below. Professor Rust Deming, newly returned from his stint as U.S. State Department Director of Japan Affairs since the day before the tsunami struck, presented first-hand observations on America's empathetic policy response. Arthur Alexander assessed the economic consequences, while Bill Brooks discussed media coverage, and Kent Calder moderated.



During the remainder of the Fall Term, the Center explored further Japan's path of recovery within the broad Pacific regional context, with researchers meeting personally with key policymakers responsible for U.S.-Japan relations. Arthur Mitchell, chairman of the U.S. Chamber of Commerce in Japan's committee on Tohoku recovery presented his views. So did Marc Knapper, director of the U.S. State Department's Office of Japanese Affairs; Christopher Johnstone, who holds a parallel position at the U.S. Defense Department, and Kurt Tong, pictured below at his November 11 seminar at the Reischauer Center, who served as operational coordinator for the 2011 APEC summit in Honolulu, before moving to US Embassy Tokyo as Deputy Chief of Mission in December.



The Spring Term also featured an intense series of seminar presentations, focusing particularly on energy. Indeed, the Center played a key role in promoting the concept of US-Japan energy dialogue. Among the key speakers during Spring Term were Robert Cekuta, Principal Deputy Assistant Secretary of State for Energy and Environmental Affairs, and Phyllis Yoshida, Deputy Assistant Secretary for Asia, Europe and the Americas of Energy Department.



Apart from the seminars, the Reischauer Center co-sponsored two major international gatherings—one on either side of the Pacific. In Tokyo, during March, 2012, the Center co-sponsored a mini-conference at Keidanren Hall in Tokyo, together with Keizai Koho Center, to discuss “A New America”. This gathering had a particular focus on changes in the political configuration of Washington, D.C., at which Professor Kent Calder delivered a special address.

The Center’s second international conference was held May 7-8, 2012 in Washington, D.C., and represented the culmination of a three-year research project exploring prospects for US-Japan-Canada mini-lateral cooperation, and generously supported by the Japan Foundation’s Center for Global Partnership. Co-sponsored by the Japan Institute of International Affairs and

the Asia-Pacific Foundation of Canada, the conference considered prospects for cooperation in three areas: energy; Arctic policy; and Pacific regional architecture. It was kicked off by a special reception in honor of delegates hosted by the Canadian Embassy. The Reischauer Center published monographs on trans-Pacific energy interdependence and American Arctic policy perspectives, and collaborated with the Japanese and Canadian research institutes in drafting a report to the U.S., Japanese, and Canadian governments regarding policy-relevant findings.



Apart from the CGP project, the Reischauer Center pursued a multi-faceted research agenda that resulted in multiple publications. One important research project that emerged in early 2012 was Kent Calder's new volume on Eurasian energy geopolitics: The New Continentalism (Yale University Press, May, 2012)., which was commemorated with a special publication party. The Center also received a generous grant from the Japan Foundation to fund a new research project on "Washington's Idea Industry in Global Context", which led to several special seminars and the prospect of additional publications.



Throughout the academic year, the intellectual life of the Reischauer Center was blessed with its largest and arguably most dynamic group of Visiting Scholars in recent years. They included nine representatives of Japan's most prominent ministries and business firms, who interacted intensely with faculty and students through a year-long series of brown-bag seminars. This year's scholars, including Yasuyuki Kimura, Shin-ichiro Ichiyama, Kuniko Ashizawa, Yukifumi Takeuchi, Shoji Motooka, Taisuke Hashimoto, Junichi Chano, Daisuke Asano, and Shohei Terakawa, contributed greatly to the intellectual life of the Center, while also helping with translation of the Yearbook into Japanese, and doing special presentations in SAIS Japanese language courses supervised by Professor Hiroko Wagner. For their efforts, and for those of all our faculty, staff, and student affiliates this past year, especially those who prepared this unique Yearbook of US-Japan Relations for 2011-2012, we are deeply appreciative.

*Kent E. Calder, Director
Reischauer Center for East Asian Studies
Washington, D.C.
May 10, 2012*

REISCHAUER CENTER 2011-12 EVENTS

- May 18, 2012 **“Corporate Strategy & U.S. Politics: The Case of TPP”**
Shohei Terakawa, Visiting Fellow, Reischauer Center
- May 10, 2012 **“Two Years in Singapore-Beijing-Washington, D.C.”**
Daisuke Asano, Visiting Fellow, Reischauer Center
- May 8, 2012 **“The U.S.-Japan, and Canada: Emerging Policy Agendas”**
International Conference Co-Sponsored by Japan Institute for
International Affairs; Asia Pacific Foundation of Canada; and SAIS
Reischauer Center for East Asian Studies
- May 2, 2012 **“The United States and Japan in Global Context: 2012”**
2012 Yearbook Student Authors
- May 2, 2012 **“Korea’s Information Industry”**
Scott Snyder, Senior Fellow for Korea Studies and Director of the
Program on U.S.-Korea Policy, Council on Foreign Relations
- April 26, 2012 **“U.S.-Japan Energy Dialogue”**
Robert F. Cekuta, Principal Deputy Assistant Secretary, Bureau of Energy
Resources, U.S. Department of State
- April 24, 2012 **“Whither the National Project?: Future of Nuclear Energy and
Reprocessing in South Korea and Japan After Fukushima”**
Eunjung Lim, Ph.D. in International Relations, SAIS
- April 19, 2012 **“The New Continentatlism: Energy and Twenty-Century Eurasian
Geopolitics”**
Publication Seminar and Reception
Kent Calder, Director, Reischauer Center
- April 17, 2012 **“3/11 and World-Foreign Perception of Japanese Reality”**
Hiroki Sugita, Senior Feature Writer, Editorial Writer, Kyodo News
- April 12, 2012 **“Energy and the U.S.-Japan Relationship”**
Dr. Phyllis Yoshida, Deputy Assistant Secretary for Asia, Europe, and the
Americas, U.S. Department of Energy
- March 9, 2012 **“Japan’s March 11 Disaster: One Year Later”**
Marc Knapper, Director of Japanese Affairs, US Department of State
Rust Deming, Former Acting Director of Japanese Affairs on March 11
and SAIS Japan Studies Faculty

- March 7, 2012 **“Reflections on U.S.-Vietnam Relations”**
Frederick Brown, Faculty, SAIS Southeast Asia Studies
- February 16, 2012 **“Prospects for the U.S.-Japan Relationship”**
James Zumwalt, Deputy Assistant Secretary of State for East Asia and Pacific Affairs, U.S. Department of State
- February 15, 2012 **“Washington’s Idea Industry in Global Context”**
James McGann, Director, Think Tanks and Civil Societies Program, University of Pennsylvania
- February 9, 2012 **“Prospects for U.S.-Japan Security Relations”**
Christopher Johnstone, Director, Department of Japanese Affairs, Office of the Secretary of Defense
- February 2, 2012 **“Korea and the U.S.-Japan Relationship in the Post-Kim Jong-il Era”**
Kent Calder, Director, Reischauer Center; Bruce Klingner, Senior Research Fellow, Northeast Asia, Heritage Foundation
- January 27, 2012 **“Recovery in Tohoku: Is it likely?”**
Arthur Mitchell, Senior Counselor, White & Case LLP
- December 8, 2011 **“Japan before the Earthquake: A Look Back at 2010 by SAIS Students”**
U.S.-Japan Global Context Yearbook Review
- November 18, 2011 **“Japan and Asia-Pacific Regional Cooperation”**
Ambassador Kurt Tong, U.S. Department of State
- November 17, 2011 **“What Can Japan Do for the Stability of Pakistan?”**
Shoji Motooka, Visiting Scholar, Reischauer Center
- November 16, 2011 **“Instrument of Public Purpose: Comparative Politics of Overseas Oil Development in Japan and Korea”**
Seong-Ik Oh, Ph.D. Candidate, Japan Studies
- November 10, 2011 **“North American Shale Gas and Japan”**
Shinichiro Ichiyama, Visiting Scholar, Reischauer Center
- October 27, 2011 **“Tackling Climate Change: Japan’s View”**
Taisuke Hashimoto, Visiting Scholar, Reischauer Center
- October 24, 2011 **“China and A Dual Leadership Structure in Asia-Pacific”**
Quansheng Zhao, Director, Center for Asian Studies, American University
- October 20, 2011 **“The Rise of China and Japan’s Response: Learning Lessons from the Cold War”**

Narushige Michishita, Associate Professor, National Graduate Institute of Policy Studies

October 20, 2011

“History of Japan’s Unique Organization: Defense Facilities Administration Agency”

Yasuyuki Kimura, Visiting Scholar, Reischauer Center

October 6, 2011

“Japan & Central Asia”

S. Frederick Starr, Chairman, Central Asia-Caucasus Institute, SAIS

September 29, 2011

“The U.S., Japan, and the Persian Gulf: New Emerging Realities”

Kent Calder, Reischauer Center

September 22, 2011

“Assisting Afghanistan (and the U.S.): Japan’s Peacebuilding and New Donor Cooperation in Afghanistan”

Kuniko Ashizawa, Ph.D., Visiting Fellow, Reischauer Center

September 15, 2011

“Japan’s Recovery, 2011”

Ambassador Ichiro Fujisaki, Kent E. Calder, Rust Deming, William Brooks, and Arthur Alexander, Reischauer Center

August 31, 2011

“Nuclear Power Policy Trends and Prospects in South Korea: Comparative Perspectives with Japan”

Eunjung Lim, Ph.D. Candidate, SAIS Johns Hopkins University

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