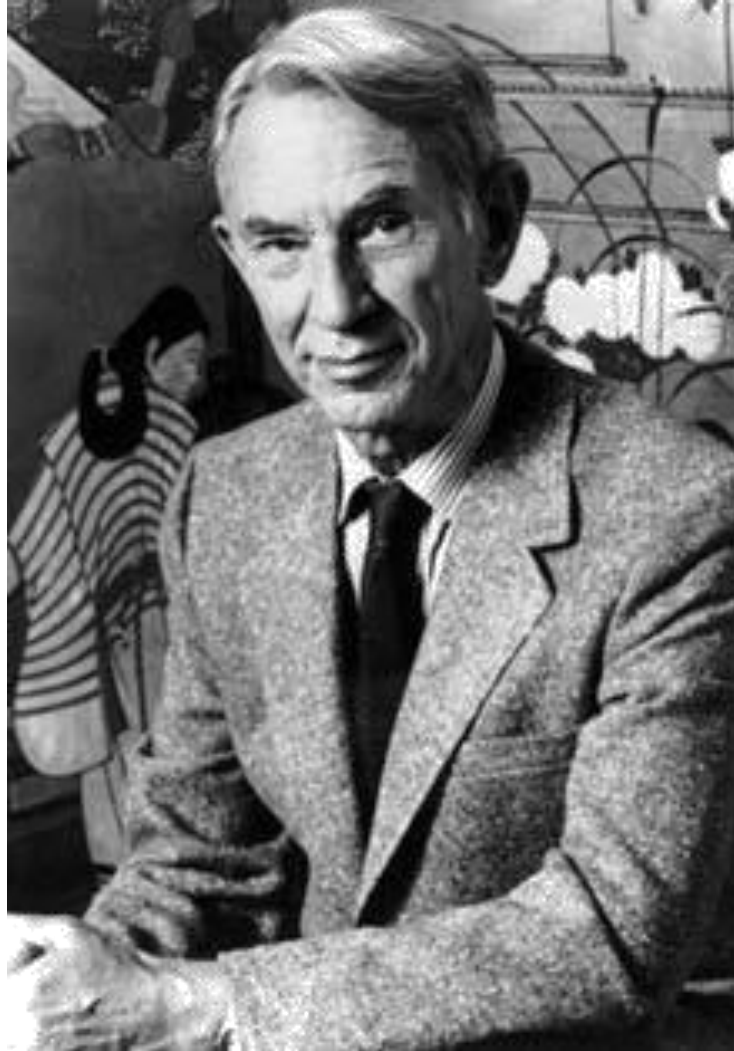


THE EDWIN O. REISCHAUER CENTER
FOR EAST ASIAN STUDIES



THE UNITED STATES AND JAPAN
IN GLOBAL CONTEXT: 2014

THE PAUL H. NITZE SCHOOL OF ADVANCED INTERNATIONAL STUDIES
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Yearbook Class of 2014

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Introduction

By William Brooks

The return of the Liberal Democratic Party to power in December 2012 ushered in a period of political stability and rapid policy change as Prime Minister Shinzo Abe Japan, back in office for the second time, introduced a sweeping reform agenda in the economic and security affairs areas. He also began a marathon diplomatic race that has taken him all over the world. How successful was he during 2013, his first year in office? What were the challenges and stumbling blocks? And what has happened so far in 2014 as the implementation stage of his policies kicked in? What has happened on the critical energy security front? How have Abe's policies affected Japan's economic presence in the world, particularly trade, aid, and investment? Has economic interest in the U.S. waxed or waned? How aptly has Abe been able to manage Alliance relations, and in what direction are security ties with the U.S. going?

This issue of the yearbook, *U.S.-Japan Relations in Global Context*, seeks to answer these questions, focusing especially on Abe's legacy-building, Japan's relations with its Asian neighbors, and major economic trends. The current yearbook consists of ten academic papers written by the SAIS students in the course with the same name, and one contribution from a visiting scholar. There are several papers that each look at Japan's relations with China from a different perspective: the territorial dispute in the East China Sea, the smoldering issue of revisionist views of Japan's wartime acts in Asia, and economic rivalry in the developing world. This year's themes have a strong bilateral flavor and cover such fascinating subjects as how the seemingly insolvable Okinawa basing issue is affecting Japanese perceptions of the Alliance and the presence of foreign troops on Japanese soil, and how Japan's escalating territorial row with China may be complicating America's rebalancing of its foreign and security policy toward Asia. A special guest paper looks at how Japan might ease security tensions with China by taking a pro-active approach that would include confidence building measures.

Other papers evaluate Japan's post-earthquake recovery by looking at the assistance of NGOs, examine trends in Japanese foreign direct investment in the United States and the activities of Japan's banking institutions in Asia and the U.S., Abe's plan to economically empower women in the labor force, and organized opposition in Japan to its joining the U.S.-led Trans-Pacific Partnership (TPP). Energy policy in post-Fukushima Japan is explored twice: first, in a paper on the latest Basic Energy Plan to achieve diversification and then in another paper on the nuclear power dilemma under Abe's decision to restart nuclear power plants.

Understanding Prime Minister Shinzo Abe

Shinzo Abe in his second time as Prime Minister of Japan is healthier, more confident, and far more popular than he was during his ill-fated first time in power (2006-2007). He has a capable cabinet and a newly introduced top-down decision-making system centered in the Kantei, the prime minister's official residence. He also has introduced a broad policy agenda covering the economy – Abenomics – foreign affairs, and national security, and has instituted a top-down

administration that includes a newly created and installed Japan-style national security council. Policy successes will ensure Abe's longevity in office.

Abe in displaying his political leadership has engaged himself in a dialogue with the Japanese public that involves him constantly appearing at events, institutions, and local communities to promote various themes and causes. He pays close attention to public opinion and has so far avoided clashes with critics in his own party, his party's coalition party, and the bureaucracy, which has been plugged back into the decision-making process following three years of exile under the Democratic Party of Japan (DPJ) rule (2009-2012). Even in his Diet replies to opposition lawmakers, he has shown his ability to dodge their critical bullets.

One major plus for the longevity of the Abe administration and the ruling Liberal Democratic Party (LDP) was his party's recovery in the July 2013 election of the Upper House of the Diet. This allows for smooth passage of legislation, unlike the past when a divided Diet created a legislative nightmare for the party in power with the opposition camp being able to block bills sent to the Upper House for passage.

Abe is likely to see smooth sailing, unless he trips himself up, until 2016, when the next national elections are scheduled. The current period of LDP dominance already is being called the Golden Three Years. One reason for the rosy outlook is that the opposition in the Diet is fragmented and in a fluid state as small parties split and then re-form into new groups. In such an age of political diffusion, it seems unlikely that the many small parties could suddenly come together as a unified political force soon. The former ruling party, the DPJ, or what is left of it after its 2012 election defeat, is also divided left and right of center, with the latter supportive of some of Abe's security proposals, such as collective self-defense, and the former opposed. In general, the opposition camp, with the exception of certain progressive parties, has little to offer in policy choices to the electorate that are much different than the LDP's.

Abe's main pillar of political strength is his economic agenda, known as Abenomics, which is based on "three arrows" of policy measures in the monetary, fiscal, and structural reform areas. The Prime Minister, in contrast to his predecessor and former mentor, Junichiro Koizumi, has taken a soft approach to selling his structural reform agenda for sustainable economic recovery. Whereas Koizumi as prime minister (2001-2005) was willing to take on his own party, even expelling rebels who opposed his pet project of postal reform, Abe has avoided conflict with his own party. This has a downside to it, as seen in his handling of the Trans-Pacific Partnership (TPP) membership issue. Koizumi had "no sacred cows" in his reform agenda, but Abe has allowed the party to set the pace. The LDP is committed to protecting the agricultural sector during TPP negotiations, including "five sacred products" that include rice and pork, and delay Japan's entry into TPP despite intensive negotiations with the U.S. Abe, to his credit, has included agricultural reform in his long-range growth strategy that would theoretically allow the farm sector to strengthen itself in preparation for TPP-related removal of tariffs and other barriers to agricultural imports.

Abe has also avoided telling the public that his reforms may cause "pain", in sharp contrast to Koizumi. The result is a vagueness or lack of specificity in some of his planned reforms,

including both the economic and security agendas, in order to soft-sell their merits to the public and please everybody. This could come back to haunt him politically if the reforms do not have the results he promised. Indeed, the statistics are not promising. Exports to the U.S. and Asia are down as mid-2014, and if the trend continues, it could become a drag on the economy.

The public could turn against Abe, if the economy falters. For example, while the Abe Cabinet has been able to maintain its average 60% support rate in monthly opinion polls by major dailies (he is down already to 49% in one June poll), most polls show the public skeptical or negative about key elements in Abe's policy agenda. The *Asahi Shimbun* poll for April 2014, for example, found only 27% of the public in favor of reinterpreting the Constitution to allow Japan to use the right of collective self-defense. While there is majority support for joining TPP in most polls, 52% supporting it in the Asahi survey, the public remains wary of restarting nuclear power plants closed since the Fukushima accident in 2011, with 46% opposed in the Asahi poll. Moreover, 51% were opposed to Japan exporting nuclear power plants to other countries, a key component of Abe's export growth strategy, as this yearbook will examine.

And despite Abe's popularity, polls show public concerns about the current and future course of the economy remain strong. A *Yomiuri Shimbun* poll for May 2014, for example, gave the Abe Cabinet a 60% support rate, but only 16% of the supporters felt that "something can be expected of its policy measures". Moreover, although 55% approved of Abe's economic policy, a whopping 77% of the public said they did not have a tangible sense of an economic turnaround under his cabinet.

Nationalist Image

Other than Abenomics, Abe's policy planks include a commitment to "break away from the postwar regime," which has been taken as an attempt to introduce a nationalistic agenda centered on constitutional reform. Abe also came into office with reputation of being a nationalist and a patriot. The Western press immediately picked up the theme of his being a "right-leaning, hawkish, ultra-conservative with revisionist historical views." For the first year in office, Abe was a safe-driver in terms of following his nationalist line, but he did trip up by appointing "friends" to some key posts whose outspoken words and actions were enormously controversial.

Then, Abe himself made a move that even brought criticism from the United States. Suddenly in late December 2013, the Prime Minister visited Yasukuni Shrine, where Class-A war criminals are enshrined, violating his own self-restriction imposed during his first time in office. He probably anticipated China's and South Korea's angry denunciations, but he may have miscalculated the reaction of Japan's ally the U.S., which broke precedent on remaining silent on such visits and let its ambassador to Japan release a statement of "disappointment" with Abe.

Yasukuni Visit Well Timed

The Yasukuni visit occurred on the anniversary of Prime Minister Abe's first year in office. He had oft-stated his regret that he was never able to pay homage at the shrine during his first time in office (2006-2007). Abe reportedly told his aides that he intended to visit Yasukuni before the end of 2013, and he showed them that he had kept his word.

He chose his time wisely, December 26, just when the Diet was out of session and the country was about to go on extended New Year's holiday. He gambled, correctly, that a nation on vacation was not likely to pay as much attention. Aside from editorial protests in the media, the Japanese public indeed continued to pay more attention to economic issues and even gave the Abe Cabinet a bump in popularity in polls in January – even though a majority did not approve Abe's going to Yasukuni.

Abe may also have calculated that since Japan's relations with China and South Korea before the Yasukuni visit were so icy, his going there would only raise the protest decibel a level or two. Indeed, even without the Shrine visit, there was little or no chance of summit meetings with either country any time soon, no matter how many diplomatic approaches the Abe administration might make.

Nor was there any incentive for Tokyo to accede to Beijing and Seoul's prerequisite demands – amounting to unacceptable concessions on the historical or territorial issues – to achieve a summit meeting. In mid-2014, that situation has not changed. Abe's tough stance also benefited from furious anti-China and anti-Korea campaigns being waged in the popular media, including daily front-page bashing articles in the well-read sports dailies, and similar anti-Japan campaigns going on in China and South Korea. The vitriolic atmosphere has helped shape sharply negative opinions in Japan toward the two countries – as seen even in government and private opinion polls.

But Abe misread somehow the signals from the United States from before his Yasukuni visit that going there would be a mistake. When Secretary of State John Kerry and Secretary of Defense Chuck Hagel visited Japan in October 2013 for a 2+2 U.S.-Japan Security Consultative Committee meeting that further strengthened the U.S.-Japan alliance, they went to Chidorigafuchi Cemetery, a private facility commemorating Japan's war dead, to lay a wreath, the first time for high-level U.S. officials to go there. Yasukuni Shrine is very close to this spot. This was a clear message to Abe but he did not take it into serious consideration in making up his mind to visit Yasukuni. The intention of the two cabinet officials was to dissuade Japan from becoming a source of tensions or instability in the region by irritating China and South Korea.

No Comfort on the Comfort-Women Issue?

In addition to the Yasukuni visit, Abe's second miscalculation was to reopen the historical issue of military comfort women in World War II, taking an ambivalent approach. First, Abe announced in March 2014 that his administration would not revise the "Kono Statement," a historic apology for the military's use of war-time "comfort-women" or sex slaves. Japan issued the statement of apology in 1993, admitting for the first time the army's role in the forced recruitment of Asian women to serve as prostitutes. In saying the apology would not be withdrawn, Abe spoke of his pain at the "immeasurable suffering" endured by the women. Up to 200,000 women, of whom many were Koreans, were used as military sex slaves. "We must be humble regarding history... it should not be politicized or made into a diplomatic issue," he said.

But then Chief Cabinet Secretary Yoshihide Suga announced about the same time that the government would review the process that led to the issuance of the Kono Statement. This was taken as contradicting Abe's positive statement by China and South Korea, which saw it as an attempt to rewrite history. Diet testimony by a former senior official involved in the Kono Statement process had raised doubts about the integrity of the investigative process, and Suga said the Abe cabinet wanted to establish the exact circumstances in which it was made.

In a subsequent review of the Kono Statement by five experts -- including one historian who has long denied the system was coercive -- the results of which were reported to the Diet on June 20, the integrity of the original document was undermined. The panel found that coordination with Korean officials on the wording occurred during the research stage, and that the statement released as Japan's independent document was actually negotiated with the ROK up to the last moment. The report also in effect supports the assertion by Japanese critics of the Kono Statement that there was no coercion of women by the military to become sex slaves. The result has been cheers from conservative forces in Japan, who want to retract the apology, and angry official reactions from South Korea and China. The Kono Statement no longer can be pointed to as Japan's landmark acknowledgement of responsibility for a brutal system and apology for it.

The U.S. government tried to put its best face forward by focusing on Japan's decision not to revise the Kono Statement. "We take note of the chief cabinet secretary's statement...that the position of the Abe government is to uphold the Kono statement," a Department of State spokeswoman said in a daily press briefing. She withheld direct comment on the outcome of Japan's reexamination of the Kono statement. She also said, "Our view is that the apologies extended by the previous prime minister and former Chief Cabinet Secretary Kono marked an important chapter in Japan, improving relations with its neighbors." "We've consistently encouraged Japan to approach this and other issues arising from the past in a manner that is conducive to building stronger relations with its neighbors, and that remains our focus," she added.

Some observers argue that if the Abe administration really had wanted to put the comfort women issue to rest, the act of reviewing the Kono Statement, a favorite target of historical deniers, only threw more gasoline on the fire with Asian neighbors that had been raging. The only recourse now might be to issue a new statement of apology that conceivably could be based on the ample evidence since 1993 of the coercive nature of the system. From the numerous academic studies and newly found documents unearthed since the Kono Statement was issued, the rest of the world has acknowledged that such a system indeed existed.

Damage Out of Control?

Driven by the history and territorial disputes, Japan's relations with China and South Korea have hit rock bottom since Abe became Prime Minister. The extent of the damage done to bilateral ties can be measured in part by the dramatic changes in attitudes of the Japanese public toward those two countries and vice versa. In a joint opinion survey between the Japanese daily *Yomiuri* and the South Korean daily *Hanguk Ilbo* released on June 7, 2014, a total of 87% of the Japanese public said that Japan-South Korean ties were in "bad shape." This was up from 71% in last year's survey and the worst level since 1995. In contrast, 86% of South Koreans thought the relationship was in bad shape, up from 78% last year. This was the third highest ever in the

annual survey. An alarming 73% of Japanese said that they “can’t trust” South Korea, up sharply from 55% last year, while 83% of Koreans said they had no trust in Japan, up from 80% last year.

Similarly, the latest annual poll by Genron NPO and China Daily carried in mid-2013 in both countries found that attitudes in Japan and China toward each other’s country had worsened even more, compared to the previous year. In the joint poll, 90% of Japanese had “unfavorable impressions” of China, and 92.8% of Chinese had the same feelings toward Japan. Both findings were the worst in nine surveys.

The biggest reason for bad feelings toward China for a majority of Japanese respondents was the Senkaku Islands, followed by Chinese “bullying” of Japan on the history issue. For 77.6% of Chinese, not surprisingly, the Senkaku issue was the main reason cited for bad feelings, claiming that Japan had started the trouble. Moreover, 63.8% of Chinese cited Japan’s lack of a proper apology for the past.

The history issue between Japan and China has seemingly become hopelessly entangled in the territorial issue. Adding nationalistic feelings on both sides has made a dangerous mix that could explode at any time. So far, there has been no concerted effort on either side to defuse the tense situation. Xueting Zhang, in her thoughtful paper on the history issue, sees no easy solutions, though she thinks the U.S. at some point could play an ameliorating role.

Her paper examines the past and present aspects of the history issue between Japan and China from each side’s perspective, including the merits and demerits of their positions. The history card has been used frequently by China – too often in Japan’s view – over the postwar decades, but now, as Japan moves to the right and the territorial dispute continues to escalate, it no longer works.

The historical lightning rod is again Yasukuni Shrine, which Prime Minister Abe visited in December 2013. Xueting gives special attention to this aspect of the history issue. As long as Japanese leaders pay homage at Yasukuni, where Class-A war criminals are enshrined, there seems to be no way for Japan and China to back away from the edge of outright conflict, let alone repair their seriously damaged relations.

East China Sea Dispute

During the 2012 election campaign, LDP President Shinzo Abe attacked the DPJ for being weak-kneed in its diplomacy toward China, as seen in the Kan and then Noda government’s handling of two crises over the Japan-administered Senkaku Islands, which China claims. Abe accused the DPJ government of sending a signal of such weakness to China, which that country immediately took advantage of. He promised to defend the Senkakus by taking a strong stand on China, and even to station public officials on the islands. He never made good on the latter promise, but there is no doubt that the stance of the Abe administration on the territorial issue has become much harder than any of its predecessors.

The current standoff between China and Japan involving not only daily encounters between Japanese coast guard vessels and Chinese surveillance ships in waters near the isles, but also

since China announced in November 2013 a new Air Defense Identification Zone ADIZ that includes the Senkakus, Japanese and Chinese military jets have come within 30 meters of each other over international waters, with each accusing the other of provocation.

The U.S. has treated China's announcement of an ADIZ over the East China Sea as "a provocative act and a serious step in the wrong direction" (State Department testimony to the Congress in February 2014). Since the U.S. has recognized that the Senkakus being under the administration of Japan and thus subject to Article 5 of the U.S.-Japan Security Treaty, it rejects any unilateral attempts by China to change the status quo and raise tensions. The United States neither recognizes nor accepts China's declared ADIZ and informed China it has no intention of changing how it conducts operations in the region.

U.S. policy toward China, though, is to avoid conflict, diplomatic or otherwise, with that country. Under the rebalancing to Asia policy of the Obama administration, now over five years in place, the U.S. takes an approach of engaging China bilaterally and multilaterally, promoting mutual understanding, and further develop cooperative bilateral ties while avoiding "drifting into a strategic rivalry" (State Department statement in May 2014).

Japan's relations with China, as Benedict Blomeyer shows in his well-argued paper, have been thrown into a seemingly never-ending crisis mode due to the territorial dispute that has widened to include a broad swath of the East China Sea. His paper examines the history and timing of the crisis, focusing particularly on the clashes in 2010, provoked by a Chinese trawler's collision with two Japan Coast Guard ships, and 2012, when the Japanese government purchased three of the Senkaku Islands. He also presents several scenarios on how the conflict might play out. He concludes that a crisis situation has been building for years, becoming more complicated and aggravated, with no plan or intention to resolve it. He sees the U.S. as the only player that might be able to convince China to ratchet down tensions with Japan, premised on a strategy that convinces Beijing that the U.S. deterrence capabilities in the region are in it for the long run.

Regarding the East China Sea, the U.S. indeed long before the ADIZ issue had become increasingly concerned about the serious downturn in Japan-China relations and in particular about the possibility of an incident occurring between the two military forces in waters or air space near the Senkakus. Washington has urged both parties to find a diplomatic solution that eases tensions between Japan and China and ultimately to reshift the territorial issue. The U.S. does not want to be dragged into a military conflict in the East China Sea. Ultimately, the idea of China, the U.S. and Japan setting a code of conduct to avoid maritime incidents seems to be the answer. The Japanese Self-Defense Forces (SDF) through joint-training with U.S. forces and by building up an amphibious assault capability like the U.S. marine corps already are preparing for such a contingency to defend or take back the Senkakus or other remote islands.

Confidence-Building Proposal for Improving Japan's Relations with China

With Japan-China relations seemingly headed toward almost inevitable conflict in the waters or air space near the Senkakus, it is refreshing to read a paper that sees a way out of the current dilemma. Reischauer Center visiting scholar Naoya Araki, making a guest appearance in this year's issue, suggests Japan adopt a proactive approach to ease bilateral tensions as part of a long-term effort to build a regional architecture. Here in his own words is part of his proposal:

“As short-term measures, military-military cooperation between Japan and China should proceed in the three areas: Counter-Piracy, Humanitarian Assistance/Disaster Relief, and Maritime Search and Rescue. The initiative should be promoted through multilateral frameworks involving the US. These short-term measures also aim to help reduce miscommunications between Japan and China, presumably allowing the two countries to establish a more lasting and higher-level security dialogue, as a medium-term step.

“Such a security dialogue would enable the two countries to deepen their mutual understating of each other’s military strategy, enable the formulation of a code of maritime or air rules, decrease chances of military clashes between the two armed forces, and encourage further cooperation in non-traditional security fields. The overall objective of these policy suggestions is to set up a system or arrangement of security management. Enhanced Japan-China security management would remove some of the deficiencies of the current security network, particularly the lack of strategic communications between the two nations. It would work toward effectively alleviating the current regional insecurity spiral.”

The Senkakus and the Collective Self-Defense Debate

Despite Araki’s guarded optimism, Japan continues to prepare for worst case scenarios. During peacetime, intrusions into Japanese territorial waters by foreign government ships or landings by those crews on Japanese territory can be handled by the Japan Coast Guard, backed up by the SDF. The problem is the so-called “gray-zone contingency” that involves the landing and occupation of the Senkakus by foreign forces posing as fishermen. Here, Article 5 would not apply, and the SDF would have to take countermeasures on its own. Japan is not ready for such a contingency.

Because deployment for self-defense purposes is preconditioned on responding to a military attack by an enemy, the SDF is permitted to use military force to retaliate. But force cannot be used against fishermen who have landed on an island unless their action is construed as an organized attack by a foreign force. Cases in which the SDF is deployed under police powers involve situations that have escalated beyond the abilities of the police or Japan Coast Guard to control. Since the restrictions on such use of force are much greater in comparison to deployment for defense purposes, the Abe administration has included this gray-zone case into the current debate over removing the self-imposed ban on the use of the right of collective self-defense.

Abe introduced this case to an advisory panel on reviewing the current government interpretation of the Constitution banning collective self-defense during a meeting in February. He also raised another case of foreign submarines intruding in Japanese territorial waters while submerged, describing those examples as gray zone when considering how to respond on the basis of existing legislation. "The need for some response has been recognized," Abe said, adding, "This panel also needs to weigh whether sufficient consideration has been given in terms of loopholes in the current legal framework that need to be plugged." The LDP, too, has called for revising laws to relax the conditions for issuing orders for defense deployment or to expand the range in which weapons can be used when the SDF is deployed to enforce police powers.

Some former Japan Coast Guard officials, though, are skeptical about the likelihood of such a gray-zone occurrence. They argue that the extensive patrols around the Senkakus by the coast guard and Maritime SDF surveillance aircraft would likely prevent unidentified armed elements from landing on the Senkakus under the cover of darkness. Under current laws, the coast guard is allowed to fire warning shots against ships that do not heed orders to stop. If that does not prevent a landing on the islands, there is still the option of deploying an MSDF ship for maritime patrol purposes. Still, there may be a legal problem since to meet such a contingency, procedural matters might take time because an SDF deployment order for defense or police purposes requires Cabinet approval. For that reason, some members of Abe's advisory panel say a certain degree of authority regarding the use of weapons should be given to those being deployed. That they say would allow the SDF to take action in emergency situations without waiting for Cabinet approval or decisions by the defense minister. Whether the current legal framework, which only allows armed force in cases of justifiable self-defense or during emergency evacuation, will be changed was still being debated in mid-2014.

On May 15, 2014, Prime Minister Abe's Advisory Panel on the Reconstruction of the Legal Basis for Security issued a report recommending that Japan should exercise of the right of collective self-defense. Although the U.S. has backed such a major shift in Japan's postwar defense posture, the issue has divided the political spectrum with Abe and the conservative camp pushing for an early cabinet resolution to make the change, followed by legislation in the fall, and liberals raising alarms about Japan future course.

The liberal *Mainichi Shimbun*, for example, has maintained that the exercise of the right of collective self-defense constitutes a fundamental change in the interpretation of Article 9 of the Constitution, so this should not be done through a cabinet decision to change the interpretation. Its editorial on May 3 asserted that "the exercise of this right will not be possible without a constitutional amendment." It called the attempt to allow the exercise of this right an "unwarranted destruction of the Constitution." Under current interpretation, Article 9 allows the "minimum required use of force." But that term is ambiguous, so a distinction was made between the right of individual self-defense, which Japan now has, and right of collective self-defense, which it does not. The *Mainichi* argued that a theoretical reversal is now being proposed to allow the exercise of both the individual and collective defense rights using the term "minimum required" as the restricting factor. The daily found this to be inconsistent with the existing interpretation.

Just how far Japan would go if it opted for collective self-defense also has been debated in the conservative base, with some like LDP Secretary General Ishiba calling for Japan to join a UN security force. In its report, Abe's advisory panel also proposed that Japan take part in such collective security, claiming there were no constitutional restrictions against it. Abe, however, disagreed, saying at a news conference, "I do not believe the Constitution allows for all such activities." He added that Japan would not take part in fighting abroad, using such previous examples as the Persian Gulf War and the war against Iraq.

On May 28, the House of Representatives Budget Committee held a debate for the first time since Prime Minister Abe announced a review of the interpretation of the Constitution so that Japan can exercise its right to collective self-defense. During the session, Abe took a broad

stance, not dwelling on the 15 situations his government had originally presented the ruling parties that covered each and every situation. The vagueness of his answers shows the difficulty for even the conservative camp in specifying in concrete terms when collective self-defense would actually be used.

In the debate, Abe made the following points:

- Japan would establish a more seamless defense to enhance deterrent power to protect lives and assets of the public;
- The cabinet would make case-by-case decisions comprehensively and carefully on whether to engage in collective self-defense;
- The government would clarify standards for international contributions by the Self-Defense Forces involving the direct use of armed force;
- Protecting U.S. vessels does not fall into the category of individual self-defense; and
- Ships not carrying Japanese nationals and commercial ships will become subject to Japan's protection.

At mid-year, the debate over collective self-defense had narrowed down to a draft cabinet decision, the contents of which had been challenged by the coalition partner, the New Komeito. That party was demanding changes, but it basically had been against the use of the right of collective self-defense from the start, arguing that most of the scenarios the government had presented could be addressed under current statutes. The question at this writing was whether it would compromise and allow the cabinet decision to be made in early July, as Abe wants. That would pave the way for legislation to the Diet in the fall.

The Abe government's draft cabinet decision (as of mid-June) stipulates that Japan is allowed to exercise the right to self-defense when the Japanese people's lives and liberty, as well as their right to pursue happiness, are at the risk of being totally undermined by an armed attack on another country. This new interpretation, proposed by LDP Vice President Masahiko Komura, would make possible the exercise of the collective self-defense right even under the war-renouncing constitutional clause of Article 9. The government and the LDP believe that the new interpretation would allow the country to deal with eight possible cases in which the Japanese Self-Defense Forces need to assist other countries, such as defending a U.S. warship carrying Japanese nationals against attack by an enemy and sweeping mines in international sea lanes. It is unclear how much of this tangled debate will filter in or out of the final draft cabinet decision.

What is clear, though, is that public opinion over the last year has turned cautious toward reinterpreting the Constitution at the cabinet level to allow Japan to use the right of collective self-defense. Polls issued by Kyodo and the Asahi Shimbun in mid-June both show that a majority of the Japanese public are opposed to Abe's reinterpretation plan.

Obama Visit to Japan

President Barack Obama's visit to Japan in April 2014 not only was important because of his articulation of his administration's strategic commitments to the U.S.-Japan alliance and engagement with the Asian region, it also delivered a meaningful message to Asian countries about the continuing close partnership of the two nations and their concern about China's maritime expansion in the East and South China seas.

Obama came out in support of Prime Minister Abe's new policies of "Proactive Pacifism," which include allowing the use of the right of collective self-defense and the newly established National Security Council. Obama's support is seen as countering the claims of some Asian nations that such policies are based on Abe's rightist shift. Obama in essence has affirmed that Abe's policies almost perfectly match the U.S. rebalancing strategy toward Asia

Obama's clear statement that the U.S. would stand by Japan should military clashes take place around the Senkaku Islands was welcomed in Tokyo. The President pledged at a joint news conference and again in the joint statement that the U.S. would protect the disputed islands on the basis of the Security Treaty, if they are threatened. The joint statement issued April 25 includes such phrases as: "U.S. commitments under the security pact extend to all territories under Japan's administration, including the Senkakus." And, also, "the U.S. opposes any unilateral move to undermine Japan's administration of the Senkakus." The U.S. policy had not changed, but this was the first time for a U.S. president to openly refer to the issue and take a clear stance.

Although Obama did not get from Abe a final decision on Japan's signing the Trans-Pacific Partnership (TPP) agreement, which is still being negotiated as of mid-2014, the visit is seen as adding momentum toward reaching a successful conclusion soon. A U.S.-Japan agreement on TPP, tantamount to a bilateral free-trade agreement, is expected to help shape the negotiations of other member nations.

Marathon talks by top trade officials continued throughout the Obama visit, with speculation that a dramatic breakthrough would occur. When negotiations stalled, the U.S. media treated it as a failure for Obama, undermining his diplomatic efforts. Though the two governments announced they had found "common ground" for finalizing the trade deal there remains a wide gap, mostly over agricultural goods and the auto markets in both countries. At mid-year, it is not clear whether Abe in the end will make a political decision to end the stalemate in the negotiations through a meaningful compromise.

Edward Rivera's well-argued paper provides deep insights not only into the TPP process but also how forces on Japan have opposed membership. Japan has been a negotiating member of the Trans-Pacific Partnership for over a year now and the TPP has existed conceptually since 2002. Among Japan's many economic problems is a broken medical industry and increasingly unsustainable health care system. Medical reform has been tied into the TPP agenda as can be seen by the way the media addresses it and the lobbying that has been done on the part of JMA.

Rivera argues that while Abe has stated that TPP is a central pillar of his economic policy, the reality is that it is not, nor should it be, a central pillar of economic reform. Abenomics is the real answer for medical reform and the reform that TPP could bring about would not be enough. TPP, however, is a better answer to bilateral alliance strengthening, especially during the current geopolitical climate, and much needed expansion of FTA coverage on the part of Japan. Both nations should endeavor to make it clear to their constituencies what is within the actual scope of the TPP. In the U.S. this may mean accepting that the automobile industry has a weak claim, while in Japan, it means separating health care from agricultural interests. Concessions will be important in key areas such as agriculture on both sides and negotiations currently look hopeful.

Given that the U.S. is Japan's largest participating partner in the TPP and that Japan is the largest U.S. trading partner not covered by an FTA participating, reaching an agreement is imperative.

Strategic Diplomacy

Prime Minister Abe's diplomacy has been extraordinary, not only in the articulation of a coherent international strategy but also in terms of Abe's foreign travel. He always seems to be on the go, visiting different parts of the world and sending his foreign minister to other parts. During the Golden Week holidays in early May, Abe visited six European countries where he acted as "Japan's salesman" to promote Japanese business, including the interests of Japan's defense industry which is gearing up to export some of its products to Europe now that the Abe administration has eased a long-standing ban.

Since he took office in December 2012, Prime Minister Abe has visited 40 countries as of late June 2014. Prime Minister Abe's diplomatic strategy has taken him abroad almost every month, though he has yet to visit either China or South Korea, owing to heightened tensions between Japan and those countries. On Abe's itinerary for early July 2014 are Australia, New Zealand, Papua New Guinea, and for later that month, Central and South American countries such as Mexico and Brazil. Once those visits are made, Abe will have traveled to all five continents since becoming prime minister for the second time in December 2012.

In Australia, Abe will meet once again with Prime Minister Tony Abbott, who paid a visit to Japan in April. During the upcoming summit, the two leaders are expected to stress bilateral cooperation toward the stability of the Asia-Pacific region and officially sign the Japan-Australia Economic Partnership Agreement (JAEPA). Abe's trip to Central and South America will be the first time for him to visit the region since he went to Argentina in September 2013 to attend the International Olympic Committee session in which Tokyo was selected to host the 2020 Summer Olympics. He did not, however, take part in summit talks at that time. Abe is intent on putting his "top sales" skills to work to bolster Japanese investment in and exports of infrastructure to the Latin America region. In 1959, then Prime Minister Nobusuke Kishi -- Abe's grandfather -- became the first Japanese prime minister to visit the region and establish friendly ties. Because of this history, Abe reportedly is "emotionally invested" in the region.

Structural Reforms

The Abe administration has already been trumpeting its achievements with Abenomics, as well as laying out the challenges that the economy continues to face. First, in ridding the economy from deflation and revitalizing it, under the "three arrows", real GDP as of June 2014 had grown for six consecutive quarters, business confidence had improved widely, and capital investment continued to grow. In addition, employment was expected to improve steadily, and commodity prices no longer indicated deflation.

To promote economic revitalization, the Abe administration wants to create the "most business-friendly environment in the world" through corporate tax reforms, now about the highest in the industrial world. Such measures would stimulate private sector investments and promote direct foreign investment in Japan, which have been lagging far behind the levels in other advanced economies. In addition, it is planning regulatory reforms that would be headed by the creation of "national strategic special zones," which would be at the core of a new growth strategy. Abe

hopes to use such zones to strengthen Japan's competitiveness as a business hub, the goal being to make Japan the third easiest OECD country to do business in by 2020, up from 15th at present, as well as to double foreign direct investment into Japan to 35 trillion yen by the same date.

Under Abenomics, there is also an export strategy that aims to maximize Japan's foreign sales of nuclear power plants, bullet trains, and even weaponry, as mentioned above. The U.S. and EU hope to benefit from the easing of the traditional ban on weapons exports, in particular new weapons technology jointly developed and produced.

Reforms in the labor market are also key elements in Abe's third arrow program. Over the mid to long-term, the government is putting in place measures to empower women and to give full play to the abilities of capable people by changing labor practices for both men and women, promotion of advancing women to executive and managerial positions, and considering ways to make taxation and social security systems neutral in relation to the way women work.

As seen in Erin Weeks fine paper, the economic empowerment of women may potentially be the most effective part of the Abe's reform efforts. While Japan is the world's third largest economy, a democracy with universal suffrage for both sexes constitutionally guaranteed, it is not a country with a reputation for equality in the work place. The economic gap is obvious by international standards, despite the fact that women's enrollment rates in tertiary education are almost as high as men's.

One of Prime Minister Shinzo Abe's key initiatives to reboot the Japanese economy is to implement 'womenomics', defined as the economic benefit created by women's increased participation in the labor force. This suggests, and statistics show, that the female labor participation rate in Japan is low. Over the past year, Abe has instituted or set the wheels in motion on a number of policy reforms designed to achieve his goal. Either by design or coincidence, Abe's goal to keep women in the labor force has achieved a momentum on the issue unseen by most other Japanese administrations.

Abe's actions, matched by measures being undertaken in the business sector, are positive—however, they also have a number of implications for the future based upon Japan's past history with women's gender equality. Weeks' paper provides a background on the gender equality movement in Japan along with where women stand in terms of equality today. It is packed with information and analyses on both Abe's and the private sectors current efforts, and it well covers the United States' interest in the issue, as well.

In another paper on the impact of Abenomics, Aijia Liu examines the impact of the policy framework of Abenomics on the overseas expansion of Japanese commercial banks, focusing on the relative importance of emerging markets – particularly Southeast Asia -- over mature markets – especially the United States -- to Japan's future as a key player in international financial markets. She concludes that America remains the market of choice. While the profitability of emerging markets motivates Japanese banks to expand to Southeast Asia, there are nevertheless substantial economic and political risks. On the other hand, mature markets like the U.S. guarantee both stability and steady profitability, as well as making the banks more internationally competitive.

Economic Rivalry in Africa?

Africa may be finally taking off economically, and as a result becoming a target for international trade, aid, and investment opportunities. Hanning Bi, in her perceptive paper on the economic presence of Japan and China on the African continent, documents the growing serious interest of those two countries to help speed the development process. But she also shows that contrary to the conventional wisdom that Japan and China are competing with each other for markets and resources in Africa, the reality is that Africa's rapidly growing economies offer plenty of room to accommodate the business and economic cooperation advancements of both countries. In fact, as Hanning argues, Africa may present opportunities for Japan and China to cooperate in economic development projects and the like if bilateral ties were smoother and the political will is there.

Japan's Global Economic Presence

International trade has long been the core of Japan's growth strategy. But due to economic structural change, similar to what has happened in most industrial countries, trade has been gradually losing its importance to the Japanese economy. This can be seen in part by looking at the statistics.

In fiscal 2013 (the year ending in March 2014), Japan's current account surplus hit a record low of ¥789.9 billion. This was the first time it had fallen below ¥1 trillion since comparable data became available in fiscal 1985, according to government data. The surplus plunged 81.3 percent from the previous year, the Finance Ministry reported. The surplus fell for the third straight year as imports of fuel such as liquefied natural gas for thermal power generation surged due to the suspension of nuclear power plants.

The drop in the surplus also reflected rises in the import bill due to the yen's depreciation. Still, Japan logged a current account surplus thanks to growth in the primary income account surplus, including cross-border dividend and interest income. But in goods trade, Japan posted a trade deficit of ¥10.86 trillion, the largest since fiscal 1996, the earliest year for which comparable data are available, and more than double the previous year's deficit of ¥5.25 trillion.

Exports increased 12.2 percent to ¥69.8 trillion, led by vehicles. Imports rose by a steep 19.6 percent to ¥80.67 trillion, due partly to last-minute demand ahead of the consumption tax increase to 8 percent on April 1. In services trade, Japan suffered a deficit of ¥3.58 trillion, ¥608.5 billion smaller than the previous year thanks to an increase of visitors to Japan and a growth in royalty income from intellectual property rights. In March alone, Japan's current account surplus fell 90.9 percent from a year before to ¥116.4 billion, the ministry said.

On the other hand, foreign direct investment (FDI) has been gaining more prominence in supporting economic growth. Structural changes have also affected the economic relationship between Japan and the United States. In the past, the US used to be Japan's number one trading partner, but today, China has taken that position, and the US instead has become Japan's largest FDI destination. Xuan Wang's paper examines past and current causes for the Japanese FDI boom in the US by analyzing the contributing factors present in the economies of the two countries. While FDI has made a lasting impact on the economies of Japan and the US, there are significant challenges in each market yet to overcome, which Wang's paper also discusses. For

American businesses, the lag in US FDI growth in Japan has been disappointing. His paper takes a detailed look at the reasons for the long-term gap, which continues to be a sore spot for US trade negotiators even today.

In a cogently-argued paper that complements Wang's on FDI, Aijia Liu focuses on the influence of Abenomics on Japan's commercial banks by analyzing the "first arrow", the effect of the Bank of Japan's qualitative and quantitative monetary easing (QQME). BOJ's monetary policy has brought about a lower interest rate and a weakening yen. Abenomics' "second arrow" is a massive infusion of fiscal stimulus into the economy, which has helped hard-hit small and medium enterprises (SMEs) recover their momentum. But what about the banks? While Abenomics has nurtured their already strong tendency to expand to emerging markets such as those in Southeast Asia, Liu argues that stable, low-risk mature markets, in particular the United States, should never be overlooked for it is in the U.S. where Japanese commercial banks continue to tackle their most persistent problem: profitability.

Energy Strategy

Japan's energy dilemma deserves extensive treatment and we feature two comprehensive papers on Japan's energy policy and future options in the wake of the Fukushima nuclear accident three years ago. In the first, Christopher Crachiola examines the national tug-of-war over the future of Japan's energy supply, culminating in the Basic Energy Plan, unveiled in April 2014. The debate over Japan's energy future in 2013-2014 was volatile and divisive. As in February 2014, nearly 3 years after the DPJ government's dramatic decision to eliminate nuclear power generation, the LDP government, now under Prime Minister Abe, defied negative public views about nuclear power to include it in a pragmatic policy package designed to address Japan's energy demands.

The Basic Energy Plan was formally adopted by the Abe Cabinet in April. In addition to examining Abe's bold decision, Crachiola's paper takes a long-term look on Japan's energy security needs. The question facing the Abe administration and the energy bureaucracy is how to bring order from the current chaotic complex and execute an energy plan that can be deemed truly responsible for a long-term, energy-secure Japan. The challenges Japan faces today go far beyond the issue of nuclear energy, for no matter what options or scenarios are devised, the world is changing rapidly and Japan must balance economics, alternative energy sources, politics, and public approval to reach a sustainable energy system.

Next, in a companion essay to the Crachiola paper, Guli Du concentrates her efforts on Japan's post-Fukushima nuclear power dilemma. Although the Japanese government has yet to give details on the future of nuclear energy in the country, including its restart plan, Japan's nuclear reactors will be ready to run once the NRA clears them for safety, and if there are no local barriers in their path. But a restart was blocked in one prefecture already by a local court decision. The public's attitude could also be a problem. Opinion polls show a majority of Japanese opposed to returning to nuclear power, though the percentages have been decreasing. Still, despite the anti-nuclear stance of the LDP's coalition partner, the New Komeito, the Abe administration remains committed to restarting as many nuclear plants as possible, in light of the excessive price the country is paying for power based on imported LNG and other fossil fuels, and the impossibility of using renewables as a quick fix to fill the nuclear power gap.

With the decommissioning process of the Fukushima Nuclear Power Plant now well underway, though it will take many years to complete, Japanese nuclear firms are again looking for business opportunities in other countries, especially emerging markets. Guli Du's paper also examines that aspect of Abe's economic strategy that treats nuclear plant exports as a major pillar. With the support of the U.S., Japan's nuclear plant makers will again be aiming at expanding overseas to seek new markets for facilities and technologies. Besides cooperating on civil nuclear energy, the US and Japan also maintain an almost seamless-web relationship when it comes to nuclear non-proliferation issues. Such a consociation enhances the nuclear capacity of both countries and contributes to the peaceful use of nuclear energy worldwide.

The Aftermath of the Great Earthquake: NGOs in Retrospect

There has been little written on the role of private volunteer groups and other non-government organizations in the recovery phase after the Great East Japan Earthquake in March 2011. To fill that gap, Yun-chin Chiu, in her well-researched paper, not only covers NGO activities to assist victims after the Tohoku quake, but also argues that the impact of their efforts in Japan may have helped historically weak civil groups in Japan involved with the recovery earn more autonomy, capacity, and social capital.

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The Kennedy Heritage and U.S.-Japan Relations

By Megan Dick

On Friday, November 15, 2013, Caroline Kennedy, the new United States Ambassador to Japan, arrived in Tokyo amidst much fanfare. However, this was by no means the first time a Kennedy arrival had made waves in Japan. Beginning with John and Robert F. Kennedy's visit to the country in 1951, the Kennedy family has had a long history of building friendship and cooperation between the U.S. and Japan.

The years of the Kennedy Administration spanned an important turning point for U.S.-Japan relations. In 1960, the threat of violent anti-American demonstrations forced then-President Dwight D. Eisenhower to cancel his planned trip to Japan. However, only three years later, President Kennedy was able to use the improved U.S.-Japan relationship as a key selling point in his reelection campaign. This transformation marked the beginning of the close partnership that characterizes the alliance today.

Studying this transformation reveals many important insights regarding how the U.S. could further strengthen its relations with Japan today. In this paper I will trace U.S.-Japan relations during the Kennedy years, with specific attention paid to the accomplishments of John and Robert Kennedy in advancing bilateral cooperation. I will also identify parallels between the U.S.-Japan relations of the Kennedy years and those of today. Lastly, I will include several policy recommendations based on lessons learned from the Kennedy years.

1950s: Japan and the Kennedy Family

"In 1951, President Kennedy, then Congressman Kennedy of the Eleventh District of Massachusetts, my sister Pat and I arrived in Tokyo, three dusty travelers on the last leg of a trip which had taken us around the world."

-Robert Kennedy, *Just Friends and Brave Enemies*

The Kennedy brothers first became acquainted with Japan during John Kennedy's seven-week congressional trip to Israel, India, and Asia. Upon arrival, the Kennedys were placed in the care of Dr. Gunji Hosono, Director of the Japan Institute of Foreign Affairs. It was the beginning of what would prove to be a lifelong friendship between the Hosono and Kennedy families. During the trip, John Kennedy requested Dr. Hosono's help in

locating the commanding officer of the Japanese destroyer that sunk Kennedy's patrol torpedo boat, PT-109, during World War II. Dr. Hosono located the officer, Commander Kohei Hanami,



John Kennedy and the crewmen of the PT-109



Dr. Gunji Hosono and his daughter Haruko at a banquet held in their honor in Tokyo

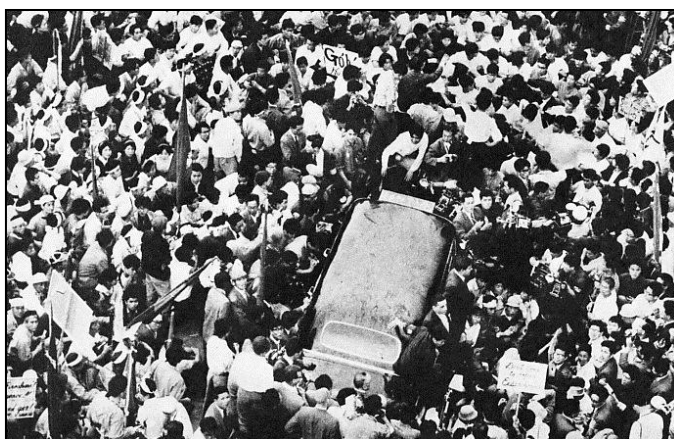
but was unable to arrange a meeting.¹ Later, TIME magazine published a letter from Hanami written in support of Kennedy's campaign for Massachusetts Senator. Hanami wrote, "I am firmly convinced that a person who practices tolerance to the former enemy, like you, if elected to the high office in your country, would no doubt contribute...to the promotion of genuine friendship between Japan and the U.S."²

Though Dr. Hosono and John Kennedy were not able to meet again in person until 1961, they kept in close correspondence. Dr. Hosono hosted other members of the Kennedy family in Japan, and John Kennedy acted as guarantor when Hosono's daughter studied abroad in the U.S.³

1960: U.S.-Japan Relations and Kennedy's Presidential Campaign

Japan and Kennedy's Presidential Campaign

Japan remained on Kennedy's mind through his election campaign, no doubt in part thanks to Hosono's influence, but also due to the turbulent events that disrupted President Eisenhower's planned visit. On January 19, 1960, Japanese Prime Minister Nobusuke Kishi and U.S. Secretary of State Christian Herter signed the Treaty of Mutual Cooperation and Security, guaranteeing U.S. base rights in Japan and committing the U.S. to defend Japan in the event of an attack. The new treaty replaced the 1952 Mutual Security Assistance Pact, which had been negotiated during the Allied occupation of Japan. As Kishi attempted to ratify the new treaty in the lower house of the Diet, the Japanese political left mobilized to block ratification and protest the U.S.-Japan alliance, which they considered fundamentally unequal. On May 19, 1960, Kishi had his opponents forcibly removed from the Diet and called a vote to ratify the treaty in the lower house.⁴



The crowd surrounds Press Secretary Hagerty's limousine

On June 10, 1960, Press Secretary James Hagerty arrived in Japan to discuss details for Eisenhower's planned visit, which was to coincide with the ratification of the Treaty of Mutual Cooperation and Security. En route to Tokyo from Haneda Airport, a crowd of protesters mobbed Hagerty's car, shattering windows and cutting tires. The car was unable to proceed, and the party was picked up by a helicopter and taken to the Embassy. As a result of this incident, President Eisenhower's scheduled June 19th visit to Japan was cancelled.⁵

In response to an interview request sent on June 24 from the *Mainichi Shimbun*, Senator Kennedy wrote:

The recent disturbances in Japan and the cancellation of the President's trip has made clear to us all, Japanese and Americans, that two great objectives most of us share are in jeopardy. These objectives are the emergence of a strong democratic Japan and the development of firm ties of friendship and partnership between our nations. All is by no means lost but thoughtful Japanese and Americans should take recent events as a warning that hard, creative work will be necessary on both sides to make good the objectives we hold in common. This is no time for despair. But equally it is no time for complacency or pretending that all is well.

He also added:

I believe, in short, that the key to the American-Japanese relationship in the coming years lies not in narrowing our ties, or limiting them to the terms of a security treaty, but in widening the area of partnership within which a strong domestic Japan would play a role of increased responsibility and authority. The lesson of recent events is not that Japan and the United States must move further apart, but that we must come closer together. And I believe the United States has a major responsibility in making such a development possible.⁶

Kennedy was not alone in his concern over the state of U.S.-Japan relations, nor in his cautious optimism for the opportunities available to a new administration. In a letter to Kennedy's future press secretary Pierre Salinger, dated October 31, 1960, Public Relations Manager David Jones of Pan American Airlines Tokyo wrote, "Even die-hard Republicans, and, believe me, Pan American has many of them out here, have finally been convinced that the Eisenhower Administration has given no leadership in the noncommunist world." He continued, "Japan will stay with us unless we make some awful mistakes along the line, mistakes that I'm sure won't be made now that it looks like a more progressive, imaginative and intelligent administration is coming in." Jones also voiced his criticism that the full diplomatic potential of the American Embassy was not being realized. He wrote, "There is no contact to my knowledge between Embassy members and the opposition party or the intellectuals. Or, if there is such contact, it is not being utilized." In order to solve this problem, Jones strongly recommended the appointment of Dr. Edwin O. Reischauer as Ambassador to Japan.⁷



A 1960 protest against the U.S.-Japan Security Treaty

Japanese Reaction to Kennedy's Election

Although some Japanese were certainly worried about Kennedy's youth, his electoral victory was generally met with cautious optimism. On November 11, 1960, Jones wrote to Salinger

offering congratulations on the election and his read on the Japanese reaction. Writing on failures of past administrations, Jones wrote, “One gets frustrated when he sees his country making mistakes that routine checking of the other side would have prevented.” However, he wrote optimistically, “Really, there is a feeling among the Japanese that Kennedy will recapture American prestige. Though they are fearful somewhat of his age, they respect his education, background, his foreign policy position and his general demeanor during the televised debates.” And, any fear regarding Kennedy’s age, Jones reassured Salinger, was only due to “the feeling in Japan that no one is wise until he is gray-haired.”⁸

An editorial in the November 10, 1960 *Asahi Evening News* emphasized the potential importance of the incoming Kennedy Administration to U.S.-Japan relations. The author explained:

This is not only because Mr. Kennedy has included in his brain trust Prof. Rostow, who has made a deep study of conditions in Japan, but also because of the great possibility that Senator Mansfield, who has a firm grasp of the present and future situation in Japan, may become the Democratic Party’s new Senate majority leader and come to have a stronger voice in the Senate. At least, there is scarcely anyone who doubts that the new American Government will bend a more attentive ear to the voice of Japan and give more consideration to the feelings of the Japanese people for the sake of real friendship between Japan and the United States.

The article also stressed the work that remained to be done. According to the author:

Japan-U.S. relations are undoubtedly about to change. It would be a mistake, however, to exaggerate or to selfishly over-estimate this ‘changing America,’ but we feel that the ruling Liberal-Democratic Party of Japan, with its unchanging outlook on diplomacy, cannot keep up with the flow of international events. The party must from now on prepare constructive and concrete proposals for the wake of real friendship between Japan and the United States, including a proposal for renegotiation of the revised Japan-U.S. Security Treaty, and cultivate good judgment in order to clearly understand world movements.⁹



An editorial in the *Mainichi* remained largely cordial, reading, “The countries of the Free World hope that the United States, under a new administration, will renew its vigor, reassume a position of leadership in the world, and raise its prestige to a new high.”¹⁰

1961: Early Presidency

Early Presidency

President Kennedy’s engagement with Japan began with his inauguration on January 20, 1961.

Just a few weeks prior, Dr. Hosono was surprised by an invitation to the inauguration festivities, and immediately booked a flight to Washington for himself and his daughter. At the parade, Dr. Hosono sent a boy scout to give his name card to Robert Kennedy, and was summoned to join the Kennedy brothers on the Presidential Stand. Dr. Hosono sat directly behind Vice President Johnson, while his daughter sat directly behind President Kennedy for the remainder of the parade.

After the parade, Hosono received a note from the new president requesting a visit to the White House. On January 25, Dr. Hosono and his daughter were the first foreign visitors of President Kennedy. Hosono brought with him Prime Minister Hayato Ikeda's letter of congratulations for the new president, as well as the greetings and signatures of the 17 survivors of the Japanese destroyer that sank Kennedy's boat during World War II.¹¹

In April of 1961, President Kennedy appointed Edwin O. Reischauer as United States Ambassador to Japan. During his five years as ambassador, Reischauer would prove to be an invaluable asset to both the Kennedys and the American government in building trust and friendship between the U.S. and Japan.

Prime Minister Ikeda's Visit to Washington

Prime Minister Ikeda and his wife, Mitsue Ikeda, flew to the United States on June 19, 1961, for a ten-day visit. Ikeda spent June 20-23 in Washington, where his stay included high-level meetings with President Kennedy and the administration, a cruise aboard the presidential yacht, and various luncheons and receptions. Discussions centered on Communist China and Sino-Japanese relations, U.S. bases on the Ryukyu Islands, and various economic issues including Japanese trade liberalization, U.S. textile imports, Japanese admission to the Organization for Economic Co-operation and Development (OECD), and U.S. balance of payments.



President Kennedy meets with Japanese Prime Minister Ikeda

In his toast to the Prime Minister, Kennedy stated:

We believe in this country that the Pacific Ocean does not separate Japan and the United States. Rather, it unites us. And we have the greatest admiration for this extraordinary people, who have conquered the sea and the land and in the most energetic and productive way have built a life for themselves. Their influence in Asia, their influence in the Pacific, their friendship for us, all these things are basic to the security and prosperity of the people of this country.¹²

Critical Issues for the Alliance

Economic Issues and the Creation of the U.S.-Japan Joint Economic Committee

In 1961, the U.S. was the largest importer of Japanese goods, and Japan was second only to Canada as the largest purchaser of U.S. products.¹³ Prior to Ikeda's visit to Washington,

Secretary Dean Rusk brought to Kennedy's attention the need for a joint committee to address economic issues involving the U.S. and Japan. In a memo dated June 9, 1961, Rusk advised Kennedy to establish a Joint Economic Committee during Ikeda's forthcoming visit. The purpose of this committee would be to dispel Japanese doubts about both the importance of Japan to the U.S., and the significance ascribed to their joint economic relationship (particularly as compared to the two countries' military-security relationship).¹⁴ Based on this recommendation, President Kennedy and Prime Minister Ikeda agreed to the formation of the U.S.-Japan Joint Economic Committee on June 21, 1961, in Washington.

There were several issues that defined the U.S.-Japan economic relationship of 1961. Japan had not fully liberalized trade and the U.S. was attempting to persuade other nations not to invoke GATT Article 35 against Japan in response, while, at the same time, urging Japan to accelerate the liberalization process and push forward its 1963 target date.¹⁵ The Japanese were also concerned about textile exports: Japan's share of textiles imported into the U.S. declined from 75 percent in 1957 to 18 percent in 1961, primarily as a result of Japan's system of voluntary controls coupled with expanded imports from other producing areas such as Hong Kong.¹⁶ Despite considerable improvement in U.S.-Japanese balance of payments in early 1961, the U.S. wanted to reduce out-payments by over \$1 billion and increase commercial imports by \$2 billion.¹⁷

There was also heated disagreement over the U.S. stance on Japan's admission to the OECD. According to the U.S., Japan would fundamentally alter the Atlantic nature of the organization and open the door for applications from other Commonwealth Nations. In a meeting with President Kennedy, Ikeda noted that it was unfair for Japan to be asked to join organizations that fund projects in underdeveloped nations—such as the Development Assistance Committee (DAG)—yet also be excluded from trading blocs.¹⁸

Later that year, American and Japanese delegations met in Tokyo to negotiate a bilateral textile agreement on August 22, 1961. Negotiations concluded on September 8, after intense and often bitter discussions. In a telegram dated September 12, Ambassador Reischauer expressed his concern over the tone of the negotiations and possible repercussions for U.S.-Japan relations. Many Japanese took the agreement as “a slap in face after warm handshake,” referencing Ikeda's reception in Washington early that year. If the U.S. continues along this path, Reischauer warned, “Our relationship may eventually be damaged irreparably. Trade is so close to [the] problem [of] Japanese survival that we cannot hope [to] enjoy full Japanese friendship and partnership if we continue [to] treat Japan as not fully suitable for polite trading society.”¹⁹

The first meeting of the Joint Economic Committee was held November 2-4, 1961 in Hakone, Japan. Agenda topics included balance of payments, wage systems and productivity, expansion of trade, promotion of economic relations bilaterally and internationally, economic assistance, stabilization of primary commodity prices, the Sino-Soviet economic offensive, and U.S. economic policies towards—and Japanese trade relations with—the Sino-Soviet bloc.

While in Hakone, Secretary Rusk also met with Prime Minister Ikeda and various Cabinet officers to discuss other aspects of the alliance. Ikeda hoped to normalize relations with—and provide assistance to—the Republic of Korea. He was also attempting to provide aid to Burma so as to dissuade the country from aligning with Communist China, while also working to smooth over tensions between Cambodia and Thailand. When Rusk discussed introducing U.S. combat

forces in Vietnam, Ikeda expressed misgivings and voiced his opinion that economic assistance to Vietnam was what was most needed. Rusk also brought up the possibility of a visit by President Kennedy to Japan. In a memo to the president, Rusk wrote that “[Ikeda] was deeply gratified [for] your interest but wished to think it over and be in touch with you again. It is obvious that he wants to be certain that there would be no possibility of revival anti-Eisenhower demonstrations.”

In closing, Rusk wrote, “I was impressed with general atmosphere here of need and opportunity for Japan to play a much more active role in Asia, a mood prompted both by political and economic considerations. It is obvious that Reischauer has gotten off to an excellent start and that he and his wife are highly regarded both in official circles and publicly.”²⁰

During a news conference on November 8, President Kennedy announced the success of the first meeting of the Joint Economic Committee in “extending the concept of American-Japanese partnership to the economic and trade field.” He further noted that “Japan also plays a key role in the economy of Asia, and free world economic objectives depend to a very important extent on her cooperation.”²¹

Communist China

During Ikeda’s visit, Communist China was another important topic of discussion. In June 1961, China was characterized by President Kennedy as “the most difficult problem faced by his Administration in terms of its internal consequences.” Kennedy was particularly concerned Japanese companies would be pulled towards China for trade. At the meeting, Ikeda attempted to reassure Kennedy that Japanese attraction to China was not as strong as indicated in the



President Kennedy meets with Japanese Prime Minister Ikeda

Japanese press. According to Ikeda, the majority of Japanese were friendly toward the U.S., and Japan “does not wish to disturb her economic relations with the United States merely for trade with [Beijing], for such a move would lead to a Japanese economic collapse.”²² Both leaders recognized these issues were important and made plans for more concrete discussions between the Japanese Foreign Minister and U.S. Secretary of State at a later time.

Ryukyu Islands and Okinawa

At the time of Ikeda’s visit, the U.S. bases represented another source of tension between the U.S and Japan. In Washington, Ikeda told Kennedy that residents of the Ryukyu Islands should receive the same treatment as those living in Japanese prefectures, especially with respect to taxation policy, to diminish the desire for reversion to Japanese control. Ikeda also suggested setting up a roundtable consisting of officials from the U.S., Japan, and the Government of the Ryukyu Islands (GRI).²³

In a memorandum dated August 11, 1961, the Department of State established a special task force to study the situation in the Ryukyu Islands. Specifically, the U.S. was hoping to identify the economic and social conditions that were contributing to general public dissatisfaction and

develop measures for improving the situation. The memorandum emphasized the importance of Okinawa as a base, as well as the importance of sustained friendly relations with Japan and continued U.S. responsibility for the security of the people of the Ryukyu Islands under the peace treaty.²⁴ On March 5, 1962, Kennedy drew upon the Task Forces' recommendations in issuing a National Security Action Memorandum which included steps to improve the security of U.S. tenure in the Ryukyu Islands and, by extension, relations with Japan.²⁵

On March 19, 1962, President Kennedy signed an amendment to Executive Order 10713 based on the findings of the Task Force. In a statement Kennedy explained, "The armed strength deployed at these [Ryukyu Island] bases is of the greatest importance in maintaining our deterrent power in the face of threats to the peace in the Far East. Our bases in the Ryukyu Islands help us assure our allies in the great arc from Japan through Southeast Asia not only of our willingness but also of our ability to come to their assistance in case of need."

To the Japanese, the most important part of Kennedy's speech was when he stated, "I recognize the Ryukyus to be a part of the Japanese homeland and look forward to the day when the security interests of the Free World will permit their restoration to full Japanese sovereignty."²⁶ His statement was given the banner on the front page of all Japanese newspapers. President Kennedy's direct role in the new policy was emphasized, with a typical headline reading: "Kennedy says Okinawa part of Japanese homeland; Japan is grateful for American action." According to Ambassador Reischauer, all major papers had lead editorials on the Okinawa announcement, and "comments ranged from enthusiastic approval (*Mainichi*) to critical reservations (*Yomiuri*) but all agree [the] new policy marks [a] step forward even though [the] basic desire [of] Japanese people for reversion [was] not met."²⁷

Nuclear Question

On March 2, 1962 President Kennedy announced that he had authorized the Atomic Energy Commission and the Department of Defense to conduct nuclear tests in response to the Soviet Union's refusal to agree to any acceptable test ban treaty. In Japan, Kennedy's announcement was met with concern over nuclear fallout and the fading of any hope that the U.S. might sign a treaty with the Soviet Union. The *Mainichi* noted that if testing continues other countries, specifically Communist China, would acquire nuclear weapons, and observed the current peace was an uneasy one based on a balance of fear. The *Asahi Shimbun* wrote, "We would like to first of all state clearly the deep feeling of disappointment of the Japanese people toward the decision despite continuing requests that the U.S. refrain from resuming nuclear testing." The *Mainichi* wrote, "This will create an irretrievable situation. Soon other countries will want to keep stockpiles of nuclear weapons. This will not only deteriorate the position of the United States and the USSR but will also give rise to the horrible possibility of nuclear war."²⁸

Cultural Exchange

During Ikeda's visit to Washington, the two leaders established the U.S.-Japan Conference on Educational and Cultural Exchange. The first conference was held January 25-31, 1962, at the Foreign Ministry in Tokyo. Later, in the Settlement of Postwar Economic Assistance to Japan (GARIOA) signed in Tokyo on January 9, 1962, the U.S. agreed to accept \$25 million of Japan's total \$490 million payment to be used for educational and cultural exchange between Japan and the U.S.²⁹

1962: Robert Kennedy's Visit and Other Developments

Attorney General Robert Kennedy's Visit to Japan

Attorney General Robert Kennedy's visit to Japan in early February 1962 marked a major step towards positive relations between the U.S. and Japan. As it happened, the decision to send the Attorney General to Japan was made largely thanks to the efforts of Dr. Hosono. According to Robert Kennedy:

Every few weeks I would receive a letter [from Hosono] stressing the importance of a trip to his country, and about every ten days a visitor from Japan would arrive in my office, armed with an introduction from Dr. Hosono. He would shake hands and sit down and immediately begin to urge that I go to Japan as soon as possible.³⁰

It was eventually decided that Kennedy would spend a week in Japan in early February 1962, his first stop on a one-month international tour. Kennedy insisted that formal receptions be kept to a minimum and that as much time as possible be dedicated to informal contact with the people of Japan. In the words of Ambassador Reischauer:

We laid on at his insistence an extremely heavy, "meaningful" schedule, running from eight in the morning to about eleven or twelve each night. When we sent in this schedule to Washington, a telegram came back saying in essence, "Fine, but what do I do from six to eight in the morning?" So we added two more hours of activities...³¹

The most well-known incident from the trip was Kennedy's speech at Waseda University, where he was disrupted by a member of the Zengakuren, a communist student league. The loud protests of the student were met by other students shouting for silence, which only added to the confusion. But rather than exit the auditorium, Kennedy invited the student to the stage to engage in debate. The student instead launched into a lengthy tirade. When Kennedy had an opportunity to respond, the microphone went dead. However, with the help of Reischauer, Kennedy eventually was able to respond to the student and answer questions from several other students. After Kennedy's closing statement, a school cheerleader came forward to lead the crowd in the Waseda school song.



Robert Kennedy shakes hands with the crowd in Japan

In a letter to Under Secretary of State George Ball, Ambassador Reischauer underscored the importance of this event to U.S.-Japan relations. He wrote, "I cannot overemphasize what a tremendous success the Attorney General's visit was, especially the incident at Waseda University. While the latter skirted the thin edge of disaster, it turned out to be a resounding triumph that may well have a lasting effect on the student movement in Japan."³² Later, Reischauer recalled:

At the time we did not realize what a tremendous victory we had just had. Although the microphones were dead in the hall, they were operating on all the television hook-ups, so that the whole of Japan had been electrified by one of the most dramatic live TV programs in history. Bobby's calm, reasoned, even humorous presentation had come through in sharp contrast to the ranting of the Communist students. He had become in one brief moment a sort of youth hero, recognized by all Japanese, and the rest of his trip was virtually a triumphal procession.³³

The Second Joint Economic Committee

Despite Robert Kennedy's successful visit, economic issues between the U.S. and Japan continued to cause tension in the alliance. On May 4, 1962, at an address in New Orleans Kennedy stated, "To pay for her imports, Japan must sell. Many countries seek to discriminate against those goods, and we need the bargaining tools of the new Trade Expansion Act to bring Japan fully into the free World trading systems."³⁴ In preparation for the second Joint Economic

Robert Kennedy plays games with Japanese children

Committee, Washington officials proposed more aggressive tactics to push back against Japanese trade restrictions.³⁵

On December 3, 1962, a Japanese trade delegation arrived in Washington to attend the second annual Joint U.S.-Japan Economic Committee. In his remarks to the delegation, President Kennedy emphasized the importance of Japan in combatting the spread of Communism in Asia, which "most directly concerns the two countries who are in the strongest position": Japan and the U.S. He continued, "I hope that you will go home realizing that the United States regards as essential to its security your security. We hope that you feel the same way and that we can move in the sixties, Japan and the United States, playing a useful role in the defense of freedom in a most important part of the globe." Kennedy also praised Japan's miraculous industrial growth, stating:

The Japanese program of the last 10 years and the results it has brought really is the most extraordinary, modern industrial miracle; a crowded island and a people who seemed a decade ago to be at almost a standstill have brought about an economic growth rate which is higher than any industrialized country in the world, and which shows no sign of diminishing. This is really the result of the effort of the Japanese people themselves, and the very effective leadership which they have had. It is a source of satisfaction to me that the United States has played at least a supporting role in this emergence of Japan as a great, free, and quite rightly proud country.³⁶

The main topics of discussion for the Committee included the Japanese defense effort and military offsets, Japanese trade liberalization, and U.S. investment in Japan. The Japanese contingent voiced its unhappiness with restraints on trade such as Japanese voluntary controls and U.S. restrictions on imports.³⁷ The U.S. also requested that Japan increase funding for the defense



President Kennedy meets with former Japanese Prime Minister Shigeru Yoshida

program due to increasing financial and security burdens.³⁸

Developments in the Ryukyu Islands

On April 9, 1962, W. Averell Harriman, Assistant Secretary for Far Eastern Affairs, sent a memorandum to the Deputy Under Secretary of State for Political Affairs voicing concern that Congress would not provide adequate funding to carry out the programs recommended by the Task Force. Harriman warned, “If the Executive Branch is unable to obtain the funds from Congress that will permit us to demonstrate that our interest in Ryukyuan welfare more than matches that of Japan, our position in the islands may well become untenable.”³⁹



On October 22, 1962, Ambassador Reischauer sent a letter to Harriman to emphasize the importance of U.S. bases in Japan. According to Reischauer, the bases were critical to ensuring Japan did not fall into either Communist hands or a neutralist position. The U.S., Reischauer wrote, should move with great caution in reducing the size and number of bases, as any action could cause the Japanese to feel abandoned.⁴⁰

U.S. Deputy Secretary of Defense Roswell Gilpatric met with Ikeda and Foreign Minister Ohira in Japan on February 6-7, 1963. The Japanese Foreign Office issued a memorandum that summarized the contents of the discussion and stated the importance of increasing the Japanese defense budget and highlighted the need for a defense study group to pursue avenues of further cooperation.⁴¹

1963: An Era Cut Short

State of the Union

President Kennedy’s State of the Union Address— widely covered by Japanese media— represented another important moment for U.S.-Japan relations. In the address, Kennedy called upon Japan to support the U.S. and other partner nations in their quest for world peace and freedom. In Kennedy’s words, Japan’s “remarkable economic and political development of the 1950’s” now permitted it to play a “major constructive role” on the world scene.⁴²

According to the Foreign Broadcast Information Service’s World Reaction Series, Japanese media “almost unanimously describe [Kennedy’s address] as ‘dynamic and realistic,’ ‘full of confidence,’ and ‘a dispassionate appraisal.’” Sample headlines included “Kennedy for the first time names Japan as a Partner,” “Japan’s participation as a world power is welcomed,” and “Kennedy asks Japan to play constructive role.” Though the reaction to Kennedy’s call was overwhelmingly positive, a few newspapers voiced concerns that the U.S. would place further demands on Japan.⁴³

Economic Developments and the Third Joint Economic Committee Meeting

The third meeting of the Joint Economic Committee was scheduled for November 25-27, 1963, in Tokyo. Since the committee’s last meeting in

President Kennedy delivers his 1963 State of the Union Address

Washington, the Japanese were pleased to have been extended full membership in the OECD and had benefitted from reduced trade discrimination in Europe. Close consultation with the U.S. on developments in Korea, as well as successful visits to the U.S. by Foreign Minister Ohira and Finance Minister Tanaka, had given Prime Minister Ikeda greater confidence in foreign affairs. However, in the second half of 1963, the Japanese press adopted a more bitter tone, and Japanese government officials grew skeptical of U.S. expertise on economic subjects. “Buy American” and “Ship American” policies fed fears that the U.S. was embracing a protectionist agenda.⁴⁴

At the same time, the U.S. was unhappy with the lack of progress made on Japanese trade liberalization. For example, a briefing paper prepared in the Embassy in Japan on November 1, 1963, found that the Japanese Government’s investment screening practices discriminated against U.S. firms.⁴⁵ On November 19, senior Ministry of International Trade and Industry (MITI) officials approached the embassy with a proposal to introduce an “automatic authorization system,” which would automatically approve an application for investment if no decision had been made within a certain period of time. In a letter to the State Department, Reischauer wrote that rather than convincing the Embassy that the U.S. should remain inactive, MITI’s proposal showed the necessity of raising the issue of American investment at the Joint Committee.⁴⁶ Also on the U.S. agenda was resolving questions regarding balance of payments and Japanese cotton textile exports.

In the realm of defense, U.S.-Japan relations had steadily improved under the 1960 Security Treaty. The American Embassy in Japan and Japanese Foreign Office were working together closely. Four security issues remained unresolved by the U.S. and Japanese Governments: readjustments of U.S. forces, offset agreements, reduction of U.S. assistance, and calls by nuclear submarines at Japanese ports.⁴⁷ Secretary Rusk was instructed to reach a bilateral agreement regarding a Japanese defense budget increase and the establishment of a Defense Study Group during the planned November 1963 Joint Economic Committee meeting.⁴⁸

Kennedy Assassination

On November 22, 1963, Secretary Rusk and other Cabinet members were en route to Japan when they received word of President Kennedy’s assassination. The party returned to Washington immediately, and the third meeting of the Joint Economic Committee was postponed.

In the words of Reischauer, “The Japanese response to the assassination was overwhelming.” The Embassy was flooded with letters of condolence. Over five hundred people attended and three thousand stood outside a low requiem mass on November 26. Over two thousand students came to Reischauer’s memorial speech for Kennedy at Waseda University.⁴⁹

On November 24, Prime Minister Ikeda and Foreign Minister Ohira flew to Washington to attend Kennedy’s funeral. On November 25, Ikeda and Ohira met with President Johnson and Secretary Rusk at the White House. During the meeting, Rusk praised Ikeda for Japan’s remarkable progress in claiming its rightful place in international affairs, citing its involvement in the United Nations, OECD, and Southeast Asia. Ikeda responded that the focus of Japan’s foreign policy to take an active role in international affairs was based on President Kennedy’s advice during Ikeda’s trip to Washington two and half years earlier. The meeting’s memorandum of conversation reads:

The Prime Minister said that as a politician and statesman he had learned a great deal through his participation in the ceremonies surrounding President Kennedy's funeral. He said he had learned more of the political attitude of President Kennedy. He said he intended to take these thoughts home with him, to review his own outlook and performance, and to try to apply the Kennedy spirit in a renewal of relations between Japan and the United States.⁵⁰

Kennedy's untimely death also precluded a planned visit to Japan scheduled for February 1964. He had discussed details of the trip with Reischauer on many occasions, and a successful visit would have been an important deliverable for Kennedy's 1964 reelection campaign.⁵¹

Robert Kennedy's Second Visit

Robert Kennedy returned to Japan again in January 1964 to seek a resolution to the Malaysia Crisis.⁵² While in Tokyo, Kennedy was able to return to Waseda University to express his gratitude for the memorial service the students held for his brother. Once again, over two thousand students were in the audience and five hundred more stood outside in the rain. Reischauer later wrote that he was pleased to have been able to show Kennedy the changed attitude in Japan. After leaving Waseda, Reischauer reportedly recorded, "One can't help but feel that he may be destined in time to succeed his brother."⁵³

Conclusion

The marked positive effect that the Kennedy years had on U.S.-Japan relations is unmistakable. In 1960, the threat of violent anti-American student demonstrations forced Eisenhower to cancel his planned trip to Japan. Three years later, President Kennedy planned to make the improved U.S.-Japan relationship a key selling point in his reelection campaign. This transformation was a major step toward the present-day close partnership between the U.S. and Japan.

It is important to note that there are several parallels between U.S.-Japan relations during the Kennedy years and those of today. Trade, for example, was a critical issue during the Kennedy Administration, just as it is today with the Obama administration struggling to realize the Trans-Pacific Partnership. Similarly, U.S. presence in Okinawa was—and remains—a major point of contention between the two allies. And, much like today, the potential threat posed by China was an issue at the forefront of U.S.-Japan relations during the Kennedy era. Though U.S. attention is no longer consumed by the idea of a communist menace, China's rising economic and military power is a central concern to both the U.S. and Japan.

By examining the transformation of U.S.-Japan relations during the Kennedy years, one finds that there are two critical components of a successful alliance: personal connections and effective communication. Reading about this topic, one is repeatedly struck by the sizeable role personal connections played in improving bilateral relations during this period. Recall, for example, John and Robert Kennedy's 1951 meeting with Dr. Gunji Hosono—an encounter that blossomed into a lifelong friendship between the two families and led to Robert Kennedy's ground-breaking 1962 visit. This is just one example illustrative of how personal relationships can positively influence public diplomacy more generally.

The second critical component of a successful bilateral relationship is close communication involving not just government officials, but also ordinary citizens of both countries. Robert

Kennedy's 1962 visit provides a perfect example. It was not lost on the Japanese that Kennedy, being the brother of the president, represented a direct line to the White House. Yet, instead of spending his trip exchanging pleasantries with Japanese bureaucrats, Kennedy actively engaged with groups representing various occupations and political views. More importantly, he genuinely listened to the opinions of those who disagreed with him, as exemplified by the incident at Waseda University. By sending such an important delegate, President Kennedy showed Japan that the U.S. highly valued their alliance. Moreover, when Robert Kennedy engaged with protesting students and others dissatisfied with American foreign policy, he demonstrated that the U.S. was willing to defend and justify its policies to those who disagreed. The willingness of the U.S., as represented by Robert Kennedy, to submit its policies for criticism and scrutiny by the Japanese public was an extraordinary measure that introduced a level of diplomatic parity previously unseen between the two countries.

While the U.S.-Japan relationship is not nearly as troubled as it was in 1960, there is no doubt that strengthened relations would be mutually beneficial to both countries. Caroline Kennedy's post as U.S. Ambassador to Japan provides an unprecedented chance for the U.S. to examine and learn from the policies and successes of her father's administration. By building personal relationships and improving communication beyond government-to-government interaction, the U.S. might further build on the existing foundation that enables cooperation with Japan on issues ranging from regional stability to economic partnership.

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Sino-Japanese Tensions in the East China Sea and US-Japan Relations

By Benedikt Blomeyer

The ongoing Sino-Japanese crisis in the East China Sea, involving a virtual military standoff, erupted in 2012 following Japan's "nationalization" of three of the five disputed Senkaku islands (Diaoyu in Chinese). The territorial dispute has developed into a multifaceted confrontation as Japanese and Chinese warships approach each other in the waters around the isles, Chinese aircraft penetrate airspace Japan considers its own, media wars break out in each country, and the spillover into the conflict in the sea, in the air, in the media and potentially in US-Japan perceptions. This essay investigates the timing of the crisis, what challenges recent developments pose and in what scenarios the conflict might play out. The overall findings are negative: this crisis was overdue, it has become more complicated and aggravated and there is no plan or intention to solve it, which means that it is not going to be resolved anytime soon. In the long run, the US needs to revise its approach to the East China Sea, and consider several dilemmas with its allies and potential adversaries.

Introduction: Japan and China in the East China Sea

The East China Sea separates modern-age historical adversaries China and Japan and the Korean Peninsula. In the 17th century China extended its virtuous rule across its borders. When China began declining relative to Japan in the mid 19th century, the status quo shifted. In 1894-5 a naval battle put Japan in the driver's seat of East Asian affairs. Japan gained access to Korea, annexing it in 1910, Taiwan, ceded to Japan in 1895, and annexed the Senkaku islands in 1895. It is fair to observe that the East China Sea has historically been an arena of power projection between Japan and China. Throughout long periods of history, there was no sense of restraint on either side – though never leading to maritime conflict. If one nation could upset the status quo in its favor, it would try.

Moreover, controlling the East China Sea has traditionally been a matter of national prestige and honor. Empires crave subjects, such as Korea, tossed back and forth between China and Japan; and only a firm control of surrounding waters can enable a nation to rise to the first tier of global powers. In the recent century, however, military conquest has ceased to be considered an extended form of diplomacy. Japan lost its empire in 1945, but under the Okinawa Reversion Agreement (1971), the United States also transferred administrative, but not sovereignty, rights over the Senkaku islands back to Japan. Since then, the status quo in the East China Sea has not changed significantly, though China seems willing now to try. This unusual situation, and China's displayed dissatisfaction with the current arrangement, hints that it might not be sustainable either. It is conceivable that if diplomacy should fail, the East China Sea, and specifically the Senkaku Isles, could become a flash point for military conflict between the two powers in the not so distant future.

The Senkaku Dispute: A Gordian Knot

Effectively juxtaposing the Chinese and Japanese claims on the Senkaku islands (Diaoyu Dao in Chinese) has been the motivation of many academic undertakings. Evidence referred to ranges

from mythological to historical and legal arguments that are complex and intertwined. They are hard to untangle, let alone be solved. Neither country has any interest in doing so diplomatically. The following short outline only hints at the complexity of the arguments.

The crux of Japan's self-entitlement to the Diaoyu/Senkaku is the claim that the islands were terra nullius (uninhabited, found by "discovery-occupation") at the time they were incorporated in 1895. They were not part of the spoils of the Sino-Japanese War. According to The Basic View, a governmental declaration on the matter, China failed to raise any objections when the islands were transferred to the U.S. after WWII (San Francisco Peace Treaty, 1955). The Okinawa Reversion Agreement (1971) provided Japanese officials with the ultimate endorsement of their claims. Only after potentially valuable under-sea resources were spotted by UN surveys did China begin to pursue its Senkaku claim. Japanese scholars and the media have gathered evidence to prove the Japanese claim too, assembling cases where the Japanese government projected authority, land registrations, field surveys, emergency rescues and even Chinese congratulations to these rescues.

Chinese claims begin with reference to the Senkakus in 14th Century maritime navigation. China argues that it had integrated the islands into its maritime defense system and had full sovereignty over them. The fact that no public declaration of ownership was made should not diminish China's claim, as this was not a common practice in Imperial China. Since China upholds its possession of the Senkaku islands prior to 1895, it is implying a rejection of Japan's terra nullius claim. Additionally, China refers to the Cairo and Potsdam Declaration in its demands that Japan should return the Senkaku islands as stolen land in World War II. China argues that the US "illegally" absorbed the Senkaku islands afterwards, but that this does not change the claim. Instead, it makes all future dealings with the Senkaku islands invalid.

More than a 'Bunch of Rocks'

Experts and officials on both sides of the East China Sea would agree that the Senkaku islands have significant value for their national wellbeing. There are economic and strategic reasons for this. For one, ownership of the Senkaku islands comes with the right to claim a surrounding 200 nautical mile Exclusive Economic Zone (EEZ). Many of the presumed reserves of resources are located within this radius. From a strategic point of view, the Senkaku islands are on the border of the so-called "First Island Chain", the recently declared inner circle of China's defense strategy. China also considers the Senkakus as part of its "core interests", making it as significant as Tibet and Taiwan.

Unfortunately the Senkaku islands have also become a matter of honor and prestige. To Japan and China, they do not only represent the ability of each to defend itself, but also act as the first domino in their defense strategy. Both countries have unpacked historical arguments, conflating territorial, security and emotional arguments. Nationalistic rhetoric has been thrown into the fray as well. This toxic mix presents a substantial problem in the ongoing crisis since 2012.

When Japan and China normalized relations in 1972 and for years to come, the significance of the Senkaku islands was less dramatized. In 1978, Deng Xiaoping famously declared that the issue would be shelved for future generations to resolve. This was an unwritten arrangement and paved the way for a period of relative calm. Although there have been occasional flares,

cooperative efforts seemed to reach their apex in 2008, when a negotiated agreement declared the formation of a Joint Development Zone (JDZ) for natural gas near the disputed islands. It appeared as if all parties had recognized the economic and strategic value of cooperation, making subsequent deterioration in 2012 even more surprising.

Changing Dynamics: The Global Context of the East China Sea

The East China Sea separates one regional powerhouse that considers itself a part of the postwar US-led “west” from a rising power that has ambitions to equal or outmatch the US. While Japan is a well-established democracy, China remains an authoritarian regime, whose socio-economy is unraveling from its centrally planned past. When applying the arsenal of diplomacy it is worthwhile recalling that the East China Sea does not just separate two of the worlds strongest economies, but also two countries with radically different approaches to the international system.

China’s worldview and its self-assertiveness to join the top ranks of world powers are founded on high economic growth rates. Such growth symbolizes a constant improvement in the material welfare of Chinese citizens, while deflecting from a poor record in human rights or pollution control or political corruption. Oiling the machine has therefore become a central objective of the Chinese government. Maritime capacities are an integral component of this approach, as trade routes delivering vital raw materials need to be protected. China’s territorial claims and aggressive acts in the South China Sea to gather control and resources can be understood in this context. Yet military capacities also serve a political end. Neo-realism is a prevalent school of thought in China’s top tier, and such a perspective of the international system demands certain prescriptions. China’s growth, for instance, must come at the cost of another state, which will be unhappy with the status quo upset. Ergo, Chinese leaders believe they must prepare to defend themselves against artificial US constraints to China’s natural growth towards becoming a leading global power – or a maritime power in the waters around East Asia.

Growing military expenditures in China has raised alarms in the region, especially in the context of cuts in US defense spending. In the last decade, US military spending grew by 70%, a figure propelled by the Afghanistan and Iraq wars. In China, which had no wars, military spending grew by 325%. This trend speaks a language of its own, but percentages can also give a false impression. The US still grossly outspends China. Granted, the margin has decreased, but that should not grant alarmists the room to demand an arms race. The US possesses significant advantages in its military capabilities; its aircraft carrier groups are unchallenged in international waters. China is currently building measures to directly challenge this deficit, for instance via large submarine and surface-to-sea missile programs, but these efforts still have to bear fruit. Its own makeshift aircraft carrier does little to change this truth. Rather, in an ironic fashion it underlines some of China’s technical gaps and lack of expertise.

According to military experts, China’s defense spending will likely remain at a certain percentage of its GDP. Over the last few years, its GDP growth has fallen from the golden age of double-digit percentages to about 7.7% in 2013. The assumption is that when growth slows down, which it inevitably will (if first signs have not already been identified), so will military expenditures. Such an approach should not lull the US into a false sense of security. Instead, it should open the door to increasing economic interdependence, which is a stronger guarantee. In

sum, while Chinese intentions should not be underestimated, her capacities should not be overestimated.

Japan alone might shiver at the size of China's military budget increases. The deceptively easy response would be to accelerate its own military projects in response. However, against China this is arguably a lost cause. Even if Japan should opt for nuclear weapons, the ultimate asymmetric game-changer, things would change very little. This is because the US nuclear umbrella (extended deterrence) covers Japan already, but even more so because nuclear weapons offer little compared to other modern conventional weaponry. Instead they would invite a battery of uncomfortable questions and lead to domestic political crisis and international shunning.

Effective deterrence of China can be the policy of Japan even without an arms race in the East China Sea. The US-Japan alliance continues to be the bedrock of Japan's national security approach. The US rebalancing of its military posture to Asia must have sparked many welcome parties in Tokyo. To the disappointment of many Japanese scholars, the US has yet to arrive at the party, as action did not follow the initial commitment. Nevertheless, US interests still largely converge with Japanese hopes. The US foreign policy of encirclement, geared at bandwagoning states peripheral to China by economic means and military backup, offers a golden opportunity for Japan. Indeed, Japan has its own encirclement policy in its diplomatic portfolio. Scholars in Japan tend to argue that instead of reminding the US of its promises under the existing treaty framework, Japan should continue subscribing to the US' encirclement policy.

Finding the Trigger of the 2012-2014 East China Sea Crisis

As shown above, it would be naïve to believe that the East China Sea has been a zone of international friendship. The current Sino-Japanese crisis did not come out of the blue. Several trends, ranging from the Senkaku dispute to broader global dynamics, were in disequilibrium and any spark seemed likely to set off a fire at sea. Three possible catalysts for conflict exist. They vary wildly as to which party to blame for the rising tensions, which makes them powerful political tools.

Chronologically sorted, the first trigger arguably lies in the 2008 JDZ agreement between Japan and China. The gas development project played into a domestic struggle at the top of the Chinese hierarchy. For Chinese hardliners toward Japan, this was a step too far. Rallying around then rising star Xi Jinping, they criticized the incumbent President Hu Jintao for conceding the East China Sea and betraying Chinese interests. As is so often the case when national security arguments are fielded against economic rationale, supporters of the latter are perceived to portray weakness, while those advocating the earlier appear patriotic and strong. Supporters of this argument blame the takeover of Chinese hardliners and their subsequent assertive measures in the East China Sea for Japan's subsequent troubles over the Senkakus. China could be reasoned with until then, but cooperation was simply impossible afterwards. In Japan, while some officials view this explanation as credible, most maintain that the 2008 JDZ was not the inevitable source of the escalation of tensions between the two countries.

The second possible trigger, seen as more probable by many Japanese scholars, blames Japan for not honoring earlier commitments to China in its handling of the September 2010 Senkaku boat collision incident. After a Chinese captain infringed Japan's maritime boundaries and rammed

his fishing trawler into Japanese coast guard vessels, Japanese authorities took him into custody. This violated previous treaty understandings that assumed Chinese authorities would be responsible for Chinese nationals. In other words, the captain should have been turned over to the Chinese side and not arrested. Although the captain was released to China after 10 days, it left a bitter aftertaste with Chinese officials. If Japan could not be relied on in such simple matters, why could it be trusted to hold its words when questions of national security are at stake? Even in mild judgment, one cannot escape the conclusion that this row was mismanagement by the then Kan administration.

The third explanation currently is the most prominent in public discourse, in part because it is the most straightforward but mainly because it offers an opportunity to share the blame. The Senkaku islands “nationalization” controversy became the in-your-face trigger of the 2012 crisis, infuriating the Chinese side. When Tokyo’s right-wing hard-line governor Shintaro Ishihara visited Washington in April 2012 and expressed his intent to have Tokyo purchase three of the islands, then the private property of a family since the 19th century, the Japanese government correctly understood that this might be a crisis in the making. Prime Minister Noda summoned Ishihara after he returned to discuss the surprise move. Noda expressed his concern that a purchase could possibly even trigger a Chinese occupation of the islands. Ishihara’s trigger-happy response – he was willing to fight over it -- startled Noda and convinced him that it would be better to have the central government preemptively purchase the islands. Just days before the purchase, Chinese President Hu Jintao warned Noda at the APEC conference that nationalizing the islands would be illegal in Chinese eyes. Noda ignored him, and announced the purchases on September 11, 2012.

Some in the Japanese government vainly hoped that the move would actually defuse the situation. That hope proved misplaced when massive anti-Japan protests and destruction of Japanese property erupted in China. Since then, the islands have become a virtual fortress surrounded by Chinese patrols and warships facing off against Japanese coast guard vessels. The Senkaku dispute set off by the Noda purchase has escalated into a standoff in which an accidental or unintended military incident could set off a virtual war.

On the one hand, it is hard not to blame Ishihara and other right-wing elements in Japan for deliberately starting trouble. On the other hand, China must also share the blame for failing to understand the preemptive intentions of Noda, who was stuck between a rock and a hard place. His decision to purchase three of the islands before Ishihara bought them first aimed at preventing a worst-case scenario, and Beijing must have known that. Furthermore, the incident is not as uncommon as Chinese leaders would like its public to believe. Nationalization and privatization of the islands is cyclical and has occurred before. Many Japanese scholars argue that this is only an expression of free-market activity and has no impact on the sovereignty of the islands anyway (as it is only being transferred among Japanese parties). Nevertheless, Japanese officials also failed to interpret that this situation would leave Chinese leaders no choice but to take a hard line and retaliate.

The debate over who started the uproar is relevant in order to identify sensitivities of Japan and China so that mistakes are not repeated, but it should not be overrated either. It has become evident that many petite occurrences could have started the 2012 crisis, and probably the real

blame belongs to the political will of some elements that wanted to see conflict. The other side of this coin is the lack of other politicians and the general public to stand up against the cycle of escalation, both in China and Japan. Overall, the trigger debate should not cloud the fact that a crisis was in the making anyhow. As far as determining the explanatory value of these triggers is concerned, the author would contend that the latest (nationalization) seems the most appropriate, as it represents a clear-cut start to the deterioration of relations that could still have been averted earlier. Yet it would be childish to claim that the previous events did not matter. The Senkaku islands were on the table before the nationalization by Noda. In fact, in March 2012 the Japanese Parliament had assigned names to 39 previously unnamed islands, some of them in the Senkaku cluster. This had prompted China to launch its own naming process for 70 islands.

The unclear onset of the 2012 crisis had two major consequences. For one, it exploded the confines of the dispute. Previously, the East China Sea was generally an intergovernmental issue, with some exceptions. Given that naming, nationalization and an ‘accidental’ incursion into territorial waters have caused problems, the dispute has evidently entered the domain of public opinion, biased media coverage and non-governmental groups. In this volatile context everything matters and the government might even be forced to respond to miniscule and irrelevant issues, especially since none of the roots for the problems have been addressed.

The aforementioned catalysts for the crisis have a further meaningful consequence. Due to the fact that the origin of the 2012 crisis is disputed, both China and Japan feel, or at least have portrayed themselves, as the victim in this affair. Neither believes itself to be at any fault, which makes the search for compromise harder. It has also led both China and Japan to develop distinct narratives of the ensuing confrontations. This is significant when attempting to contextualize all the smaller scale incidents from 2012-2014.

Conflict in the Sea: The Senkaku Maelstrom

Immediately after the announcement of nationalization by Noda’s government in April 2012, a large group of Taiwanese fishermen and coast guard vessels convoyed towards the Senkaku islands. The Japanese Coast Guard (JCG) quickly responded by dispatching its own vessels, eventually shepherding the intruding fleet. But the real problem has been the growing number of incursions by Chinese official ships out to challenge the status quo.

According to JCG statistics, the number of official Chinese vessels entering Japanese territorial waters around the Senkaku islands has increased dramatically. From January 2009 – August 2012 there were 7 reported incidents. In September 2012, after Noda’s government announced the island purchases, there were 13 incidents. In the following three months these perceived provocations would be upheld, with 19 in October, 15 in November and 21 in December. The most recent data for February 2014 reports 9 incidents. In isolation, one might believe that a navigation error on behalf of a captain could have caused an accident. The Chinese government must not necessarily have warranted individual intrusions. However, such quantities of territorial breaches are no coincidence, and this behavior would have at least required tacit approval by the Chinese government, if not more.

It is worth investigating why China would sanction such behavior and whether the Senkaku islands can be viewed in isolation, or whether they are a proxy for a wider agenda. Not to belabor the obvious, but the Senkaku islands can only be viewed in the context of China's efforts to secure its near seas. China's leadership claims a first and second island chain for its strategic objectives (see map). The first chain encompasses the Senkaku islands and is particularly problematic in the South China Sea, where China's "nine-dash line" reaches far into established territorial waters of other nations. In the East China Sea the situation not much better, as China's continental shelf claim significantly violates Japan's territorial waters. It is the explicit doctrine of China that foreign powers (US aircraft carriers) are kept outside the first island chain. Many military observers believe that China aims to, and will have the capacities to, enforce hegemony over its 'near seas' by 2020. This has ramifications for the East China Sea airspace too, which will be addressed in the next section.



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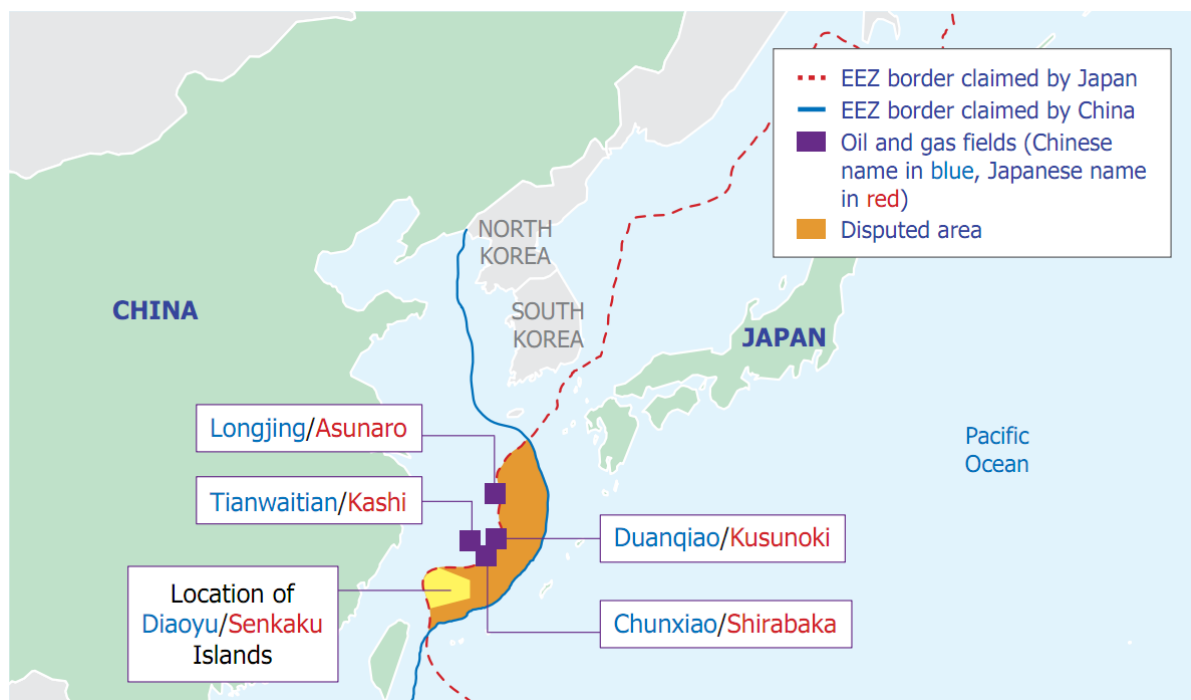
The second island chain, spreading over what is commonly known as China's 'far seas', reaches to the US territory of Guam. Previous reports of the US Department of Defense (2010) to Congress have warned that China is developing "advanced destroyers and submarines (that) could protect and advance China's maritime interests up to and beyond the second island chain." China cannot, however, control a large portion of the Pacific yet. Nevertheless, the intent matters, and China's ambitions are rightly perceived as warning signs in Washington. In the long run this will force an answer from the US on the China question: Will the US attempt to establish an equal power relation or will it attempt to keep an upper edge over China? The latter is true of the military relation, as it is inconceivable that the US grants China any military sphere of influence voluntarily. In that case the US must understand the value of the East China Sea, the waters that are first in line to this strategy of aggrandizement.

China makes no secret of its desire for an equal power relationship, and with it the splitting of the Pacific Ocean. The East China Sea is the first domino in that equation, and the Senkaku islands set the precedent for the East China Sea. Following that line of argumentation, defending the status quo requires willingness to defend the Senkaku islands. Towards the end of her tenure Secretary of State Hillary Clinton appeared to think along the same lines. In January 2013 she stated that Article 5 of the US-Japan Security Treaty applied to the Senkaku islands, indicating that they do present the red line for the US. The Defense Department was quicker. Its 2010 Quadrennial Defense Review addressed scenarios with access-denial and introduced the concept of an air-sea battle, a subtle warning to China that it was being watched.

Recently the Chinese government has declared the Senkakus to be a "core interest", a description typically reserved for highest priorities, like Taiwan and Tibet. This underlines the very real

stakes that have developed, and the true value of the Senkaku islands. On a whole it reconfirms an earlier impression of China: while China's capabilities at present seem overstated, its intentions are worrying at least.

Why would China risk so much trouble for seas it has nothing else to gain from, at least in economic terms? China claims that it seeks to protect trade routes, an insufficient justification that hardly warrants dominance over the East China Sea. Claiming an Exclusive Economic Zone (EEZ) ranging to the end of the continental shelf ironically speaks against an economic argument more than it does for it. This is the case because the richness/economic viability of the potential resource fields is undetermined, while the implications for the Senkaku islands are crystal clear with such a claim. As depicted below, several potentially significant reserves and the Senkaku islands lie within the area claimed by Japan and China.



From: US Energy Information Agency (<http://www.eia.gov/countries/regions-topics.cfm?fips=ecs>)

Economic reasons alone cannot explain China's aggressive actions. Some Japanese scholars argue that China has undergone a motivational change. While economic arguments may have set the agenda a decade ago, China is now led by global power ambitions, which are justified by dangerous emotional vessels such as honor and nationalism. Impart this is rather useful for the hardline government, in fact it is probably partially intended, but it can also be blinding. China's neorealist leaders, according to some Japanese scholars, consider it their natural right as a growing power to claim influence over surrounding territories, just like the United States did. In that regard the continental shelf argument is no more than a handy economic pretense that eases this process. The Senkaku islands, too, are analogous for Chinese expansionism. The prescriptions of this rationale have developed momentum of its own, and have become hard to back down from for Chinese leaders. Weak economic growth might reinforce the necessity for Chinese leaders to produce a foreign policy success that is presentable to the Chinese people.

Three immediate challenges are posed by the Sino-Japanese confrontation in the East China Sea. There is, for one, a very real danger that by some unfortunate circumstance, an accident occurs and war breaks out. It is not entirely inconceivable that certain elements within China might even order an 'accident' if the opportunity arose. Such an occurrence seems much less likely from the Japanese side, however.

One can easily envisage a domino effect taking place if a signal is misinterpreted or a strongly committed captain finds himself at the rudder during a tense showdown. Here the frequently misplaced World War I analogy might be useful: the possibility of a small incident triggering war is given, and this is where the spark can happen. The radar-locking incident in February 2013, when a Chinese naval vessel locked its radar onto a Japanese vessel and helicopter, almost became that spark. China denied the accusations, while Japan called the incident regrettable. At the time the Japanese Defense Minister Itsunori Onodera also felt concerned about a domino situation: "Directing such radar is very abnormal. We recognize it would create a very dangerous situation if a single misstep occurred." Unfortunately, as long as the dispute over the Senkaku islands persists, and it is unlikely that the row will be solved anytime soon, repeats of such near misses are likely to occur. Furthermore, whether in an attempt to show strength or hide weakness, many Chinese and Japanese officials seem resigned to this danger, acknowledging it with an almost frightening passivity.

Although China would not attack the Senkaku islands overtly, it might further its claims via unconventional means. It might permit an escalation to happen by 'accident', but it could also disguise military personnel as fishermen and deploy them to the Senkaku islands (Japanese analysts refer to this as a "grey zone" scenario). The second problem that arises then asks: Whose jurisdiction does this fall under? Which Japanese agency would and could deal with such an unusual situation? In fact, a glance at the history books reveals that the likelihood of such a scenario is not as low as one might believe. There have been attempts to parachute onto the islands or plant the Chinese flag on it; also by civilians. The Japanese Coast Guard (JCG), the Japanese police and the Self-Defense Forces are candidates for dealing with such situations. The JCG appears to be the natural suitor, but it is inadequately equipped to deal with air (parachute) or underwater (submarine) assaults. Moreover, in the case of a larger contingency it would be seriously outnumbered. The US and Japan are currently reviewing their defense coordination guidelines and there seems to be genuine interest to specifically address these unconventional scenarios.

This leads into the third challenge: the role of the US. The function of US forces needs to be distinguished into two contingency scenarios. In the case of an overt, large-scale attack by China, the US will have little reason to avoid its alliance commitment. The precedent set by bailing out on an ally in such an emergency would severely undermine US credibility around the world and embolden its enemies. Precisely for these reasons it seems unlikely that the Chinese are considering such an assault. The second scenario has been debated above, namely the more unconventional, small-scale and possibly disguised approach to the Senkaku islands. Although the US is bound on paper to help in the case of attack, the details would be crucial. The US, today, does have far more reasons to avoid war with China than before. In the latter case it is unclear what role exactly the US could play and more importantly, would want to have. The differences in opinion between Japan and US in this matter will be discussed in a later section.

In sum, the security situation in the East China Sea, particularly surrounding the Senkaku islands, has deteriorated considerably in the last two years. The incursions by Chinese vessels into Japanese waters are not the cause of this; they are an expression of it. Given that the territorial issues are essentially unsolvable, as Japanese and Chinese claims are mutually exclusive, neither side is seriously committed to stabilizing this fragile hotspot. Ergo, it is unlikely that the danger of an accident happening will subside anytime soon.

Conflict in the Air: Dividing the Cake with Air Defense Identification Zones

Since November 2013, the East China Sea dispute has a new dimension of conflict, airspace. China's motivations for claiming an Air Defense Identification Zone (ADIZ) are comparable to the reasons for claiming the Senkaku islands, which are listed above. However, this section is separated from the previous because the repercussions and dangers of an air confrontation are different to a clash at sea.

On 23 November 2013, at the height of struggles over the Senkaku islands, China announced it had expanded the perimeter of its ADIZ, which is depicted below. The foreign ministry claimed that the timing was not for political effect, stating only that the announcement was the result of a policy planning effort that had already begun after the Hainan island incident in 2001. It justified the expansion as necessary for self-protection and upheld that the move was not uncommon. Airplanes entering the zone are now required to fully comply with orders from Chinese airspace authorities or they should expect "emergency defensive measures". To highlight the point, China referred to Japan's unilateral ADIZ expansion in 1972 (after the Okinawa Reversion Agreement) and 2010 (a miniscule alteration to incorporate Yosaguni island). These arguments ignore the fact that by some random coincidence China's claim is over the contested Senkaku islands.



<http://www.globaltimes.cn/Portals/0/attachment/2011/ff5ded89-d1bf-4dd9-a664-52d564a63401.jpeg>

In other words, China knows exactly what it is doing, even if it tries to draw misplaced historical parallels. The ADIZ claim fits the overall picture of China strengthening its grip up to the first

island chain as part of its newly defined 'core interest'. It does not just breach the Japanese ADIZ, but also South Korea's.

With the new ADIZ, China effectively created a perfect opportunity for Japan to rally broad international support behind itself. Immediately after the Chinese announcement, Japan's foreign ministry issued a protest and then a statement expressing "deep concern" about China's attempt to change the East China Sea status quo. The US reacted similarly, stating that it would not recognize the zone. Even the European Union voiced its dissatisfaction. Nevertheless, for safety reasons the US did advise its commercial airliners to comply with China's new rules. But in order not to give any false impression of submission to China, the US flew two unarmed B-52 bombers over the new ADIZ on November 26, 3 days after China claimed it.

In an effort to return the favor by delivering a similarly blatant signal, China has started to violate the Japanese airspace. According to Japanese statements a Chinese surveillance aircraft entered the airspace of the Senkaku islands in December 2012, a first since 1958. The response to these intrusions has become known as 'jet scrambling', expressing the frantic hurry to intercept and escort away the trespassers. That time Japan sent eight F-15 fighters. Overall, the BBC reported that Japan had performed 267 jet scrambles in 2013. Such a statistic is very disturbing, given that it takes only a slight miscalculation for an aerial accident to occur.

Most recently, a buzzing incident by Chinese aircraft seems to have raised the ante. On May 24, 2014, Chinese fighter jets approached extremely close to two Self-Defense Forces planes over international waters in the central part of the East China Sea. One of the Chinese fighters flew as close as 30 meters to one of the SDF planes, according to the Japan's defense ministry. The close encounter occurred in an area where Japan's air defense identification zone (ADIZ) and China's ADIZ, which Beijing recently claimed, overlap.

According to Japan's defense ministry, two Chinese Sukhoi Su-27 fighters approached a Maritime Self-Defense Force OP-3C reconnaissance aircraft from behind. The Japanese aircraft was gathering images. One of the two Chinese fighters crossed the MSDF plane's wake from a distance of about 50 meters. About an hour later, two Su-27 Chinese fighters approached an Air Self-Defense Force YS-11EB aircraft, which was also gathering information. The ministry said one of the Chinese fighters approached about 30 meters from the ASDF plane. Defense Minister Itsunori Onodera said that evening the government had demanded China prevent a recurrence of similar incidents. The Chinese fighters were equipped with missiles, Onodera said.

Both Japan and China blame the other for intruding in their airspace and denounce the ADIZ of their counterpart as illegal and unilateral. To stress their resolve both ignore the instructions of their counterparts and engage in a standoff with cat-and-mouse tactics reminiscent of Cold War antics that were applied at the Berlin wall. This new East China Sea arena has created additional hazards for the entire situation, three of which can already be discussed.

Most importantly, the threat for some freak incident that acts as a catalyst for a contingency scenario has multiplied dramatically. Colliding boats cause dents and possibly leaks, but colliding planes will crash and force nations to execute rules of engagement. An ambitious (or intoxicated) captain can cause less harm than an overly zealous pilot. Also, one should not forget

that such a confrontation could occur anywhere within the overlapping ADIZ, it is not just about the Senkaku islands anymore. Experts in Japan consider this the area where something is most likely to go wrong. In fact, some were surprised that an accident had not happened yet.

Security scholars probably identify this as the real-life version of the chicken-game, with a Japanese and a Chinese pilot flying a head-on collision course, posing the decisive question: “Who will blink first?” The situation is worsened if Japanese and Chinese policymakers actually accept this simplification as an accurate representation of the East China Sea. There are troubling signs for this. Also, Japanese scholars are worried that China is not only playing this game of chicken, but that it is also very bad at it. This could be traced to lacking experience, it is the first time that a formerly isolationist power is engaging in such a standoff, and therefore it is unlikely to recognize some of the symbolism coming its way. Maybe the self-portrayal as a relentless, ideologically driven player does help China, as it will force the Japanese pilot to take evasive action every time. Yet the goal of the game is not success at every price, but success at the lowest possible cost. In that logic China does not give Japan the impression of a rational, growing power, but that of an uncompromising aggressor.

The second additional complication that has developed from the “Battle for the skies” is the entanglement of South Korea. The previous map outlines that South Korea also has an ADIZ that extends deep into the East China Sea. In December 2013, just a month after the Chinese ADIZ was announced, South Korea publicized that it was expanding its ADIZ to include Socotra rock (Jeodo in South Korean and Suyan rock in Chinese), a disputed submerged rock. Both China and South Korea claim the object. Fortunately it is submerged, because the United Nations Convention on the Law of the Seas (UNCLOS) stipulates that submerged reefs cannot be claimed as territory. South Korea recently built a research station on Socotra rock, which China condemned as unilateral and illegal. Due to the ADIZ derived from Socotra rock there are now waters that are claimed by three parties in the East China Sea. Such a triple overlap adds an additional dimension to the dispute, as relations between South Korea and Japan have deteriorated recently. China, in turn, has sought to bind South Korea closer to itself, banking on Abe’s history issues and economic complementarity.

This constellation is not diffused by the third complicating factor in the equation: the closer entanglement of the US in the ADIZ issue. The US is concerned for two reasons. For one, because its planes are violating the Chinese ADIZ too, the US is more likely to be involved in an ‘accident’ that causes a clash instead of being summoned to support Japan in dealing with one. In that case, the US will have less leeway to attempt de-escalation or even to remain uninvolved. Secondly, the US is in the tricky position of being allied and having troops stationed in South Korea and Japan, which are now engaged in a political dispute over territorial and historical issues. It therefore finds itself in the precarious situation of having to not only keep China in check, but also trying to convince South Korea and Japan to ameliorate their differences somehow. At the same time, neither wishes to be isolated from Japan and therefore, every word a US official makes is monitored closely. This is a difficult balancing act in a setup where several parties challenge the status quo and retaliate almost on a daily basis. The entanglement of the US and South Korea in the ADIZ situation has spilt fuel into an already dry forest, waiting to be ignited. It only takes one pilot to behave like the arsonist, and there might be a wildfire.

Conflict in the Media: The “Hot War”

While in the arenas of potential physical confrontation, namely air and sea, both sides have acted with a certain degree of restraint in order not to overtly provoke a war; this cannot be said of the Chinese and Japanese public-relations departments. Instead of a rational, calm debate, both parties have taken off their gloves by resorting to emotional and historical arguments in what can really only be described as a battle for the hearts and minds of the international community. By now, several attack-schemes and reactions can be identified.

The loci of the “war in the media” are the respective foreign ministries of China and Japan. On September 26, 2012, the PRC State Council Information Office published a white paper titled: “Diaoyu Dao, an Inherent Territory of China”. Bluntly stated, the report was a carbon copy of previous position papers. While the first section recited 15-19th century evidence proving that the Senkaku islands were incorporated into the wider Chinese Empire, the second half (cavalierly titled: “Backroom Deals between the US and Japan Concerning Diaoyu Dao are Illegal and Invalid”) repeats the Chinese conviction that all post-WWII dealings with the Senkaku islands were illegal. The last section places Chinese protective measures of the islands into the context of self-defense, based on the previous historic sovereignty rights. Evidently, only a crisis could have spurned this reiteration of evidence and explanation of action. Although the case is not stronger than before, it seems more consistent than the Japanese approach.

On the one hand Japan officially claims that there is no dispute over the sovereignty of the Senkaku islands, on the other it published several position papers and “The Basic View”, a similar white paper to China’s, repeating Japan’s position on the isles. Published in May 2013, the third sentence of “The Basic View” reads: “There exists no issue of territorial sovereignty to be resolved regarding the Senkaku islands.” These papers also deny that there has ever been an agreement to “shelve” the issues, as this would imply a dispute. The fact that “The Basic View” was published roughly half a year after the PRC published its white paper does invite the argument that it was reactionary behavior. Although the sovereignty of the Senkaku islands was not effectively threatened, there must have been some incentive for this somewhat contradictory move (Why write on an issue which one denies the existence of?). Speculation that Japan feared that China was winning the war of sympathy might even be warranted.

Unfortunately Japan seems unwilling to self-reflect on whether its public-relations campaign has been effective. This somewhat inconsistent approach can be a hard sell. Granted, Japan needed to issue a public reaction to the Chinese incursions into the Senkaku islands waters, but this would have been easier if Japan were to acknowledge that there actually is a territorial dispute. Instead of denying the existence of a conflict, Japan should be open to some sort of dialogue. By no means would this mean that Japan is ceding any right to the islands or that it has lost belief in its own claim, in fact the result can be exactly the same as before, but it would be a better sell by far. The likelihood of losing the Senkaku debate would be no higher if such an acknowledgement were made. Stating that there is no conflict is a weak position. Critical observers might feel like parents telling their children that there is no Santa Claus, something their children had wanted to believe so hard, when they remind the Japanese government that continuously repeating that there is no conflict will not make it go away. A truly strong claim would invite a debate.

Instead of having an open discourse, both parties now seem to talk past each other. The spark to this “hot war” in the media probably lies in Prime Minister Abe’s visit to the Yasukuni Shrine on December 26, 2013. Yasukuni honors millions of war dead, but controversy only exists over the enshrined war criminals, including 14 “Class A” war criminals. The visit has been subject to significant debate and widespread international condemnation. As in so many of the East China Sea dispute episodes, the issue has been misrepresented. To establish a more balanced picture the context of the affair needs to be elaborated.

Paying homage at the Yasukuni shrine is not uncommon for Japanese prime ministers. Junichiro Koizumi (2001-2006), made regular visits to the shrine -- creating havoc in relations with China and South Korea. Furthermore, although there is something to be said about Abe’s timing, a year after taking office, the visit was not unannounced. In fact, it was a promise Abe made in the election campaign, reflecting his regret that he did not do so in his first term. Recent polls claim that around half of the Japanese populace agrees with the visit. Of course the Japanese people are not warmongers. Abroad it is frequently believed that visiting Yasukuni shrine is equivalent to an endorsement of the war criminals, and nothing else. Contrarily, most Japanese visit the shrine to pay homage to the remainder of the 2.46 million souls enshrined there, some of which are likely to be relatives or friends. In Shinto tradition, it is impossible to remove enshrined souls from the memorial. Arguably, enshrining the war criminals there in the first place was a mistake. But assuming the Japanese people believe that this process cannot be reversed, one must be able to move on without losing the value of the shrine. The only truly worrying component of the shrine is its adjacent museum, the Yūshūkan. Due to its private ownership, it has the capability to handpick facts and portray history in a way that satisfies the ideological bent of Japanese historical revisionists. Nevertheless, Japanese leaders have always disingenuously declared their visit to be of a private nature, and due to the strict separation of religion from state affairs, Yasukuni has never been a serious problem in Japan. That it is being exploited by right-wing conservatives is lost on a majority of the Japanese population.

In the context of gaining international support, Yasukuni can pose a problem, especially with and for the Abe administration. During his first time as Prime Minister (2006-2007), Abe stayed away from Yasukuni but created an enormous controversy by claiming that the coercion of Korean and other foreign women to serve as military sex slaves (“comfort women”) by the Japanese military in WWII was not proven. His current administration also has a respectable faction of historical revisionists in it and supporters around it. They appeal to nationalistic, right-wing elements in the country, and have become infamous for their denial of historical events, such as the Nanking Massacre. Rumors since Abe came into to office of revising or repeal the 1993 “comfort women statement” of then-Chief Cabinet Secretary Yohei Kono would fuel the already active xenophobia among conservative elements in Japan and outrage international opinion.

The recently appointed NHK (Japan’s public broadcaster) chairman, Katsuto Momii, joined the chorus by remarking in January 2014 that drafting comfort women was commonplace in wartime and “necessary” in order to deal with battle-stressed soldiers. Abe himself has refrained from addressing historical issues lately, stating that there will be no review of previous apologies, which was even praised in Korea, but has yet to reel in the harmful outliers in his administration. By letting them run rampant, his reputation suffers greatly, too.

The Yasukuni episode and the historical revisionist issue have damaged Abe's image in the Western press, which initially gave him high marks for his proactive policies (Abenomics) to reboot the Japanese economy. Without the domestic context it might seem unclear why Abe has put himself in such a position. A cynic might remark that either Abe was badly advised and unaware of the implications that his actions would have, or he consciously accepted the fact that he would be opening massive avenues of attack against himself with the history issue. South Korea, the third major stakeholder in the East China Sea, has strongly criticized Japan's revisionist views on the matter and sought official apologies from Abe. The US has also become increasingly worried by Abe's nationalist views. A Congressional Research Service report from February argued that these views "could disturb the regional security environment". In sum, Japan can only lose in this mud-slinging contest. China knows this and seeks to exploit it.

Abe's goals in the history controversy are an enigma. Perhaps the biggest problem is that he desires to be perceived as Japan's new strong man. A reverse would not fit into this scheme. Several Japanese scholars characterize Abe as a man who will not compromise under pressure unless his primary foreign policy target is endangered. That is the US-Japan alliance, which Abe strongly advocates. To complete the picture, Abe is apparently obsessed with the Chinese "threat." Strengthening the relationship with the US is the most important foreign policy prescription in this strategy, trumping all other objectives. This is why Abe's visit to Yasukuni was surprising to the US, especially after it became clear that US diplomats had warned Abe against such a move. In the US, the history issue and the Yasukuni episode have caused considerable concern, and may have even sparked a reassessment of Abe. Arguably, while Abe was initially perceived as a pragmatic figure with whom business could be done before the incident, now some view him as an ideologue who caters to certain nationalist elements, if he is not one himself.

Abe would be well advised to make an honest effort to put the historical issue on the shelf. It would not be a major shift if he were to reiterate previous apologies for the comfort women. At a low cost, he could easily disarm arguments made against him and regain international support. Unfortunately, showing moral strength is perceived by some as a display of weakness. If Abe could overcome this issue responsibly he could refocus international attention to where it really matters for Japan, the Senkaku islands. Abe's position on this matter will be closely watched in the next months, since some expect him to issue a new statement on the comfort-women issue.

The timing of Abe's Yasukuni visit suggests that there was a political motive behind it and anticipation of a fierce reaction by China. After the initial mutual condemnation, China and Japan immersed into a battle for the hearts and minds of the international community. In this process ambassadors transformed themselves into part-time journalists, especially in key 'battleground states' such as Britain and the US. On New Year's Day Liu Xiaoming, Chinese Ambassador to the UK, blamed Abe for stirring the darkest part of Japan's soul with his visit to Yasukuni in the *Telegraph*, a British daily. With an unhelpful analogy to Voldemort, the antagonist in the Harry Potter series, he accused Japan of returning to militarism. He also invoked the UN charter in his plea to the British people that they should join in the struggle to uphold international rules, which is ironic coming from a Chinese official. Interestingly, the Senkaku islands were not mentioned. Xiaoming's counterpart from Japan, Keiichi Hayashi,

responded in the Telegraph four days later. Notwithstanding, he accused China of becoming Asia's Voldemort. Hayashi argued that Japan has repeatedly apologized for its past wrongdoings and accuses China of blocking any significant progress from being made.

In the US, the Washington Post served as the mouthpiece of this international debate. On January 9, 2014, China's ambassador Cui Tiankai launched an attack on Abe. One week later, Japan's ambassador Kenichiro Sasae responded and accused China of conducting a propaganda campaign against Japan. He attempted to place this into the context of alleged "military and mercantile coercion against neighboring states." Although these arguments are not new, the debate has interesting patterns.

Two broader Chinese attacks can be identified. The first attack blames Japan for trying to upset the post-WWII order. Japan attempts to repudiate these claims by citing the 1951 San Francisco Peace Treaty, which conceded Okinawa and surrounding islands to Japan. The second attack accuses Japan of unilaterally changing the Senkaku islands status quo. Japan responds with three answers to this. It argues that a change in ownership has nothing to do with the claim, that China escalated the issue in 2008 and that China's complaints are disingenuous (because Japan owned the islands since 1895, and China did not protest until economic value became apparent in the 1970s).

China is aware of Washington's reservations toward Abe, and attempts to nurture these with the first grade material Abe continuously provides. Abe's Yasukuni visit involuntarily awarded China a healthy chunk of political capital, which it seeks to deploy toward establishing better relations with neighbors around Japan, such as South Korea. Japan should be worried about the consequences of such a "counter-encirclement", as a China with friends will not only be more powerful, but also more bold. To achieve extra effect, China has consistently entangled territorial and historical issues in its accusations toward Japan. Conflation has its advantages from a public-relations point of view, as Japan's WWII history offers a rich toolbox to paint a dreading picture from, but its disadvantages can be critical in two ways. For one, mixing together history and territorial issues invariably ups the ante. To blatant allegations of aggression Japan will need to respond. At the same time, Japan has not responded directly to these historical allusions, with good reason. That indirectly causes a second problem: both parties start to talk past each other. Japan accuses China of aggression against the Senkaku islands (territorial) while China blames Japan for holding aggressive intentions, due to its past (historical). Ergo, while both parties do a lot of talking, they are not in dialogue. This is not likely to diminish in the short run, as it is a cheap form of conflict both sides have become comfortable in. Both China and Japan believe they can fire shoots in this arena, yet they mistakenly believe that just because there is no physical damage, harm has not been caused.

Recent events confirm the prolongation of the media war in 2014. In late January Japan formally ordered its schoolbooks to educate children that the Senkaku islands are an "integral part of Japanese territory". One month later, reports that China was preparing for a "short sharp war" surfaced. Seemingly unrelated, two days later it was announced that President Obama would meet the Dalai Lama, which was met with the usual strong criticism in China. In March, Japanese scholars claimed that China is waging psychological warfare in the East China Sea.

The simultaneous monologues of Japan and China, which are laden with accusations against each other, have significant implications for the East China Sea crisis. As indicated above, conflation of history and territorial issues has made the discussion messy and harder to resolve. China deserves blame for this, and evidence suggesting that this move was intentional is beginning to pile up. The media has reproduced many of these accusations and thereby partially validated them. One must acknowledge, though China's approach might be deplorable, it is partially successful too. Consequently the stakes have been raised. If both sides portray the other as an aggressor craving for the slightest opportunity to steal territory, every little island must necessarily be viewed as the first domino that cannot be lost through some weak tactic like appeasement.

If China is to be scolded for exploiting the gap on history, Abe must be chastised for leaving it open. Abe is doing no one a favor by not clarifying the "comfort women" dispute and leaving the wild claims of some of the historical revisionists surrounding him unchecked. Of course no leadership runs effectively if it is continuously construed in history, finding itself in a position from which it is perpetually apologizing for previous crimes. However, evidence from other countries, such as Germany, shows that taking the issue head-on has a good chance of effectively removing it from the agenda. Japan would not even need to do this. Abe need only reconfirm his predecessors' apologies. Instead, pushing the issue up the hill will lead to perpetual confrontation with it. Believing that history will haunt the Japanese government in the case of an apology should not prevent Abe from trying it properly once.

Sadly, thus far Abe seems incognizant of these "easy fixes". Arguably, a sincere repetition of the apology would not only leave him in a position of moral strength, but also drive a wedge between China's attempts to conflate historical and territorial issues. Yet in a time of confrontation, Abe probably believes that apologizing might portray weakness. Ergo, Japan retaliates to any media attack China launches. Unsurprisingly, public opinion of the rival on the other side of the East China Sea is at an all-time low both in China and Japan. If governments and media in China and Japan continue to fuel these sentiments, it can leave the populations of their nations with low restraint towards armed conflict, which is worrisome and instable. In such a constellation any loud-mouthed demagogue can enter the fray, offering a scapegoat and a solution. The appeal of foreign enemies has always lured pragmatists.

Fortunately polling numbers do not construct foreign policy. Likewise, as it is not the 19th century anymore (where war was an extended form of diplomacy), a media war cannot trigger an actual conflict. But it can create a mood in which war with the other country begins to seem inevitable. The territorial issues around the Senkaku islands and the conflicting ADIZs cannot be understood properly without the mutual provocations China and Japan have resorted to in their respective media. Ergo, although no human blood has been spilt, the media war surely has no positive qualities to add to the East China Sea crisis. Instead it makes the entire situation more explosive and harder to retract from.

The Potential Conflict: US-Japanese Perceptions:

On the surface it all seems clear. The US and Japan are allies, and if Japan is attacked the US will honor its agreement and help. In recent years US commitment to the defense of Japan has

been questioned among alliance critics. They give rise to a serious concern: What if the US is unwilling to support Japan in a crisis? Although the likelihood of this is still slim, the real problem is that a growing number of critics in Japan are considering that it might happen. All in all, it appears as if US-Japanese perceptions on their alliance are shifting apart. This is no conflict per se, but it could become one if the confrontations in the East China Sea continue, or if there is an escalation. In the harshest terms, this is a problem that will only be realized once it is too late.

Recent developments are central to this problem, but US-Japanese misperceptions are not new. A first case is the Okinawa Reversion Agreement. The treaty was designed to return US controlled territories back to the Japanese in order to foster a closer relationship and reward Japan for her progress toward democracy. Yet it contains misunderstandings that persist today. For one, the US returned the Senkaku islands with reluctance, not because they possessed any value at the time, but because of the confused legal position the US was getting into. Secretary of State Kissinger knew that returning administrative rights but not judging on sovereignty due to the dispute with China was a weak position to take. In the grand scheme of things, with the Nixon doctrine and Japanese pressure playing their part, he still ended up accepting the treaty. In Japan, however, the reversion was perceived as a final endowment of sovereignty over the islands. Leading China experts in the US had warned that the reversion would be misinterpreted in Japan, and warned that administrative rights and sovereignty are intertwined. The US allowed Japan to think that it stood behind Japan on the Senkaku islands question. Not only did the US not sign up for that, they did not even see the reversion as a strong affirmation of US support. Instead it was an invitation for Japan to assume a bigger role in defending herself and organizing her peripheral islands.

Today the US is still the backbone of Japan's security arrangement. The Japanese public believes that Americans also stand behind the alliance with their military power. Yet, there is a nagging feeling in Japan that the US is weakening in its resolve to honor its alliance commitments. Hence, the drive by the Abe administration to remove the ban on the use of collective self-defense may reflect a desire to shore up the alliance on the Japanese side. In truth, the US has many commitments and is struggling on all ends to meet them. US citizens are not fervent defenders of freedom around the world, or even warmongers as in Iraq. They are war-weary. They are not faced with daily Chinese assertive measures in their territory, and arguably do not even care. If something were to go wrong near the Senkaku islands it is far from certain that there would be an outcry of Japanese support in the US, and that would not even be enough.

Similarly, the US has also developed misperceptions about Japan. Granted, the lacking transparency surrounding Abe and his historical revisionists, as well as the Sino-Japanese media war conducted in the US, has not exactly provided a conducive atmosphere for rational deliberation on the matter. Americans can hardly be blamed if they are unsure about Japanese intentions in the East China Sea. Most Japanese, however, abhor the consideration of any type of conflict, and fervently support their pacifist constitution. They believe they can rely on the US to uphold an effective deterrent preventing war. But faced with news of historical revisionism and Japan's constitutional reinterpretation, many Americans fear entanglement in the East China Sea. To them, the US-Japan alliance is one of many unequal treaties the US is devoted to. While the

US would help Japan in a contingency, the Japanese constitution makes it impossible for Japan to help the US if it were attacked. This is not the essence of a true alliance.

China has become increasingly important to America. From an economic point of view, China has overtaken Japan as the US' key Asian trading partner. China matters to US policy makers, and they would have an uncomfortable task when weighing the costs and benefits of supporting Japan against China in a contingency scenario. The US is stuck between these economic considerations and providing vocal support to the US-Japan alliance in order to sustain an effective deterrent. And the stakes are growing. As trade interdependence grows, and the image of China and Japan in the US develop, the magnitude of a potential decision will not decrease. Some pessimist commentators in Japan are already of the opinion that China matters more to the US, and that Japan should be ready to fight alone.

The problem of the divergences in US-Japan public opinion is that the real consequences might only be understood once it is too late. In Japan it could lead to a perceived stab in the back, which paves the way for a strong backlash. For these reasons Japan watches every statement of US policymakers very closely. Obama's recent remarks will have soothed suspicions, but the question of support from the US populace remains. Moreover, Japan also watches how the US handles other crises. Image plays a key role for Japan, and it might worry what effect Syria and the Ukraine is having on the US credibility.

Would the US get their hands dirty over tiny islands in the East China Sea? This is a question Japanese diplomats are all too keen to learning an answer on. Some scholars in Japan even blame the Democratic Party of Japan (DPJ) for the perception gap, arguing that Foreign Minister Seiji Maehara forced the issue onto Secretary of State Clinton. Such moves ironically spark fear of entrapment in the US, and ultimately produce a result that is opposite to the intent (isolation). Overall, it is unclear whether the US would opt to be a neutral observer or a loyal ally in the East China Sea. Both positions have significant downsides, strategically and economically. The recent crisis has underlined how much public perception matters in conflicts nowadays. If Japan and the US are not careful, increased tensions or even an escalation might lead to a bad awakening if the own ranks disintegrate.

Scenarios: What could the 2012 Crisis develop into?

There are obvious difficulties when predicting how the four dimensions of the East China Sea conflict will develop. There are, broadly speaking, four avenues into which the whole affair can progress: multilateral agreement, escalation, 'softball' or 'hardball'. In the following section they will briefly be outlined and discussed in terms of their likelihood. They are listed in an order of increasing probability, according to the author's judgment.

Multilateral agreement: A code of conduct for the East China Sea

Although the possibility should not be discarded, it is highly improbable that Japan and China will come to some form of agreement anytime soon. When the President of the Republic of China, Ying-jeou Ma, called for a code of conduct for the East China Sea on February 26, 2014, both Chinese and Japanese experts were close to calling the attempt naïve due to the behavior of their adversary. Japanese scholars argued that China would not accept any norms that attempted to overturn the status quo and create new rules. Cooperative measures are impossible with a

rising power that seeks to establish a growing sphere of influence. Chinese policymakers blamed Japan for upholding an unfair artificial status quo.

Both in China and Japan it seems too late for such an approach. The leadership on both sides would perceive it as a sign of weakness if such a move were made, especially after heating up the issue in the media. Nationalist forces would play their part in making the government feel this way. For the same reasons it is also unlikely that international law, such as the Law of Sea Treaty (UNCLOS), or other bystanders, like the US, might successfully mediate between the two.

‘Softball’

Perhaps the simplest solution is to sit back and hope that the issue fades away. If both China and Japan were to play out their disputes softly, tensions might just relax. This can happen deliberately, by for instance gradually decreasing the amount of vessel incursions into Japanese waters and moderating nationalist accusations and inflammatory rhetoric. Yet, there are signs that this process might not even be started voluntarily by China or Japan. China has often been accused of diverting attention from domestic problems by citing dangers abroad. It is conceivable to consider China’s domestic problems growing and eventually overwhelming the agenda of the party. One example is pollution in cities such as Beijing. Desertification or human rights are other potential candidates, stagnant economic growth looms become one. China might be forced to look inward, which would relax the East China Sea situation automatically. Japan’s administration, which at times is blamed for being obsessed with China, might face a similar situation (albeit less intense). Energy issues, demographics and the success of ‘Abenomics’ all threaten to dominate Japan’s agenda in the near future.

What the previous thought-experiment indirectly exposes is that it is perhaps not against the interest of China and Japan’s political leadership to be at loggerheads with each other. In other words, believers in ‘softball’ between China and Japan might be decried as naïve, as there is no reason for China and Japan to come to terms. Moreover, having invested so heavily in the conflict, especially in the media by invoking nationalism and pride, some might even consider stepping down from assertions political suicide. All in all, it might seem too late for this outcome.

Recently, however, there have been signs indicating the opposite. In Japan, Shotaro Yachi (a key advisor to Abe and now head of the national security bureau) recently coined the term “strategic patience”, which he described as “refrain(ing) from responding emotionally” to provocations by Beijing. In China there are also indications that ‘sitting out Abe’ might be an intelligible foreign policy alternative. In combination, both policies might take some wind out of the sails of this crisis. However, both China and Japan make themselves hostage to the goodwill of their adversary by opting for a de-escalatory strategy of such a kind. It would hardly be a sustainable situation, and it does not seem likely either.

A Domino-like Escalation

There is a real threat of irrational behavior exploding into conflict in the East China Sea. Both in the conflict in the seas and in the skies, pilots and captains can now force rules of engagement if they have a patriotic day, or simply miscalculate. This essay has argued that it is unlikely that either side will openly declare conflict on the other. Rather, assertive measures near the Senkaku

islands, possibly with some misinterpretation or a false turn of a boat, can trigger a conflict. It is worrying when considering that China is not experienced with such a cat-and-mouse game and that Japan believes the US to be behind it without exception. Both sides seem unaware that small accidents can easily pile up into a war. Recent WWI analogies might be applicable here, because in 1914 the assassination of Archduke Franz Ferdinand spiraled into a Pan-European war, costing millions their lives.

Paul Dibb, an international relations scholar, recently recited Joseph Nye when commenting on the East China Sea crisis: “War is never inevitable, though the belief that it is can become one of its causes.” The US, but also the Japanese and Chinese public, all share the responsibility of making it clear to their leadership that they are concerned about the danger of war and seek betterment. Right-wing fantasies need to be dispelled, and an effective means of doing so is through the polls.

Hardball with US support:

This author argues that while a code of conduct is unlikely, and softball or an escalation seems possible, it is probable that both Japan and China will entrench their current positions and refrain from relaxing tensions in the East China Sea. In doing so, Japan will seek reassurances from the US, similar to the one given by President Obama on his 2014 trip to Japan. China will, in turn, maintain assertive measures near the Senkaku islands and with the ADIZ in order not to give the false impression of having submitted to US-Japan resistance. This continuation is likely, and it is not a success story. Instead, many of the risks outlined in prior sections will continue to pose a problem. Even if tensions appear to quite down, which can always happen in the short-term, the dispute would not be solved, only stalled.

Many recent observations underline that neither China nor Japan is looking to back down and negotiate. Reinterpreting the constitution, passing higher defense budgets and publicly voicing concerns about Chinese expansionism are some of the Japanese ways of signaling this. A recent National Security Strategy paper foresees a more proactive role for Japan in the defense of her territory. In China, upholding assertive measures near the Senkaku islands, maintaining the integrity of the ADIZ and publicly criticizing Japan paint a similar picture.

The approach contains many obvious dangers, but if the US can mount an effective deterrence strategy at the Senkaku islands and in the East China Sea in general, it can prove worthwhile in the medium term. This depends on China recognizing the credibility of US support. In the long run certain factors, such as China’s increasing military capacities, will make it harder to sustain this strategy. At the moment neither the US nor Japan makes the impression that they are developing a long-term strategy for the East China Sea.

Conclusion

It is disturbing that none of the four introduced prospects for the East China Sea, not even the unlikely and naively optimistic ‘code of conduct’ scenario, solves the central problems: sovereignty over the Senkaku islands and of disputed waters in the East China Sea. Also, the scenarios listed above are opposites – war or cooperation and ‘softball’ or ‘hardball’. Sino-Japanese relations might end up midway. Or, they could cooperate on economic issues but continue their disputes in territorial questions. Yet, even if cooperation occurs, or if the issue

does not figure as prominently in the press for some time, this should not deceive into the misperception that anything has been solved. As it stands, the problems in the East China Sea are here to stay.

The 2012-14 crisis, in its creation, its four major dimensions (conflict at sea, in the air, in the media and maybe in US-Japan perceptions) and possible outcomes, invites several observations.

The unclear start to the whole mess, either in 2008 (JDZ), 2010 (boat-collision incident) or 2012 (nationalization), has exploded the confines of the crisis. Now anything matters. Uncertainty over the start of the crisis has allowed both Japan and China to develop distinct narratives of what has occurred – the only commonality they share is that they both believe they are the victim and that the other is challenging the status quo. However, the fact that the trigger is not certain should not cloud the fact that this crisis was long in the making.

The conflict in the sea has broader geopolitical causes, mainly the desire of China to achieve some form of sphere of influence, in which it attempts to foster first and second island chain claims. Assertive measures have focused around the disputed Senkaku islands, which have become the first domino in the equation, both for China and Japan. The main challenges that the conflict in the seas poses is that needless incidents or accidents might escalate the situation, Japanese jurisdiction is unclear and the role of the US is ambiguous.

The conflict in the air is a new dimension in East China Sea relations, sparked by the Chinese ADIZ claim in late 2013. Although the causes for such a move are similar to those in the conflict for the seas (rise of China, desire to change the status quo), the implications differ. For one, it is a far more dangerous game of cat-and-mouse that is being played, and many have argued that China is inept at playing it. The stakes are higher: boats will collide and leak, but planes will crash. Secondly, in the ADIZ sky dissection process, South Korea enters the fray. This can really backfire for Japan, as South Korea and Japan have not been on best terms recently. The US will need to balance its position and consider what position to take between South Korea, Japan and China. Thirdly, the US needs to be careful not to become involved in the accident that causes the crisis. If Japanese and Chinese ships collide near the Senkaku islands the US has more options than if China locks its radar onto a US aircraft in China's unilaterally claimed ADIZ.

The media war unofficially started with Abe's visit to the Yasukuni shrine. Since then it has become the only hot war, as China and Japan have engaged in a battle for the hearts and minds of citizens across the world. The fact that this is a cheap, practical and non-lethal conflict clouds the serious ramifications that the media war contains. It unnecessarily ups the ante, forcing politicians to respond even though they might not want to. It also makes it harder for a compromise to be found, as neither side wishes to negotiate with an adversary that has made or tolerated nationalist/xenophobic slurs. China can be blamed for deliberately conflating history, nationalism and territorial issues in this debate. Abe must be blamed for not considering the consequences of his visit to Yasukuni, but also for not conducting 'easy fixes'. Cleaning up the history mess, reigning in the nationalists and recognizing that the Senkaku islands are contested and need to be discussed, are all measures that could alleviate the situation (without losing face or spending billions). China, in turn, should understand that blaming Japan for wanting to upset

the status quo yet simultaneously conducting assertive measures in the East China Sea do not go hand in hand. They contradict each other, and with time this contradiction will become exposed.

The last dimension, the growing differences in US-Japan perceptions, is a crisis waiting to happen. Once it does, it will be too late to fix it. Japan should be more concerned about the image it is presenting abroad, especially in the US, and consider that the US does not want to get entangled or isolated. The issue needs to be carefully addressed, but not neglected, as the US remains the backbone of Japan's security.

As a guide for further research, the author would posit that since the East China Sea is a melting pot of historical, economic, political, nationalist and geo-strategic arguments, establishing a complete picture is a daunting but commendable undertaking. As a recollection of recent developments, this essay has only scratched on some of the historical or economic arguments, and it would be exciting to incorporate further background into the analysis of the 2012 crisis.

Finally, it should be remarked that although the term "escalation" has been used plentifully, it should be treated with care. A true escalation is an open conflict, and many of the incidents referred to represent less of an escalation than a rational political calculation on behalf of China or Japan. Both China and Japan are still in charge of the situation. This essay has offered many worst-case scenarios, and perhaps the situation is not as bleak as it seems, but it definitely deserves attention. The author would contend that this could still be the golden hour of determined diplomats. It is never too late for compromise.

Impact of Japan's Historical Dispute with China on US-Japan Relations

By Xueting Zhang

When Japan's Prime Minister Shinzo Abe surprisingly visited the Yasukuni Shrine on December 26, 2013, a year after he reassumed that post for the second time, it was foreseeable how strongly China would react. But the reaction was not at all as intense as when the previous Prime Minister Yasuhiko Noda in 2012 "nationalized" three of the disputed Senkaku Isles that China claims. At that time, protests and violent boycotts of Japanese goods broke out all over China, causing enormous damage to Japanese property. This time, the reaction was official denunciation of Abe for stirring up the historical pot one more time. During his first time as the country leader in 2006-2007, he had stayed away from Yasukuni, but now, he was fulfilling a commitment to his conservative followers by going to the place where Class-A war criminals were enshrined along with millions of the war dead.

Abe's visit reopened the history issue that had lain dormant between Japan and China since the early 2000s, when then Prime Minister Junichiro Koizumi had regularly paid homage at the controversial shrine. No riots this time, but the denouncing of Japan on the wartime historical problem once again went viral on popular Chinese social websites. Abe may have anticipated such a reaction from China, but it was Japan's ally, the United States, which surprised him – and China. U.S. Ambassador Caroline Kennedy issued an unprecedented Embassy statement expressing "disappointment" regarding Abe's Yasukuni visit – mainly because it further complicated Japan's already sour ties with China and South Korea, another country with a grudge against Japan due to its militarist past. The Japanese conservative media immediately took off after the American ambassador, whose image in nationalist eyes had changed from a "sweet American princess" to a sharp critic of Japan. Interestingly, China, taking advantage of the sudden change of position by the U.S.— always considered to be neutral on the Yasukuni issue – used it as a lever against Japan. Chinese commentators began to express their hope that the U.S. would rein in Japan's unrestrained right-wingers who filled the blogs and segments of the media with anti-Chinese rhetoric¹.

Obviously, the issue of Abe's visit to Yasukuni is but one aspect of a changing environment in the region that has "entrapped" the U.S. as Japan's ally which wishes to see good relations between Japan and China, not disputes over territorial and historical issues. The Obama administration in its rebalancing or pivoting to Asia as a new policy has been changing its diplomatic strategy to one of engagement with China, while taking strong stands on maritime issues with that country in the South and East China seas. Japan and China, both with new leaders who apparently will never meet, do not at all fit into the U.S. goal of encouraging a trilateral relationship among Japan, China, and the U.S. in the interest of smooth management of East Asian regional affairs, as well as cooperation on global issues. In this case, Yasukuni has poisoned the well of potential Sino-Japanese goodwill that marked Abe's first time as Prime Minister. This paper will examine in detail how historical problems left to fester can seriously

¹ Makinen. "Japan."

damage a bilateral diplomatic relationship, Japan and China's, even though economic relations between the two countries have been booming. In such a setting, the question of what the U.S. can possibly do to ameliorate the tensions between them and somehow restore balance to the triangle it would like to see.

The Changing of the Tides

China's rapid economic growth to become the second largest economy in the world after the U.S., and its social development that includes the rise of an affluent urban society, could account in large part for a significant change in both the U.S.'s and Japan's policy approaches to that country. China surpassed Japan in GDP in 2011; and it presently is the U.S.' second largest trading partner (after Canada) and Japan's largest trading partner^{2 3}. Economists predict that China and the U.S. will become each other's largest trading partners within the next ten years⁴, and, given the presence of Chinese goods in the U.S. market, not at all impossible. Stronger economic ties between the U.S. and China, though, have its advocates and critics in the United States. During the last U.S. presidential campaign, China was attacked in speeches and TV ads for "taking away American jobs." But more typical are the advocates of enhanced economic and diplomatic relations, Under Secretary of State Robert Hormats spoke of the "mutual benefits" and "win-win cooperation" of bilateral ties in a recent speech at the Hopkins-Nanjing Center⁵. Moreover, a report by the China-U.S. Exchange Foundation also emphasized that deepening cooperation between the two countries is beneficial not only to bilateral economic relations but international development, as well⁶.

Therefore, unlike the earlier postwar years, U.S. has begun to rethink its traditional approach towards the balance of power in East Asia. While it now is even more important for the U.S. to maintain its strong security ties with Japan, given the North Korea threat and China's naval advancement into the South and East China seas, it is also essential to the U.S. to build strong diplomatic and economic ties with China. The U.S. might have turned a deaf ear to regional disputes before, particularly while it was preoccupied with the Iraq and Afghan wars, but it no longer has the luxury to do so. The balancing act then for the U.S. is to keep good ties with both China and Japan, while encouraging those two countries to repair their strained relations. There is a desire not to get caught in between the two countries' dispute – certainly not a winning situation.

That challenge will not be easy to meet, since China already sees the strengthening of the U.S.-Japan alliance as aimed at "encircling" or even "containing" it, especially when President Obama made it clear that the U.S. would defend the disputed islands under Article 5 of the U.S.-Japan Security Treaty. Even though the U.S. maintains that the territorial dispute should be treated separately from the historical issue, already they have become mentally linked in China. A misstep could easily provoke latent hostility in China, damaging the current eagerness for cooperation with the U.S. It is a commonly held notion in China that the U.S. is both its most

² "Top." U.S. Census Bureau.

³ Obe. "Japan's."

⁴ Ding. "US."

⁵ Hormats. "Future."

⁶ Ding. "US."

important international partner on the global stage and ultimate rival. One misstep then could tilt the scale toward enmity.

While Abe's approach to China, even before Yasukuni, has been to focus on a diplomacy of encirclement, while beefing up its military in the southern islands facing China, Japan's basic policy still favors enhanced economic ties with that country, the so-called "hot economics, cold politics" that characterized the Koizumi years. Even with the arrival of a Prime Minister with revisionist views of history and a nationalistic agenda, and with the escalating tensions over the Senkakus, economic relations did not become any less important. Indeed, with island tensions building, Japan's economy suffered with a harsh decrease in exports to China⁷. It would not be happy news for Japan if interdependent economic ties with China continue to be affected by icy political relations.

The reality is that the two countries know they can mutually benefit from growing economic cooperation, but neither side at this time are willing to take steps, starting at the top, to repair political ties. While China serves as Japan's largest trading partner, replacing the U.S., Japan only comes in as third on China's list⁸. But that relationship of dependency could change should Japan begin to shift its production investments away from China by setting its sights on India, Southeast Asia, and even the Middle East and their lucrative markets⁹.

Another hurdle between Japan and China is whether Abe is turning Japan into a "country that can make war." Without the U.S., Japan's military power is no match for China's, but at the same time, Japan's alliance with the U.S. has not made it necessary for Japan to have more than the minimum force necessary to defend itself. China is worried that Abe's plan to amend the Constitution to turn the Self Defense Forces into a recognized army, and the reinterpretation of the collective self-defense ban could be taken as a giving Japan a war-making potential.

Abe's Historical Views

Long before Abe reassumed his position as President of the LDP on September 26, 2012, he constantly spoke of his goal of building Japan into a "beautiful country". He even wrote an autobiography, *Toward a Beautiful Country*, which was filled with nostalgia for the past and patriotic gestures toward Japan's future. His words themselves may look pleasant, but Abe's critics see his view of a strong Japan as a hawkish move to induce nationalism in Japan and beef up its military forces, as well as its economy. Abe himself, in one interview, stated, "I have not changed my views from five years ago when I was prime minister that the biggest issue for Japan is truly 'escaping the postwar regime'¹⁰." This "postwar regime" mainly refers to the international order that came into being after World War II under the San Francisco Peace Treaty, with the five Allied Powers at the center of international decision making (as can be seen through being the five permanent member states of the United Nations Security Council), and Germany and Japan, who were defeated in war, be permanently deprived of national armies and the right to wage war.

⁷ Nakamichi. "Japan."

⁸ "Top." China Daily.

⁹ Jackson. "Island."

¹⁰ McCurry. "Japanese."

Nearly 70 years after the war, in the eyes of Japanese nationalists, Japan has been forced to remain a “subordinate” of the U.S. and to submit to historical criticism from Asian neighbors for Japan’s wartime aggressions. The nationalists deny that such atrocities as the Nanjing Massacre even took place, and their view of history, as seen in their writings, tries to justify Japan’s entry into war and glosses over its wartime conduct. Abe, who is influenced by such views, has made statements in the past, such as denying that WWII “comfort women” for the Japanese military were coerced to serve as military sex slaves.

The views of Abe and his followers, some of whom have been appointed to positions in his government, suggest that Japan should be released from its wartime memories, and the need to apologize repeatedly for its conduct at the time, and move on to build itself in to an internationally competitive state, both economically, as his famous Abenomics intends to do, but also in political and strategic terms. This desire to break with the postwar regime is best seen in his and his party’s desire to “re-interpret” the Japanese Constitution to allow Japan the use the right of collective self-defense – a change that could put the Alliance with the U.S. on a more equal footing. Asian neighbors see such a move as turning Japan into a war-capable country.

“Escaping the postwar regime” is a loaded term for China and South Korea, as countries that suffered much from imperial Japan’s militarist acts. South Korea has its comfort women issue, since so many Korean women were “recruited” to serve the military from Japan’s colony. Although Japan apologized in 1993 and tried to make amends to the unfortunate women involved, the issue has never been laid to rest. The Abe administration, while “inheriting” the apologetic statement, has promised to “review” the investigation that went into it, thus casting doubt on its authenticity. This has upset South Korea even more.

China, too, has long memories of a number of wartime atrocities from the Sino-Japanese war, starting with the Nanjing Massacre. The idea of Japan under Abe heading toward being a “normal” country with a strong military evokes the past militaristic Japan, and undermines in Asian eyes the image of pacifism in postwar Japan. Even the family history of Abe himself seems hostile. Grandson to former Prime Minister Nobusuke Kishi, young Abe was close to him and had a very strong respect for him and his policies. Abe’s efforts to rebuild Japan into a strong nation economically and militarily and his agenda for constitutional reform, are seen partially as fulfilling the dreams of his grandfather. But the name Kishi rings another bell in China, for Abe’s grandfather was an official of Manchuria’s Ministry of Industry during WWII, and was accused of being a Class A criminal by the International Military Tribunal of the Far East, though never indicted.

Abe has said that his visit to Yasukuni last December was to honor Japan’s war dead and not the war criminals also enshrined there. He also has let his cabinet members visit the shrine on their own accord. China, however, sees his visits to Yasukuni as tantamount to worshipping war criminals. Since 2012, Abe paid several visits to the Yasukuni Shrine: one on August 15, 2012 (the anniversary of the end of WWII), another on October 17 in the same year, and the third on December 26, 2013. While the first two visits when he was just a member of the Diet stirred no controversy, the December 2013 visit made Abe the second Prime Minister since Koizumi to visit the shrine since 2001. After the December visit, Chinese foreign ministry made it clear that

Abe is “unwelcome” in the country, and emphasized that Japan would not be able to develop future relations with its neighboring countries if it does not face its history properly¹¹.

Yasukuni Shrine

Yasukuni Shrine is a traditional Shinto memorial sitting in the middle of Tokyo. Built in the Meiji Era, Yasukuni, unlike other Shinto shrines, is exclusively devoted to worshipping those who fell in battle starting with the Meiji Restoration and culminating with World War II. The controversy over the shrine erupted in 1978, when it was revealed that fourteen Class A war criminals had been recently enshrined there, as well. The shrine contains a controversial historical museum, Yushukan, which contains a huge exhibit of memorabilia from Japan’s wars, particularly WWII. The descriptions that accompany the exhibits are generally considered to be revisionist views of Japan’s military history.

Under the Constitutional precept of “separation of state and religion,” Yasukuni is a private organization and thus not under the control of the Japanese government. There is no official leverage to compel the shrine to remove war criminals, and the priests there have refused to do so. Since Yushukan is a private museum, the Japanese government can legally claim that its exhibits do not represent an official view of history. The Yasukuni controversy continues to be kept alive as long as hordes of conservative politicians, and now the Prime Minister, pay homage at the shrine on special memorial days. China sees such visits not as private acts but blatantly “official.” Yasukuni is treated by the conservative political establishment as a kind of Arlington Cemetery (even making overt comparisons to such), there being no real alternate (except for a small private war-memorial cemetery at Chidorigafuchi in Tokyo). It is thus seen as the “official” war shrine not only by Japanese conservatives, but also by China and other Asian countries affected by Japan’s wartime acts. Prime Minister Koizumi always maintained that his paying homage there was a personal act, but China and other countries saw it otherwise. Rationalizations about the shrine have not made the Chinese any less heated.

The LDP has been split over the handling of the shrine, with a dovish faction either wanting to establish a secular site as a war memorial, or convincing the Shinto priests to remove the spirits of the war criminals by special rites. Yasukuni also has divided the Japanese public over the propriety of Japanese leaders paying homage there. While many Japanese, oblivious to the war-criminal issue, visit the shrine annually to pray for their own dead or as tourists, polls show the country is indeed divided on prime ministerial visits to pay homage there.

Two major dailies, the Yomiuri Shimbun and Asahi Shimbun, conducted polls when Koizumi visited on August 15, 2006 and again when Abe visited on December 26, 2013. In 2006, Yomiuri showed 53% supporting and 39% opposition to Koizumi’s visit, while Asahi had 49% supporting figures and 37% in opposition. In the 2013 polls on Abe’s visit, Yomiuri had 45% supporting and 47% opposing, and Asahi had 41% supporting and 46% opposing¹². The numbers have not changed to a great extent. Although we can see a slight increase in the percentage of opposing opinions, the polls still demonstrate an evenly divided pattern. Even among those who oppose the visits, many do not recognize the real controversy behind Yasukuni and merely express that

¹¹ “China.” Xinhuanet.

¹² “Asahi.” The Asahi Shimbun.

the visits will ruin relations with neighboring countries. Most young people may not even know the fact that Class A war criminals are enshrined there.

So why do people even support Yasukuni visits when the shrine has become so heavily politicized? Supporters, and maybe even the visiting Prime Ministers themselves, believe that Yasukuni's main purpose is to memorialize the sacrifices carried out during Japan's wars. Therefore, all who died in war should be paid respect to with no discrimination. The irony, of course, is that the war criminals did not die in war defending their country but were sentenced to death after the war for having sent millions to their deaths.

Comments on Japanese blogs about Yasukuni visits are usually flooded with supporting voices, stating that Yasukuni is a domestic issue and China and other countries should not interfere with the acts of worship there. Some even expressed as "touching" the short videos showing Abe giving his respect to the war dead.

The strongest opposing argument is that Yasukuni is a place that *honors* the sacrificed, instead of being simply a memorial. In this case, the Class A war criminals enshrined did not die in battle; they died for their crimes that included mass atrocities and were executed after an international trial. They should certainly not be honored, and even placing them among the common soldiers is disrespectful to those who lost their lives for the country. After the Class A war criminals were enshrined in 1978, the Emperor of Japan refused to visit Yasukuni ever since.

Then, why did Abe, knowing all the trouble it would cause, still risk his domestic popularity and international reputation by visiting Yasukuni? In one sense, his act is clearly consistent with his attempt to build a "beautiful and strong" Japan. He may have believed that his sincere act of worship there would be understood as a call for peace and not a celebration of war. He also had to make good on a promise to his follower to visit the shrine during his first year in office.

But the visit comes along with much a big price tag for the Abe administration for it comes along with other assorted historical baggage that Abe carried with him into office. If it was not for the accompanying package of nationalistic words and deeds, Abe's visit would have had created only short-term trouble for him. In realistic terms, China sees this particular visit as symbolic of the entire Japanese government now shifting to the right, though that may be an exaggeration, and part of a nationalistic agenda that may change Japan's future course. It did not happen overnight, however, for Japan's transition to the right of center has been seen as a slow transition, punctuated in 2009-2012 by three years of a "liberal" Japanese government under the Democratic Party of Japan (which had its own serious problems with China over the Senkaku territorial dispute).

Abe's first time in office, 2006-2007, is seen as the start of the transition. Even though Abe chose not to visit Yasukuni during that period, and made serious efforts to repair ties with China and South Korea that Koizumi had damaged, his historical views in the end tripped him up. His Achilles heel was his open rejection that the Japanese military was involved in the coercive recruiting of young women, mostly Korean, as "comfort women" for the troops. Ironically this was about the same time when Japan was striving for a seat as permanent member of the UN

Security Council¹³. The comfort women issue even created open tensions with the U.S. Congress, which ultimately passed a resolution calling on Japan to make a proper apology for the way those women had been treated. Abe also began to introduce his current policy agenda to turn Japan into a “normal country,” by encouraging the teaching of patriotism in schools, embarking on constitutional reform that included changing the war-renouncing Article 9, and removing the self-imposed ban on Japan using its right of collective self-defense.

The media uproar then and since has typecast Abe as an “arch-nationalist” and a unreconstructed historical revisionist, and his return to power in 2012 was met with much skepticism and open criticism in the Western press. Though he was given high marks on Abenomics, a serious attempt to reboot the deflationary economy, his “hawkish” views were subjected to constant scrutiny and severe criticism from day one. Perhaps even more worrisome to his critics were his appointments of nationalists to key posts. His “friends” then publicly spouted views that were anathema to Asians and even Americans, further hurting the Prime Minister’s international image. He has tried to make amends by such promise not to change the official statements of wartime apologies made by previous prime ministers, and he has launched a pro-active diplomacy that has taken him to many corners of the world, but the historical bugaboo keeps peeking out of the government closet.

With Right-minded Friends Like This, Who Needs Enemies?

Abe’s appointments of unreconstructed rightists to certain official posts have done him enormous international damage. The most well-known was appointing his friend Katsuto Momii to head NHK (Japan’s BBC) in December 2013. Hand-picked by Abe himself, Momii immediately betrayed Abe’s trust by making a series of wild public statements, such as claiming that the use of comfort women was a common practice by even the US military at the time. Another NHK appointee was Naoki Hyakuta, who had campaigned for a rightist candidate in the election for the governor of Tokyo¹⁴. Hyakuta claims that the Nanjing Massacre was fabricated and never happened. Others who have hurt Abe include Sanae Takaichi, who is the policy chief of the LDP. Though she is an intelligence women able to hold her own in the male-dominated world of LDP politics, her historical views are revisionist. She has stated that that she cannot agree with the word “aggression” used in the Murayama Statement – a cabinet-level formal apology made in 1995 by Prime Minister Murayama to Japan’s wartime victims – and claims that she does not feel any remorse towards the war victims¹⁵.

More disturbing has been the hijacking of the Internet by rightist groups and individuals. Searching key words such as “Nanjing massacre” and “textbook revision” on the Japanese Google will give you no more than one-sided reports and rightist blogs page after page. The conservative mass media spends enormous effort attacking anyone who dares to criticize revisionist views, and even more effort on anti-China or anti-ROK diatribes. Even the U.S. ambassador to Japan has been subject to such attack-journalism, not only for her statement of disappointment with Abe for visiting Yasukuni, but for just about every move or statement that she might make. There seems to be little in the liberal media to rebuff the conservative line¹⁶.

¹³ Dudden. “Abe’s.”

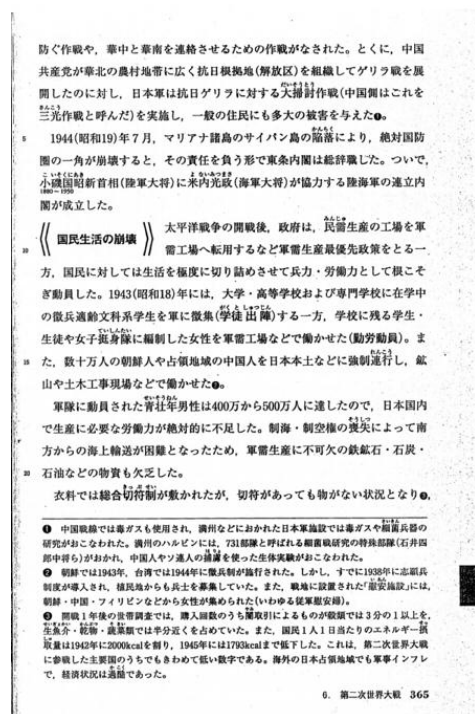
¹⁴ “My.” The Economist.

¹⁵ “Interpretations.” The Asahi Shimbun.

¹⁶ “NHK.” The Japan Times.

The long-lasting controversy over history textbooks in Japan that goes back to the early 1980s continues to erupt from time to time. In the latest round, a conservative publisher put out a revisionist textbook in 2005, sponsored by a group of conservative academics, which contained a sanitized view that aimed to correct the “masochistic” view of history previously in school textbooks. It referred to the Nanjing Massacre as a minor “incident,” and claimed that Japan’s engagement in the war was due to self-protection and the liberalization of Asia from Western colonization¹⁷. Since then, China has been keeping a close eye on primary history education in Japan. Since history textbooks in Japan are not written based on a national standard but by individual scholars, it can give rise to certain nationalists’ attempt to revise textbooks and sanitize the negative perspectives. But the texts are vetted by government officials and approved for use in schools, as was the Fusosha textbook. Interestingly, the book had only 0.28% usage throughout the country¹⁸; most schools still adopt traditional publications that are not politically motivated.

But even the more objective textbooks seem somewhat less than satisfactory to China and South Korea. Issues concerning the comfort women and Nanjing massacre appear only in brief phrases (without displaying the actual terms) or in footnotes. It is said that earlier versions of the textbooks used to mention more of the cases, but over time the details of painful issues were simplified due to criticism that the books were too “self-abusive” and did not promote enough patriotism among young students. Even Abe once commented that the commonly used textbooks lack detail on Japan’s progress and success¹⁹.



Left: Shosetsu Nihonshi (A Detailed History of Japan) is one of the most commonly used history textbook in Japanese high schools today. The section on WWII only accounts for 8 pages and most of the content is on the European and American situation beginning in 1940 and the Pacific War. In the footnotes, information on Unit 731 bacteria camps and comfort women is given.

¹⁷ Miyazaki. “Textbook.”

¹⁸ “Fang.” Sina.

¹⁹ Miyazaki. “Textbook.”

Was Abe the only leader accused of leading Japan to the right? The reality is that the LDP throughout its postwar decades had its hawkish and dovish factions that vied for power, with occasionally a major struggle erupting. So Abe was not the only one who flirted with historical revisionism and visited the controversial shrine. Many of his LDP predecessors had the reputation of being staunchly conservative in nature – though some covered their tracks once in office. Early in 1985, Prime Minister Yasuhiro Nakasone made a visit to Yasukuni Shrine, and was strongly rebuffed by China and South Korea. He never went again. Even prior to Nakasone, the dovish Prime Minister Takeo Miki also visited the shrine in 1975 (prior to the enshrinement of Class A war criminals there), but this time, it only led to a debate whether a political figure should visit a religious monument when the Constitution clearly stated that religion and state should be separate. Nakasone, based on his experience, warned Koizumi when he became prime minister that visiting the shrine would damage Japan-China relations²⁰, but it did not stop Koizumi from paying annual visits. Since Koizumi, the LDP has had other issues with China beside history, so its firm views of that country, centered on concern about China's rise as a military force in the region, occupied its attention.

Prime Minister Taro Aso (2008–2009), from the LDP's right wing, also spoke of China's growing threat and raised suspicions about China's military expansion²¹. Although he did not visit Yasukuni Shrine during his term, he reportedly suggested that the Emperor should visit it²². Aso is now deputy prime minister and finance minister under Abe, but his tendency to make gaffes came out in early 2013 when he suggested that the Japanese government could learn some things from Hitler's Weimar government, creating a stir in Japan and abroad.

Treatment of Remaining Problems

The Chinese government sees the historical dispute with Japan as falling into two large categories. One is Japan's reluctance to recognize its aggressive acts during the war, marked by the tendency of prime ministers and cabinet members to visit Yasukuni Shrine, the issuance of controversial revisionist textbooks, rejection of historical incidents like the Nanjing Massacre and comfort women system, and an overall view of Japan's militarist past that dwells on its glory and not on its mistakes. The other issue involves compensation to the victims of war. This includes the way Tokyo has handled the comfort women issue, forced labor including Koreans and Chinese during wartime, and other lesser-known issues like reparations for the use of Japanese Military Yen.

Japanese Military Yen

During WWII, in the South and Southeast Asian Region that was occupied by Japan, the Japanese Military Yen (Banknote of the Japanese Empire) was made the official and only legal currency. Civilians were forced to exchange their money and property for the Yen, and those who secretly hid old currencies were often punished and executed. After Japan surrendered in 1945, the troops withdrew from the area, and all Military Yen became invalid and turned into merely paper waste overnight. It caused bankruptcy among a large number of local residents, and

²⁰ "Nakasone." The Japan Times.

²¹ "Japan." BBC News.

²² "Aso." China Daily.

many were forced to beg for food and may even starve to death. The estimated amount for compensation demanded by Hong Kong alone is up to \$500 million²³.



Above: Japanese Military Yen in exchange for Rupees in Burma



Below: Japanese Military Yen used in the Philippines, with an image of the Yasukuni Shrine printed

While recognition of history can still be peacefully discussed, treatment for the war victims is much more difficult to resolve. Sufferers at the time are hard to track down, and so is the exact amount of reparations to be paid. It probably would have been handled smoothly if Japan had taken a much softer position, but statements of rejection by officials have aggravated the issue.

Demands for war reparations have become stronger in recent years. In February 2014, a group of Chinese citizens filed a lawsuit against Mitsubishi for forced labor during wartime²⁴. Then, in recent months, the case of the seizure of a Mitsui vessel for an incident going back to the late 1930s forced the company to pay \$29 million to get its ship back²⁵. The continued clashes in Chinese courts and the like over war reparations are largely the result of unclear statements in earlier signed agreements, including the normalization of relations in 1972. Japan argues that all compensations were resolved by San Francisco Peace Treaty in 1951, and by the Joint Communiqué of the Government of Japan and Government of the People's Republic of China in 1972, China had already "renounced its demand for war reparations from Japan."

But China does not go along with that interpretation. Similar to the claim over the disputed islands, China does not recognize the San Francisco Peace Treaty, for neither the People's Republic of China (mainland China nowadays) nor the Republic of China (Taiwan) were present at the time the treaty was signed. In addition, although the Joint Communiqué stated that China gave up all reparations, the Chinese government insists that this refers to only those from the

²³ Hong Kong.

²⁴ "Chinese." The Japan Times.

²⁵ "Japan's." Reuters.

Japanese government; compensations connected to private individuals or organizations are still necessary and must be paid.

Japan often criticized China as playing the “history card” against them, insisting that the historical conflicts were merely tools that the Chinese government used to strangle Japan’s international activities and to deliberately humiliate it. China indeed has made mistakes, however. President Jiang Zemin’s devastating visit to Japan in 1998 remains as a bitter memory to many Japanese people, when Jiang arrogantly lectured Japanese officials everywhere he went on historical issues, leaving a potentially valuable visit void of any diplomatic progress. It is true that in China, government officials hardly ever mention Japan’s “apologies” – as if the Konoe and Murayama statements did not exist. Perhaps, they considered those and other statements of apology to be insincere.

It is also commonly believed in Japan and some Western countries that China was using Japan as a scapegoat – deliberately provoking conflict on historical issues in order to shift focus away from domestic problems. Japanese commentator Masuhiro Miyazaki once expressed the idea that for Japanese, history is merely history itself, but for China, it is a way for national propaganda²⁶. Others suppose that since Chinese modern nationalism is built upon resistance against Japan, this external rival needs to exist in order to keep the country unified²⁷.

With the Senkaku island dispute, however, things seem to have got out hand. Mixing the territorial issue that could explode into unintentional conflict, the historical issue that seems to have escalated into court cases and seizure of Japanese property, and nationalism – emotions rising high in both countries – is a toxic combination that could prove difficult to roll back, particularly if the leaders of the two countries are not even talking to each other.

On the apology issue, the two countries never reached an understanding about how much is enough. For China, the apologies have been neither sufficient nor sincere. For Japan, there have too many apologies, so don’t expect any more. Since the Kono Statement (issuing apologies for the comfort women) of 1993 and the Murayama Statement (“deep remorse” and “heartfelt apology” for all victims of war) of 1995, every Prime Minister of Japan has upheld the statements as official policy, despite the grumbling that has been going on in the political background. The words were repeated often during official visits to China.

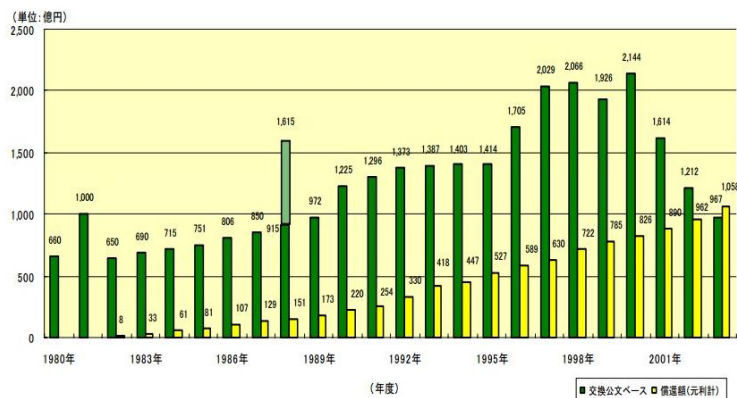
Moreover, Japan has been wondering what happened to the enormous amounts of economic assistance it provided to China to help fund its modernization. Since 1979, Japan provided official development assistance to China that totals over 3.1 trillion yen (\$30 billion).²⁸ It saw such aid largess as tantamount to providing war reparations. Japan felt that such huge amounts of aid in themselves should be enough to exonerate it from war guilt. As fellow states that lost the war, Japan is often compared poorly to Germany on the sincerity of its apologies, yet some insist that Japan has already done enough for global peace and economic development, as a nation living under a pacifist constitution with democratic values for 70 years. Such critics say that it is countries like China that should be criticized for human rights issues and a lack of

²⁶ “Propaganda.” Shukan Bunshun.

²⁷ Spitzer. “Why.”

²⁸ “Taichuu.” MOFA.

democratic institutions²⁹. And in Japan today, although there may be a number of youngsters concerned with history, the war and its victims, and even nationalism, most young people are oblivious to the past and its tragic legacy. They feel that they should not be taking the blame for what their grandparents may have done.



Left: ODA loan aid to China 1980-2003. Although there has been a sharp decline after 2001 due to both bilateral tensions and China's rapid economic growth, Japan still have not stopped giving ODA to China.

Source: The Ministry of Foreign Affairs of Japan

Future Prospects

Prime Minister Abe continues to be a relatively popular leader in Japan, mainly because of his leadership on bold economic measures and proactive diplomacy. He is seen, too, as managing relations with the U.S. well. Although his attempt to change the Constitution and introduce collective self-defense into Japan's security posture have run into political roadblocks (mainly from the LDP's centrist coalition partner, New Komeito), the national debate on the subject has been satisfactory to the public, which remains cautious about change. Certainly the weaknesses of his immediate predecessors accounts in part for Abe's popularity. Tensions with China over the Senkakus have not hurt Abe domestically, since most Japanese adamantly blame China for the provocations. Only if Abe seemed to be needlessly leading Japan toward a possible war situation, would the peaceful nature of ordinary Japanese be aroused. While a majority of people according to some polls may agree that the Constitution should be amended, what they want changed may not be what Abe's agenda aims at. Most Japanese, for example, are not in favor of tinkering with the war-renouncing Article 9. They continue to support Japan's postwar legacy of denying itself a military option in its diplomacy as in the best interests of a country with a peace constitution^{30 31}.

An interesting case of the still vibrant peace movement inside Japan that surfaced recently is the group of eminent Japanese campaigning to have Article 9 of the Japanese Constitution win the Nobel Peace Prize this year. Partly used as a political stunt by the group, it would obviously be very ironic if their wish became true. The leading figure, Naomi Takasu, even suggested giving the Nobel to Abe himself, for the prize can only be assigned to persons and groups and not to constitutions³². Even though this comical goal is very unlikely to be realized, it would

²⁹ Dujarric. "Japan's."

³⁰ "Asahi." The Asahi Shimbun.

³¹ Mochizuki. "Most."

³² Panda. "Article."

nonetheless make it more difficult for the Prime Minister to change the pacifist nature of the Constitution.

President Obama's visit to Japan in late April was a major boost for U.S.-Japan relations, as well as a plus for Abe domestically. Abe's confidence was quite apparent when he spoke of the President as "Barack," calling by the first name is supposed to show closeness and intimacy. The Alliance seemed to be in its best shape ever, based on the optics of the summit meetings. China was not mentioned much during Obama's visit, although he did clarify that the Senkaku/Diaoyu Islands are covered under the Article 5 provision of the Security Treaty. He also endorsed Abe's drive to remove the ban on collective self-defense that would put the bilateral security arrangements on more equal footing during a wartime situation. Such statements angered the Chinese government, which accused the U.S. of bias and taking stands that are damaging to U.S.-China relations. But the U.S. has been worried about China's maritime intentions vis-à-vis the U.S. Navy and Air Force presence in the region, and Obama's statement may have had a subtext of warning China that the issue of the Senkakus was but a small cog in a much bigger security wheel that was turning.

But looking at the visit from a different perspective, Obama's commitment, if you will, to defend the Senkaku islands has surely had a positive impact on strengthening the Alliance. But making the security arrangements tighter could derail Abe's dream of amending the Constitution to give Japan more independence security-wise. The chances of the security treaty being downgraded and even phased out as Japan became a war-capable country become slim as the security relationship becomes even more codependent and collaborative. Even encouraging Japan to use the right of collective self-defense will work to make the security arrangements highly interdependent. Yes, there is a fear that Japan may not use the right wisely. But given the intense debate going on in political and official channels in Japan right now, such is not a likely scenario. If collective self-defense is ultimately approved, it seems highly likely that it will be under strict limitations and safeguards. China may fear its use will threaten its interests, but that may be an unnecessary reaction. How to convince China otherwise is a heavy responsibility for the Abe administration, and it is not talking to China now, unfortunately.

The year 2015 will be the 70th anniversary of the end of WWII. There are expectations that Prime Minister Abe would in his commemorative speech not just restate the Kono and Murayama Statements but come up with a statement on his own that will be geared to appealing to Asian neighbors. Although China's resentment towards Abe is very strong, there is still hope that the two countries can be open to discussion if Abe can recognize how his actions influence Japan-China relations. Yes, historical issues will not directly result in actual military confrontation, but the territorial issue and the military standoff that already exists around the isles, could. The danger in both cases is that history and disputed territory are the gasoline that can ignite nationalistic sentiments and excite people to behave radically towards the problems. Both countries should not lose sight of the ultimate goal of regional peace and stability as being in their mutual benefit. After all, economic development is what will best benefit each country and its people the most. The interests of the United States, too, are served by Japan and China returning to Abe's original goal of a "strategic relationship that is mutually beneficial." Japan under Abe must find a way to rebuild confidence between the two countries, and China under Xi must resist the impulse to use the history card, since the deck is stacked on that on both sides.

Summit diplomacy can help reset the relationship, though it will not solve the territorial and historical issues. But the alternative is a crescendo of ill-will and accusations that will either lead to permanent paralysis in the bilateral relationship or even worse, open conflict.

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Japan's 2014 Basic Energy Plan: The Road to Energy Diversification

By Christopher Crachiola

“Irresponsible,” blurted Japan’s minister for economy, trade and industry (METI), Toshimitsu Motegi, before a swath of frenzied journalists. “To forgo nuclear power entirely is a national policy that is completely irresponsible for a resource-poor nation.”³³

Just about three years prior, a Japan on the cusp of natural disaster following the near meltdown of the Fukushima Daiichi nuclear reactor responded in much different fashion with a radical, albeit justifiable, interpretation of “responsibility,”: the government completely shut down all nuclear power plants. Under the guidance of then-Prime Minister Naoto Kan of the ruling Democratic Party of Japan (DPJ), the central government proscribed a hasty promise to its countrymen and the world to phase out the country’s nuclear reactors. Kan’s impetuous decision to reduce reliance on nuclear energy to zero may have assuaged partly the fears of the country petrified by the horror of Fukushima, but it created a crisis in Japan’s energy security strategy that continues unabated.

The debate over Japan’s energy future remains in 2014 as volatile as ever. As of February, nearly 3 years after Kan’s dramatic promise to revolutionize Japan’s energy production methods to eliminate nuclear generation, Japan’s government, now under Liberal Democratic Party (LDP) leadership, has taken a realistic approach and overturned the DPJ’s phase-out plans – though it is proving to be easier said than done. Unveiled December 6, 2013, as a draft open for public comment, the 2014 Japan Basic Energy Plan has now been formally adopted in a meeting of the Abe Cabinet April 11, 2014.³⁴ Though the nation remains split on restarting nuclear plants closed since 3/11, Abe and the LDP are ready to bring nuclear back into the equation. This paper examines the national tug-of-war over that landmark decision.

Standing before a barrier of handheld recorders and rapidly scrawled notepads, METI Minister Motegi uncompromisingly addressed the onslaught of questions: “Will Japan return back to its original nuclear energy capacity?” “Will new nuclear reactors be built throughout the country?” “What other alternatives is the Abe administration considering?”

Each of the questions was legitimate, causing Motegi to reflect back on the whirlwind of cabinet discussions over the past months that revealed the complexity of Japan’s energy crisis and the limited options at the government’s disposal. What, after all, should be Japan’s ideal mix of energy sources to satisfy growing energy demand – particularly since Abe’s economic policies

³³ Tabuchi, Hiroko. "Reversing Course, Japan Makes Push to Restart Dormant Nuclear Plants." *The New York Times*. The New York Times, 25 Feb. 2014. Web. 12 May 2014. <http://www.nytimes.com/2014/02/26/world/asia/japan-pushes-to-revive-moribund-nuclear-energy-sector.html?_r=0>.

³⁴ "Nuclear Power Back In Focus In Japan's Basic Energy Plan, 2014 - Analysis | Eurasia Review." *Nuclear Power Back In Focus In Japan's Basic Energy Plan, 2014 - Analysis | Eurasia Review*. N.p., n.d. Web. 12 May 2014. <<http://www.eurasiareview.com/14042014-nuclear-power-back-in-focus-in-japans-basic-energy-plan-2014-analysis/>>.

(Abenomics) were aimed at rebooting the economy -- and under what circumstances? Whereas the DPJ focused mainly on safety and pacifying public sentiment against the use nuclear energy, the LDP has taken a much broader view -- the economy, geo-politics, and the environment -- to come up with pragmatic solutions to the energy dilemma. The Abe administration has had to redefine once again in a short period of time what “responsibility” means to an energy-dependent island nation in terms of crafting a sustainable energy policy.

Motegi in answering the reporters exercised considerable self-restraint, expressing that Japan was still committed to “reducing its reliance on nuclear power.”¹ But he was void of specifics: how much, by what means, and under what time frame. He proved himself to be a master of form (tatema) over substance (hone) by leaving key aspects of his government’s decision-making undisclosed. Motegi of course knew that soaring prices of imported fossil fuels, the inability to quickly increase supplies of renewable energy alternatives like solar, wind and geothermal power, and finding the “best-mix” of all of the above, including nuclear, are all challenges the government has yet to seriously confront.

The question facing the Abe administration and the energy bureaucracy is how to bring order from the current chaotic complex and execute an energy plan that can be deemed truly responsible for a long-term, energy-secure Japan? The challenges Japan faces today go far beyond the issue of nuclear energy, for no matter what options or scenarios are devised, the world is changing rapidly and energy becoming increasingly a political tool – as seen recently in the intrigues of Russia’s Putin in recent months. Japan, which is now paying top prices for its energy imports, particularly LNG, ultimately needs more than a new plan, it also needs a new global strategy that will tide it over its current crisis and resolve its longer range energy security problems.

Mind the Gap: Filling the Void of Nuclear Energy

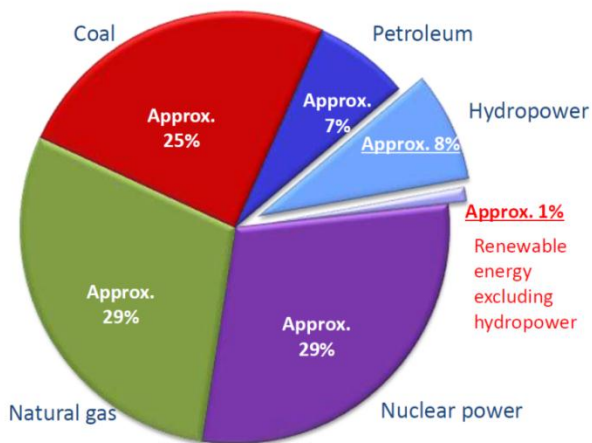
A mere half decade ago, nuclear energy was the dream fuel for the future and for Japan, the frontier of energy production. Japan is an island nation without domestic fossil-fuel resources of its own beyond a few coal mines. During the 1970s following the Middle East oil crisis, Japan tried to wean itself from excessive use of Middle East oil by diversifying sources of energy supply and by turning to nuclear power to satiate its growing economic demand, building plants all over the country. By 2010, nuclear plants supplied nearly 30% of all electricity production, and among the Japanese, support for even more reliance on nuclear power was growing. It seemed like an ideal solution: an energy source that would decrease Japan’s dependency on volatile international oil and coal markets and at the same time lower Japan’s CO2 emissions, as well. During the first decade of the new millennium, as well as projected in the 2010 Basic Energy Plan, nuclear power plants were placed on the trajectory for major expansion. Prospective construction anticipated upwards of 50% of Japan’s electricity production would be produced by nuclear energy.³⁵

These ambitious goals came to a tragic halt in March 2011 with the Fukushima Daiichi disaster that absolutely decimated pro-nuclear sentiment throughout Japan. In a matter of months, Japanese energy policy was turned on its head. Following pressure from both domestic and international authorities worried about additional radioactive spills, the Kan administration found

³⁵ "Energy Plan Looks to the Past." . N.p., n.d. Web. 12 May 2014.
<http://www.japantimes.co.jp/opinion/2014/04/11/editorials/energy-plan-looks-to-the-past/#.U3EP4_ldVUX>.

itself facing a Hobson's choice of shutting down its nuclear power plants, and consequently, figuring out how to replenish the enormous energy deficiency left in its void. The Japanese public's fear and distrust of nuclear energy following the 3/11 Fukushima disaster triggered domestic and international debate on the reliability of nuclear energy. It led to an immediate tangent in Japanese energy policy. The attached pie chart sourced from METI displays Japan's breakdown of energy consumption prior to Fukushima-related energy policy collapse. As can be seen, at approximately one third of total consumption, nuclear power was a dramatic component of Japan's energy shortlist. As stated above, this pie-slice was anticipated to grow over the next two decades to become approximately one half of the supply of electricity.

Composition of annual electricity generated in Japan (FY 2009)



Following Fukushima, this substantial portion of Japanese energy production rapidly shrank, and indeed, within weeks several reactors were shut down.

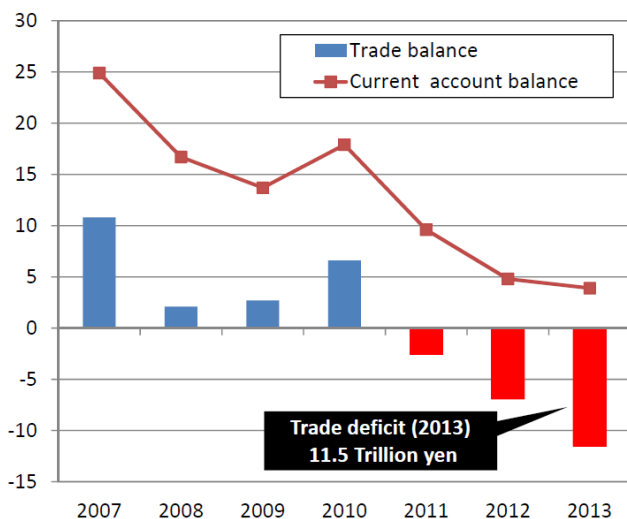
Over the months that followed, the DPJ government hastily reversed the policy course of expanding nuclear power, and the remaining reactors were taken off line one by one. The last operating nuclear power plant – the Kansai Electric Power Company's Oi nuclear power plant in Fukui Prefecture – was shut down on September 16th of 2013. It is still

closed. With the complete phase-out of nuclear energy from Japan's energy mix, Japan has been scrambling since to reduce energy consumption at home and scour the globe for new fossil-fuel supplies to fill the void. The urgent need for diversification of energy supply and type of energy is what makes the 2014 Basic Energy Plan a leading indicator of the long-term trajectory of Japanese energy security.

When the plan to phase-out nuclear energy was adopted by Kan, it was obvious that Japan needed to somehow compensate for a vacant one-third of its electric power demand – let alone the increasing energy demand as the economy grew again. Conservation of energy soon reached its limit for preventing blackouts. The challenges that Kan's radical decision posed are complex and go beyond the scope of simply satisfying Japan's electricity generation. Returning back to METI's pre-Fukushima energy consumption composition, the largest remaining sources of Japanese energy production – including natural gas, coal and petroleum – are all fossil fuels strapping Japan to volatile prices and distribution of international fuel markets. In addition to the increase in Japan's CO₂ emissions since Fukushima, the nuclear shutdown has transformed Japan's trade balance, contributing to a trade deficit of \$112 billion in 2013 and doing great damage to long-term economic stability.

Changes in trade balance and current account balance

(trillion yen)



(trillion yen)

	2010	2013	Difference
Trade Balance	6.6	-11.5	-18.1
Net Import Costs			
LNG	3.5	7.1	+3.6
Crude Oil	9.4	14.2	+4.8
Petroleum Products	2.4	3.7	+1.3
Coal	2.1	2.3	+0.2

The repercussions of an abrupt nuclear phase-out have been severe and the lack of a clear game plan to rescue energy security and the economy may have contributed to the decline and fall of the DPJ governments under Naoto Kan and his successor Yasuhiko Noda. With the return of the LDP to power in 2012, and the cabinet now led by Prime Minister Shinzo Abe, the national conversation has changed drastically. No longer is the discussion on the propriety of nuclear energy devoted exclusively to safety – although that certainly remains a strong element, particularly with the creation of an independent nuclear regulatory commission.

The LDP government came into power, having already decided that the DPJ's hasty plan to completely phase-out nuclear energy would neither be sustainable nor economically sound for the country. Expensive imports of fossil fuels, especially LNG, have taken its toll on the trade balance in a staggeringly short amount of time. This high dependence has also resurfaced Japanese fears of becoming victim once again in the likes of another oil crisis of the 70's where Japan remains overly dependent on, and thus vulnerable to, unreliable trading partners. With the recent Ukrainian crisis, Russia under President Putin has caused great concern in Japan, since that country is a major supplier of Siberian LNG to Japan.

Since reassuming the prime ministership, Abe has shown reinstated nuclear energy as a legitimate option in Japan's energy diversification strategy. The rekindled interest in revisiting the prospects of sticking to nuclear power, however, has divided the political world, including two former prime ministers Morihiro Hosokawa and Junichiro Koizumi. Hosokawa ran unsuccessfully in the recent Tokyo gubernatorial election, backed by Koizumi, campaigning on an anti-nuclear platform. Koizumi, once with the LDP but now retired from the Diet, argued that nuclear power generation was a danger to national safety and should be halted immediately. He also called for ending Japan's trade policy of exporting nuclear plans and their technology.³⁶

³⁶ "Koizumi, Hosokawa team up again to start anti-nuclear body - AJW by The Asahi Shimbun." *AJW by The Asahi Shimbun* RSS. N.p., n.d. Web. 12 May 2014. <http://ajw.asahi.com/article/behind_news/politics/AJ201404150059>.

Abe and METI Minister Motegi have denounced the campaign to ban nuclear energy as irresponsible policy that would ruin Japan's still delicate post-3/11 economy.

The arguments of the Abe administration, now translated into a rational and economical approach to energy policy, as seen in the new strategy, give strong consideration to the trade deficits prompted by increased foreign fuel imports to run power plants as nuclear plants have remained idle, creating cost burdens of trillions of yen each year. The cost of imported energy has been exacerbated by the weakening of the yen. The nuclear issue in this capacity has changed the political rhetoric away from solely focusing on national safety by focusing on the negative consequences to the nation's wellbeing if hasty short-term energy policies neglect to consider long-term economic repercussions.

Despite the recent surge of the Abe administration's energy visions shifting the tides on domestic policy, the nuclear issue still remains highly controversial and salient among the Japanese people. The legacy of Hiroshima and Nagasaki was underscored by the Fukushima disaster. Public wariness of nuclear generated power remains high, given that nearly 135,000 people are still displaced from their homes in the Fukushima region due to radiation fears even three years later, and surveys have revealed that some of the reactors in other parts of Japan were built over active geological fault lines. And the Fukushima saga continues to dominate the news: Tokyo Electric Power Co. (TEPCO) is still struggling in efforts to control radiation-contamination in the land and water surrounding the damaged plants.³⁷ Completely dismantling the contaminated plant will take an estimated 40 years.

This is not to say, however, that general Japanese sentiment against nuclear energy will cripple the progressive policies of the Abe administration. A series of economic pressures throughout the Japanese market may ultimately evolve into variables that sway Japanese opinion to reconsider a responsible usage of nuclear energy. Until recently, anti-nuclear sentiment throughout Japan has overridden any concern for increased energy costs, especially as Japan has begun to import much higher amounts of expensive foreign fuel. This tradeoff may not last in the long term, especially when other factors - including a consumer populace that has yet to reap the promised economic benefits of Abenomics stimuli along with an April 2014 increase in national consumption tax from 5% to 8% - may prompt a general outcry for more affordable energy options.³⁸

According to a May 2014 opinion poll from the major daily *Yomiuri Shimbun*, a staggering 77% of respondents revealed that they have not experienced a tangible sense of the economic turnaround under the Abe cabinet and Abenomics policies. Capturing social dissatisfaction in regards to tax hikes, a correlated 78% of respondents have "somewhat" or "very much" experienced the burden associated with such policies.³⁹ If similar trends continue, then economic issues – directly linked with energy pricing - may increasingly have higher saliency with the general public than disapproval of nuclear energy generation.

³⁷ "Energy Plan Looks to the Past." . N.p., n.d. Web. 12 May 2014.

<http://www.japantimes.co.jp/opinion/2014/04/11/editorials/energy-plan-looks-to-the-past/#.U3EP4_ldVUX>.

³⁸ "Groundhog day?." *The Economist*. The Economist Newspaper, 5 Apr. 2014. Web. 12 May 2014.

<<http://www.economist.com/blogs/banyan/2014/04/japan-s-consumption-tax-hike>>.

³⁹ Opinion poll and results from *Yomiuri Shimbun*, *Yomiuri*: May 12, 2014 pg. 17

In this scenario, incrementally easing the Japanese populace to accept the idea of restarting nuclear energy plants may be the mission of the Abe administration, and the best case policy option to ameliorate a series of challenges facing the current government administration.

It will not be easy. Public fears of nuclear safety in communities where power plants are located, translated into lawsuits and court judgments, could undermine Abe's strategy.

Take the case of the reactors at Oi in Fukui Prefecture for example. The Fukui District Court ordered Kansai Electric Power Co. May 21, 2014 not to restart the Nos. 3 and 4 reactors at its Oi nuclear power plant in central Japan. The court decision came at a time when the government plans to restart idled nuclear reactors across the country once the Nuclear Regulation Authority confirms their safety. Presiding Judge Hideaki Higuchi ruled that the safety of the idled reactors has not been ensured. Restarting the reactors "could pose a risk of harming personal rights," the judge said.

It was the first court order in Japan to ban nuclear plant operations since the reactor meltdowns at Tokyo Electric Power Co.'s disaster-crippled Fukushima No. 1 nuclear power plant in Fukushima Prefecture in March 2011, according to the plaintiffs' lawyers. The Fukui lawsuit, filed by 189 local residents in November 2012, claimed that Kansai Electric underestimated the strength of possible earthquakes at the Oi plant. Citing insufficient quake-resistance measures for power sources and cooling water pumps, the residents argued that a major quake could damage reactor cores at the plant.

The actions of local governments and public opinion aided by the courts could undercut Abe's determination to define a "responsible" policy agenda for Japan's long-term energy generation and consumption. He is aware of that problem. From first impressions of 2014 Basic Energy Plan content, the construction of new nuclear energy plants does not seem to be a priority or even an option. Rather nuclear generation is viewed as a short-term integral "base-load" energy source which would be gradually phased out over a long term scope, providing time to recalibrate a new Japanese energy framework.

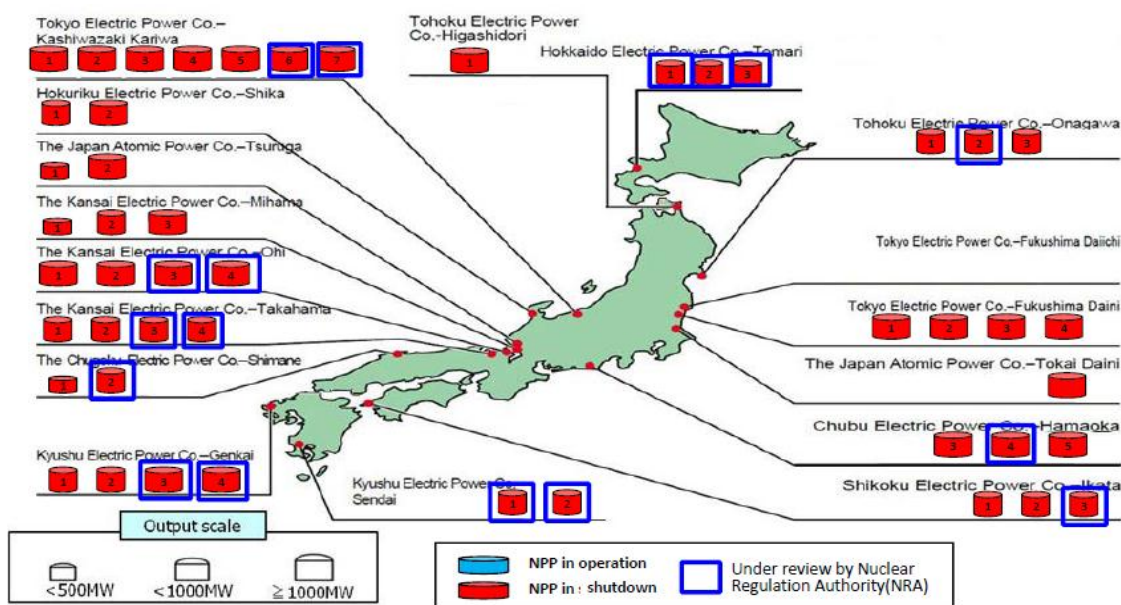
Back on the Table: The Return of Nuclear

The issue of safety related to nuclear energy generation has been of major concern since the Fukushima disaster. One of the main factors in the transition of nuclear energy as a phased-out energy source post-Fukushima, to a reestablished energy generation option has been the increased importance of the Nuclear Regulation Authority (NRA). Mere months following the disaster's aftermath, the Japanese government followed through with the establishment of a new independent administration body that would specifically monitor nuclear safety in Japan. The NRA was formed in September, 2012 as a response of the Japanese government to revise nuclear safety measures deemed inadequate for overall national security. Formed from the Nuclear Safety Commission under the authority of the Japanese Cabinet, and the Nuclear and Industrial Safety Agency, under the Ministry of Economy, Trade and Industry (METI), the NRA was established under the Ministry of the Environment to ensure autonomy and no conflict of interests in the pursuit of moderating nuclear power plant safety throughout the country.

In the period following the NRA’s establishment when DPJ policies directed an immediate phase-out of Japanese nuclear power, NRA’s responsibilities were primarily directed toward inspections as well as the safe decommissioning of nuclear plants. In addition to established regulatory requirements of nuclear security including inspections of general function, resistance to natural disasters such as tsunami and fire, as well as cooling functions and power supply reliability, additional NRA requirements have added new, supplementary security measures. With an overall increase in security on previous regulations, the NRA now oversees maintenance protocol including the suppression of released radioactive materials, as well as prevention of containment failure and core damage.

As for the connection of the NRA to the future of nuclear energy throughout Japan, the administration has begun screening processes with power companies regarding speculative restarts of nuclear facilities. Currently the NRA is screening plans by power companies to restart a total of 17 nuclear reactors at 10 plants around the country (seen above in blue boxes in the map provided by METI). There is speculation that some of these reactors will be given safety clearances by the NRA to be restarted as early as this summer.

Due in part to the start of NRA screenings regulating the restart of nuclear facilities, there is now a speculation of the extent that nuclear will be reintegrated into the Japanese energy system. While it has become increasingly doubtful that many more of the 48 idled reactors will be reactivated, as seen in the case of the Oi reactors mentioned above, it provokes a unique, new perspective on “responsible” methods to sustainably meet Japan’s long term energy demands. Put frankly, Japan’s idled nuclear reactors are still storing plutonium reserves to be utilized for energy production. The disposal of this material is a challenging, yet still under-considered factor in the question of the future of the immediate phase-out status quo of nuclear energy production throughout Japan. From the vantage point of utilizing the energy resources already available throughout the country, consuming the remaining plutonium reserves in Japan at existing, RNA approved nuclear facilities would be a justifiable option in Japan’s energy diversification strategy.

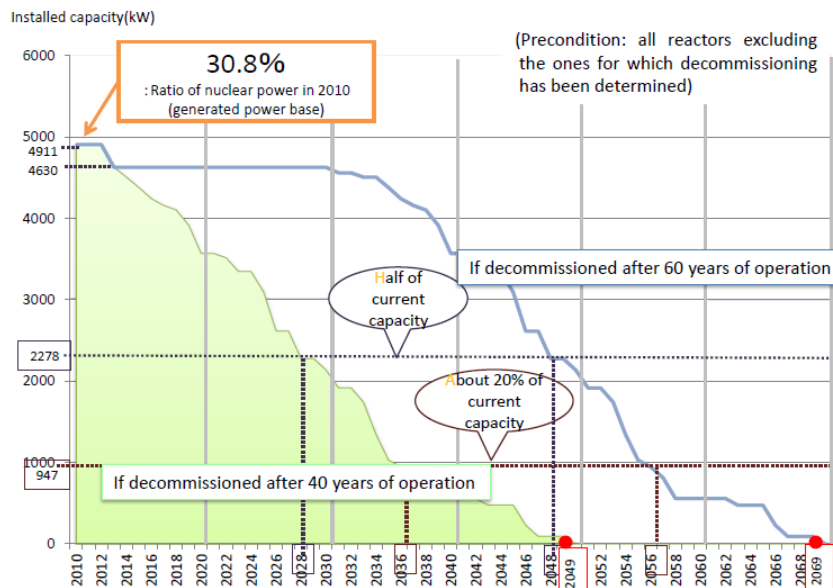


To elaborate this point, under the new NRA rules, the operating life of a nuclear power reactor is limited to 40 years, but it can be extended for another 20 years as an exception if the reactor clears a special inspection of the condition of its equipment. Four of the 48 reactors are already more than 40 years old while another 11 are at least 35 years old. Considering the expensive extra safety investments required to extend the life of these aging reactors, in an economically strapped Japanese society, there would be less incentive to strive for extended life on nuclear reactors, and they facilities can thereby in principle be used in only their minimal capacity. This can imply that even if all reactors were restarted according to new NRA rules and if the reactors were to be shut down following their NRA-regulated decommission date, then Japan could incrementally wean off of nuclear energy generation over a long period of time. This supposition is presented explicitly in the graph below (obtained from the nuclear energy department of METI), demonstrating a hypothetical phase-out period of nuclear energy under a policy where reactors are to be used abiding by NRA decommissioning regulations after either 40 year or 60 year operation limits.

Under this framework, if all existing nuclear reactors are decommissioned after 40 years of operation, the installed capacity can theoretically be halved by 2028, become less than a fifth of peak operation by 2036, and be completely phased out in a more reasonable manner by 2049. Following an approach where reactors are decommissioned after 60 years of operation, the capacity will halve by 2048, and reach zero operations by 2069.

In the event that such an approach becomes tolerable as a policy option by both the Japanese government and the Japanese populace, the nation would be able to follow a respectively more reasonable nuclear phase-out plan. This would also provide time to recalibrate the Japanese energy system to more efficiently meet demand while also maximizing the standing benefits of nuclear energy. For example, as noted by TEPCO specialists as well as other leading Japanese energy experts, nuclear energy has the capacity to be utilized as a “base-load” energy source. This means that nuclear energy can be utilized as a reliable, stable energy source for understood energy demand, while alternative sources such as renewables and coal can provide energy during intermittent times of “peak-load” energy demand. With the vision of nuclear as a “base-load” energy resource, sources from leading energy think-tanks including the prestigious Institute of Energy Economics, Japan (IEEJ) and METI forecast a “responsible” dependency on nuclear at approximately 12-15% of total energy production. Provided a multi-decade plan to slowly phase-out nuclear power plant operations through systematic increments, Japan can effectively reconfigure its energy landscape.

With added time at its advantage, rather than upholding hasty, “irresponsible” rapid phase-out policies, Japan can utilize its remaining reserves over the projected long term, and also allow for ample time to find and cultivate alternative energy sources. Provided that the NRA’s new safety standards are reliable, this overall perspective on the use of nuclear energy can successfully be a part of a “responsible” energy diversification plan. This being said, even with an optimistic, proactive approach to the near-future use of nuclear energy, no plan currently projects nuclear energy to reach its previous maximum peak of nearly 30% Japanese energy generative capacity.



All things considered, having nuclear energy back on the table as a viable energy option in Japan does not eliminate the reality that Japan must continue to diversify its energy generating sources - additional energy outlets for which over 20% of vacant total energy demand still must be accounted.

The Option of LNG

Following aggressive policies after the Fukushima nuclear accident, the rapid decrease in nuclear generated energy led to a frantic need to replace the nearly 30% void left in Japan's energy production demand. Fossil fuel consumption became the most prominent solution with an increase in coal-powered energy production, as well as increased energy production through oil combustion by nearly 5% to 9% of total energy generation. In fact, coal consumption in Japan has hit record highs as nuclear reactors remain idled, with January, 2014 consumption levels reaching 5.66 million metric tons – a record for the month and 12% more than a year prior.⁴⁰ Before the Fukushima incident, fossil fuel consumption for energy reached rates as high as 62% of electricity production, even as nuclear made up about a third of total demand. These numbers have only continued to rise following Fukushima, with high precedence being placed on all fossil fuel options, and in the short term, even greater than that of renewable energy sources.

One of the most prominent repercussions of Japan's rapid lean towards imported combustible energy resources has been the prominence of imports of Liquefied Natural Gas (LNG) as a viable option. LNG ballooned to replace the energy produced by nuclear powered plants, resulting in a staggering increase in LNG-generated energy production from approximately 33%

⁴⁰ "Post-Fukushima Japan Chooses Coal Over Renewable Energy." *Bloomberg.com*. Bloomberg, n.d. Web. 12 May 2014. <<http://www.bloomberg.com/news/2014-04-13/post-fukushima-japan-chooses-coal-over-renewable-energy.html>>.

to a peak of 47% of total domestic energy production. As a result Japan has become the world's largest importer of the fuel, reaching a record high \$68.98 billion last year.⁴¹

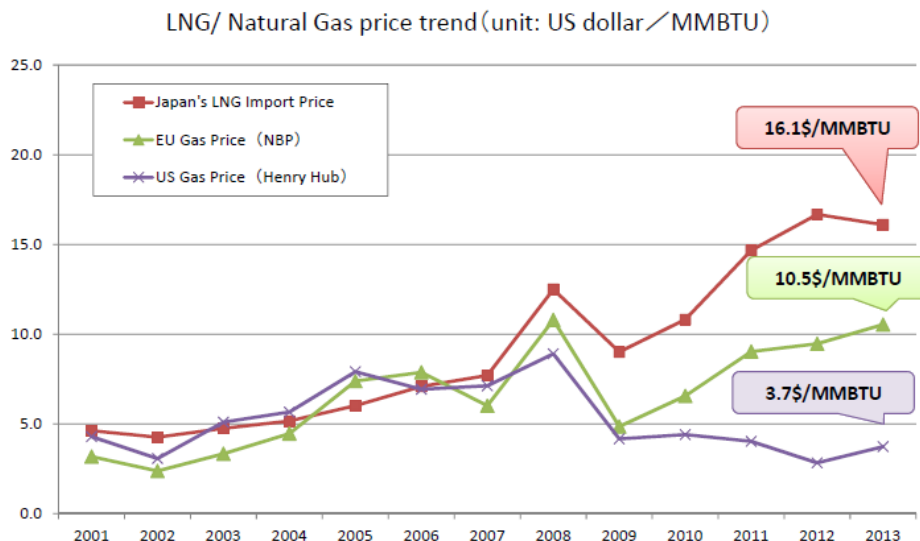
Japan's most recent energy policy goals have centered on procuring secure energy resources that are safe, reliable, and cheap – all variables factoring into the ultimate objective of achieving a responsible national energy plan. Catching the attention of Japanese energy policy makers across the industry, the global trends in shale gas extraction and LNG production have showed promising signs of new outlets for, at the very least, a reliable energy source.

For many nations around the world, however, the prospects of LNG have been minimal due to prohibitively high costs of transportation and technology to distribute the fuel efficiently. In brief, unlike petroleum reserves which are transported in a liquid state, LNG is first sourced in a gaseous state as natural gas. This gas, once sourced, is transported through land-based pipelines and then must then be cooled to temperatures of -162°C . Once stockpiled in such a state, the LNG is able to be shipped to its imported destination at which point off-shore gasification plants bring the liquids back to its original gaseous state to be consumed as energy. The costs of these ports can reach upfront as high as one billion dollars or more, reinforcing the inhibitive costs of LNG for many nations.

For Japan, this reality has been different, as the resource-deprived island nation needed to find creative outlets for energy resources early on in its years as a leading world economy. Since the 1970's, Japan has been a frontrunner for LNG technologies, historically being one of the only importers of such an energy resource due to its high costs. This legacy has continued until today where Japan has been a steady LNG importing nation. Following up with reports from a representative of the Oil and Gas department at METI, Japan imports approximately 97% of its LNG stock from abroad – only 3% of total LNG production occurs domestically which centers mainly around sources in Niigata prefecture.

The rekindled excited garnered towards LNG in Japan is less centered on the establishment of a new technology, but rather an opportunity for more cost-effective pricing thanks to a pivoting global market. For many years, despite being home to various importing countries including Japan and South Korea, Asian nations have paid a higher price for LNG resources, often cited as the "Asia Gas Premium." With the advent of the North American shale gas boom, as well as prospects of greater trade relations with East Asian countries, there are hopes that general LNG prices for the region may decrease, adding more incentive for LNG to serve as a more lucrative energy resource in Japan's energy diversification mission. The prospect alone has opened the possibilities for much speculation into a North American role in the stabilization of Japan's energy production.

⁴¹ Pentland, William. "The Cost Of Misguided Energy Policies, Japan's Record Trade Deficit." *Forbes*. Forbes Magazine, 27 Jan. 2014. Web. 12 May 2014. <<http://www.forbes.com/sites/williampentland/2014/01/27/the-cost-of-misguided-energy-policies-japans-record-trade-deficit/>>.

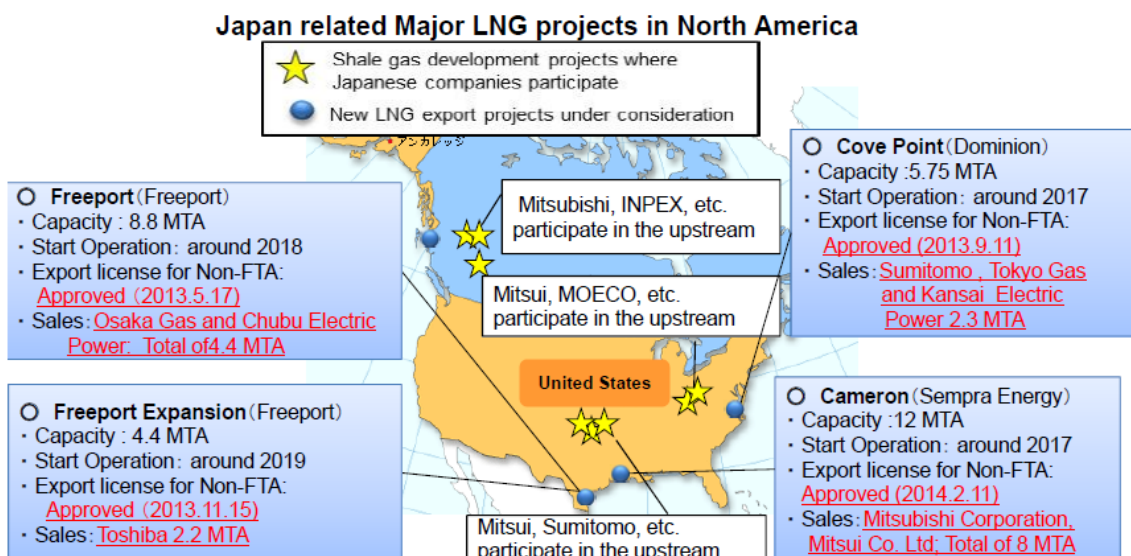


Currently three LNG export docks in the US with four total plants are green-lighted for Japanese sourcing – two in the Gulf region and one in Maryland. The US provides an interesting case in LNG sourcing since it has transitioned in the past few years from being an initial LNG importing nation, to now serving as one of the world's largest exporters. This massive transition, seizing the world's imagination as a sort of shale-gas renaissance, has provided the US with a great advantage over other shale exporting nations - many of its plants are already constructed. The reality is that, since the US has already implemented several LNG facilities when it was an importing nation, the transition to serving as an LNG exporting nation is minimal. Endowed with these “brownfield” plants, where fixed costs have already been covered, The US is able to provide a faster and cheaper outlet for LNG sourcing since construction and associated costs have already been managed.

In addition to optimistic forecasts of lower LNG costs to Japan thanks to US exports, the fact that the US is considered to be a stable ally as well as a reliable trade partner adds credibility to Japanese policy makers and energy experts promoting US LNG as a necessary asset to be expanded upon in a diversified Japanese energy plan. The case for US LNG, however, is not completely foolproof and without its own hurdles and challenges. According to current US protocol, the US only freely exports LNG resources to countries with which it has established free trade agreements. Currently, Japan does not hold such a status with the US, and as such, it falls under the category of other countries that must otherwise submit an application to the US Department of Energy (DOE) to be granted trading rights to US LNG exports. The DOE presides over these applications on a case by case basis with no special preferences to any particular country, and only grants trade permission to cases declared relevant to public interests.

Currently Japan has 6 out of approximately 37 registered requests with the DOE for non-FTA LNG trade with the US. Of these bids, the DOE has approved the export of US natural gas from four out of six cases, allowing for LNG from US terminals to be shipped to Japan. These exports - and perhaps even the approval - were facilitated by Japanese investment in LNG facilities in the US, such as Mitsubishi and Mitsui's investment in the \$6 billion Sempra natural gas terminal in

Louisiana. The exports from the four accredited trade bids to Japan is anticipated to total 17 million tons per annum (MTA) which will satisfy over 20% of Japan's annual LNG imports.



Despite Japan's successes in tapping the growing US LNG market, there is concern that despite the potential source for cheaper LNG sourcing, US government regulations may impede endeavors for urgently needed exports to Japan. Since Japan does not have a free-trade agreement with the United States that would allow access to US energy exports, current transactions require Department of Energy waivers in order to be approved.

Moreover, three of Japan's four accredited trade bids are not slated to start or be ready for shipments until after 2017, one of which as late as 2019. With Japan feeling the pressure of high trade imbalance due to realities of current fossil fuel imports, waiting this long for cheaper American LNG may not be feasible.

Since the price of LNG and shale gas are critical issues for the wellbeing of the Japanese economy, Japanese officials and energy traders have even reached out to energy-importing countries in its efforts to secure new energy resources and stabilize energy markets. Japan and India have conducted a joint study on the pricing of LNG, discussed possibilities of joint tenders of LNG, and called on other importing countries like Singapore and South Korea to join their efforts to lower LNG prices through formation of an "Asian LNG buyers' club."⁴² The future of such an organization may also serve as a pivotal factor in global LNG trade as well as for the reliability of LNG as a leading energy source in the Japanese market.

Considering the prospects of an organization representing Asian interests in global LNG supply, naturally the US is not the only major exporting country in the market. One country that is also being posited with positive speculation is Canada with its energy markets. With the third-largest oil and gas reserves in the world, after Saudi Arabia and Venezuela, Canada wants to double its

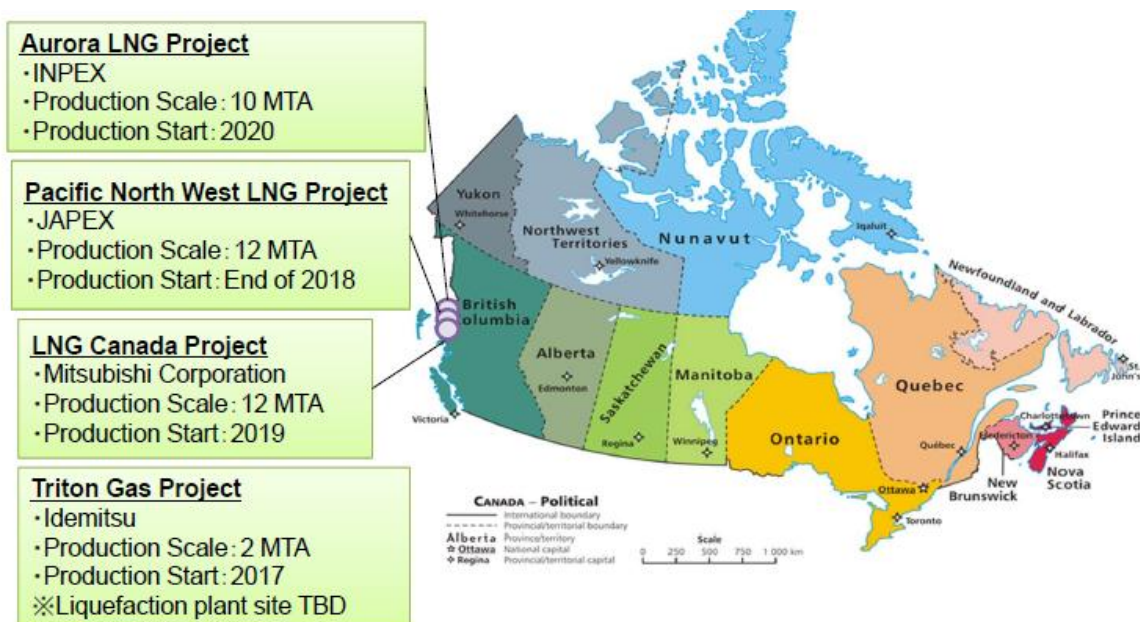
⁴² Choi, Kyong-ae. "Asia to unite for stable gas supply." . N.p., 24 Mar. 2014. Web. 12 May 2014. <http://www.koreatimes.co.kr/www/news/biz/2014/03/123_153950.html>.

oil production in the next 10 years. Of particular interest is the western province of Alberta, where mining the oil sands and creating the infrastructure has just begun. The country is equally experiencing a shale boom, having almost as much recoverable shale gas as the US.

The realities of the Canadian market pose their own setbacks, but they are worthy of observation as an increased inclusion of Canada into the LNG equation for Japan may ultimately be market disrupting, especially for recent negotiations with the US.

Currently, many major LNG projects are being planned for development in the Canadian province of British Columbia and are expected to export to the Asia-Pacific market. Japan has provided a large stake in these projects with firms such as Mitsubishi Corporation, JAPEX and INPEX participating in upstream development in the region. Currently four projects with Japanese involvement are anticipated to produce a total of 40MTA of LNG, with Japan's claim totaling 8.6MTA or roughly 10% of Japan's annual LNG imports.

Perhaps most promising about the benefits of importing Canadian sourced LNG is its distribution location on Canada's western coast to the Pacific in British Columbia. With a direct route of access to the Asian market including Japan, Canadian LNG is anticipated to have markedly decreased transportation times and thereby respectively marginal prices. This begins to demonstrate the inherent benefits of Canadian ports compared with the US. Export sites in the US, with ports on the North American east coast and Gulf of Mexico, must travel through the Panama Canal or around the South American continent with trips lasting approximately 20 days with higher transportation costs. The US has at present not disclosed any plans for constructing west coast distribution plants, and west coast states including California, Oregon, and Washington – with some of the strongest environmental lobbies against fracking and LNG sourcing on their coasts – imply that this will not likely be a possibility in any near-future scenario. A direct route from Canada is only projected to have an eight day duration, drastically decreasing transportation time and costs.



Despite the obvious optimism associated with the LNG supplies Canada can provide with locations directly across the Pacific, the benefits to Japan are not likely to be instantaneous. Unlike brownfield projects in the US with major fix costs already sunk and construction projects completed, Canada's projects are largely "greenfield" where they must be developed from the ground up, and, due to high fixed costs, will not be able to offer cheaper LNG supplies for some time. Canadian projects are not slated until later in the decade, thereby undermining any Japanese hopes of Canadian LNG serving as a quick panacea for short term energy sourcing. While Canada's shale gas resources may ultimately become a fixture in the Japanese imported energy repertoire, its projects offered with availability in the next several years at the earliest, it is most practical to be considered a medium-term endeavor.

While additional smaller-scale LNG projects are being assessed as a part of overall Japanese supply-side strategy, including Australia and Mozambique, it is one of Japan's closest maritime neighbors that also happen to be one of its largest potential fossil fuel suppliers, Russia. With the Sakhalin peninsula on Russia's eastern coast providing some of the closest fossil fuel resources available to Japan, there is considerable attention being directed toward import possibilities. The problem, however, drifting Japan's energy qualms into the arena of cutthroat geo-politics, is that Russia's recent conflicts in the Ukraine may evolve into a wedge driven between Japan and Russia greater than their close geographic proximity.

International Diplomacy, Geo-Politics, & Energy: The Trial with Russia

There is no questioning the importance of Russia as a both an integral neighbor to Japan as well as a nearby energy supplier. Such an important factor in Japan's energy supply equation, in fact, that Russia supplies approximately 10% of Japan's natural gas and 5% of its crude oil imports, the majority of which come from the Sakhalin peninsula and Vladivostok. The future of the reliability of this resource has recently come under scrutiny following international condemnation against Russia for questionable forced entry into the Crimean region of Ukraine. Also complicating the picture for Japan's future reliance on Russian energy is the mammoth gas deal that Russia signed with China in May 2014. The deal called for Russia's Gazprom to supply China National Petroleum Corp. with 38 billion cubic meters of natural gas annually for 30 years. The Russians put the value at around \$400 billion. Although negotiations had been going on for a decade, what apparently sealed the deal was Russia's need for a strategic alternative to European markets given the possibility of trade sanctions over Ukraine.

Immediately following the events pairing Ukraine against Russia over Crimean territory, Japan's western allies stepped forth with stringent enforcement of sanctions against the Russian regime. This left Japan stuck in the middle of an international geo-political dispute, swiftly bringing into question Japan's standing as not only as a contributing country among its western G7 allies, but as an active player in Realpolitik alongside neighboring powerhouses, Russia and China. In order to find a passive middle ground, Japan's first stopped short of applying financial restriction so specific Russian and Ukrainian officials in efforts to not completely cripple relations with Russia.

Chief Cabinet Secretary Yoshihide Suga has called for an independent Japanese approach to delegating Japan's stance against Russia's disregard for Ukraine's sovereign borders.⁴³ Options put forth have included halted talks on both bilateral investment agreements and visa relaxation agreements with Russia. The actions that Japan has made and will follow through over the coming months regarding this issue with Russia will have a lasting impact not only on Japan's supply-side energy strategy, but also on the country's status in regional politics as well.

For one, Japan cannot jeopardize its relation with the US and with other G7 nations for obvious reasons. Japan relies on the US and other countries for much more than simply reliable energy supply, but also national security as well. That said, if Japan remains meek on denouncing a land grab by Russia into Ukrainian territory, this sends a message to China that Japan does not presently place a priority on territorial issues. Amidst current disputes between China and Japan related to the Senkaku/Diaoyu islands in the E. China sea, Japan cannot afford to allow China to perceive Japan as weak when confronting disputed diplomacy over claimed territory.

This puts Japan in a very tough predicament where it must rationalize both its national security and foreign policy up against its energy policy inherently linked with the nation's economy. In this capacity, Russia very well could be playing an "Asia Card," with Vladimir Putin well understanding the consequences of stranding Japan in the middle of tough political decisions.⁴⁴ After all, several energy projects are planned throughout the Sakhalin and E. Siberian region which will have a direct impact on Japanese energy markets. Nonetheless, Japan still has northern Kuril/Hokkaido territorial disputes with Russia left dormant for decades which very easily can re-erupt into contentious setbacks for Japan if missteps are made in foreign diplomacy.

The case of Japan's sticky relationship with Russia brings an inconvenient truth to the surface of Japan's energy dilemma – Japan is far too dependent on other nations to establish a stable energy supply. In addition to the negative externalities associated with carbon emissions associated with fossil fuels, Japan's dependency on foreign imports has added an economic element to the mission that the country should strive to become more energy-independent. For many, the answer to modernizing Japan's energy diversification strategy is to invest heavily in a renewable energy revolution. Whether or not this is plausible or feasible, however, is another matter complicating Japan's energy conundrum.

The Issue of Greenhouse Gasses & the Potential of Renewable Energy

When considering Japan's short term tendency to import more fossil fuels to ameliorate high energy demand, the inevitable increase of greenhouse gasses must also be noted. After all, Japan is a country that has sought it of itself to serve as a progressive leader in regards to decreased greenhouse gas emissions – this only adds another layer of complexity for the challenging reality of post-Fukushima *clean* energy diversification. Attention is thus turned towards the prospects of renewable energies.

⁴³ Tiezzi, Shannon. "Japan Eyes Sanctions on Russia." *The Diplomat*. N.p., 20 Mar. 2014. Web. 12 May 2014. <<http://thediplomat.com/2014/03/japan-eyes-sanctions-on-russia/>>.

⁴⁴ "The end of the affair." *The Economist*. The Economist Newspaper, 17 Mar. 2014. Web. 12 May 2014. <<http://www.economist.com/blogs/banyan/2014/03/japans-relations-russia>>.

According to aforementioned projections, renewables have always maintained a rather modest proportion of Japanese energy consumption at approximately 10% - the largest fraction of this being hydropower sources. The proportion of note, however, is the slim 1% slice of total electricity generation comprised of virtually all other major renewable energy options, including solar and wind varieties. With a great demand expanding past one-third of all Japanese energy consumption left vacant, and a general aversion to increasing dependency on volatile, CO₂-emitting fossil fuels, this slim 1% of renewable energy has become an even greater focal point of the Japanese energy solution.

The prospects of expanding this tiny slice of Japan's total energy consumption, and expanding renewable energy sources to meet Japan's energy demands have come to the forefront of Japanese policy discussions since Fukushima. The Noda administration officially set into motion a new energy system after calling for the abandonment of the previous ambition nuclear expansion plans pre-Fukushima. The administration followed with proposition of new goals in Japan's energy horizon, including the objective of reaching 10 million solar-powered homes by 2020.

Amongst other proactive policy measures, in 2012 following a substantial push from the Kan administration, an ambitious policy program was implemented throughout Japan in hopes of kick-starting the renewable energy sector. This program was a feed-in tariff program (FiT) designed to provide incentives for implementation of new renewable energy sources. In principle the program is straight-forward, offering a flat-rate cost to purchase electricity produced by renewable energy sources. In this capacity, the program is accessible even to individual pedestrians installing their own renewable energy systems such as photovoltaic panels (PVs) or small-scale wind turbines, among other renewable alternatives. The excess energy they produce can then be sold through to electricity utility companies at the flat-rate FiT price which is then sold forward at a premium to other electricity consumers. The program provides an incentive for individuals or small-scale producers to consider renewable energy sources to produce energy.

The premise of the Fit program is not exclusive to Japan and has been implemented in several countries, most notably throughout Germany, but even in the US in small experimental sites such as those in California. What makes Japan unique, however, is the fact that Japan offers a flat-rate sales price of FiT at a markedly higher price than other countries. Currently Japan offers a flat-rate of 42 Yen per kWh over the next 20 years for all renewable energy resources with the exception of solar FiT which has recently been reduced to 37.8 Yen in April.⁴⁵ Nonetheless, these prices are substantially high and may serve as a proactive agent to help initiate successful renewable energy implementation, at least at the pedestrian level.

The positive elements that have been noted of FiT programs is that they can naturally balance out independent investments to sell renewably-produced electricity, meaning that installers can be at ease that they can pay off their fixed and sunk costs of renewable energy technologies. This will make it easier for pedestrians and new/small businesses to plan out their expenses as well as

45 McCutcheon, Chuck. "Energy-Short Japan Eyes Renewable Future, Savings Now." *National Geographic*. N.p., 07 Jul 2011. Web. <<http://news.nationalgeographic.com/news/energy/2011/07/110707-japan-energy-future-after-tsunami/>>.

when they will be able to pay off their fixed costs and project when they will begin to make profits. In short, it is economically efficient for installers to join into the FiT, and invokes positive consequences for the energy situation overall in Japan thanks to increased activity in the budding renewable sector.

FiT rates will be applied to renewable energy sources including not only solar and wind energy, but also hydraulic, geothermal as well as biomass power. The approval of these facilities will be mandated by METI through a special committee determining efficacy of electricity production of renewable energy sources as well as tariffs and durations of the FiT program rates. Once the electricity is sold to electricity utility companies at a FiT rate, a surcharge is added which is also delegated upon as a unit price per kWh for every fiscal year by METI. This incorporates government intervention in private sales of electricity demonstrating Japanese government oversight in the expansion of renewables through this FiT program. Despite the recent adjustment of PV FiT rates this past April, the FiT program seems to be largely successful and unchanged over its initial few months since implementation. Some of the positive results can be seen through the following data of Japan's substantial growth in residential photovoltaic generation.

At present, Japan is ranked third in the world in terms of installed photovoltaic generation capacity, reaching approximately 3,618 kW. Residential use accounts for 80% of this generation, with the remaining 20% accounted for by non-residential use.⁴⁶ It is important to note that this ratio is nearly the opposite in Europe and the US demonstrating Japan's rapid expansion of PV systems for individual households. In select cities throughout Japan where expansive PV programs have been initiated, it has become normal to see row after row of residential homes checkered in black PV panels. This is demonstrated in Japan's statistics boasting 900,000 households installed with PV generation technology – a substantial number considering Japan's total of 27M households.⁴⁷ METI has already publicly expressed its intent to continue to promote residential PV technologies throughout Japan. In cooperation with programs promoting rechargeable batteries and smart meters for homes, it is a goal of METI to establish PV systems as standard "household appliances" throughout Japan.

Solar energy has not been the only renewable energy resource that has been on the radar of Japanese government and business officials seeking sustainable and efficient electricity sources to meet post-Fukushima demand. The Japanese government is stepping forward in one major project paying 22 billion yen, or \$226 million to supplant the cost of building the first three wind turbines off Fukushima, part of Abe's push to make renewable energy a pillar of his economic growth program.⁴⁸ Cost is big issue for off-shore wind energy where added infrastructure must be considered to successfully install and ground the turbines offshore in the water. Building the first three turbines off Fukushima — each with a different design — comes to about 2 million yen, or about \$20,000 a kilowatt, about eight times as much as the cost of building a

46 Chang, Yvonne. "Japan Solar Energy Soars, But Grid Needs to Catch Up." *National Geographic*. N.p., 14 Aug 2013. Web. <<http://news.nationalgeographic.com/news/energy/2013/08/130814-japan-solar-energy-incentive/>>.

47 "To Expand Offshore Power, Japan Builds Floating Windmills." *NYTimes*. NYTimes, 24 Oct. 2013. Web. 20 Nov 2013. <http://www.nytimes.com/2013/10/25/business/international/to-expand-offshore-power-japan-builds-floating-windmills.html?pagewanted=1&_r=0>.

48 Foster, Martin. "Wind energy wins METI approval in Japan." *Wind Power Monthly*. N.p., 15 Oct 2013. Web. <<http://www.windpowermonthly.com/article/1216316/wind-energy-wins-meti-approval-japan>>.

wind turbine on land. This is in contrast to one land-turbine costing approximately 6 million dollars to build.⁴⁹ With increasing economies of scale and design improvements, the consortium says it hopes to bring that cost down to about twice the cost of land-based turbines.

Another major wind farm sprouting up in Japan is a project taking place in Ibaraki prefecture, east of Tokyo. The wind farm – projected 50 turbines, 250 MW electricity – could potentially generate the electricity of quarter of a nuclear power plant. (or 1 in 10 households in the region). Currently between 6-12 turbines are under construction or in use.^{xii} The region was first scouted out for its low mountains, steady winds, providing a positive climate for effective wind-generated electricity production.

Major projects such as these aforementioned wind farms, as well as many of the noted solar generating projects have piqued interest in Japan for the potential of also kick-starting a new wave of manufacturing throughout the country that could have residual benefits for the economy. With the organization of Keiretsu, organizations of business groups in Japan, it is projected that skills of integrated employee groups could be used to Japan's advantage in this market with high organization and an effective, determined work force to complete projects. Offshore wind generation involves many of the industries that Japan is desperate to revive, from shipbuilding, which has lost out to rivals in China and South Korea in recent years, to heavy machinery, construction, batteries, electronics and advanced materials like the carbon fiber-reinforced polymers used in the turbine's blades.

While there are many optimistic outlooks regarding wind-generated electricity, high costs and other challenges still require much modification and development within the sector. Much like solar, wind energy has a long way to go, not only for its own specific research and development purposes, but due to infrastructural barriers preventing effective integration of the electricity generated through these new technologies to reach other parts of the country. Some of these concerns are presented in an overview of recent endeavors taking place throughout Hokkaido, a major hub for current renewable energy production, where distance from major energy demand sites makes energy distribution highly inefficient and costly.

After the curtailment of nuclear energy as a leading energy source in post-Fukushima Japan, renewable energy has caught the attention and fascination of the world as a potential answer to Japan's energy crunch. There is no doubt that renewable energy sources are being tested and expanded throughout Japan, bringing about some state-of-the-art examples for the world. The question remains if these efforts will be enough to sustain Japan's energy demands - at what speed and at what cost?

With the ever-present pull of nuclear seeming to remain on the radar of Japanese energy decisions, as well as straightforward roadblocks in renewable energy production, primarily in the reality of the inefficiency and high costs of energy storage, there seems to be a sense that renewable energy may still remain as lofty futuristic fantasy rather than a practical solution for Japan's energy needs. The reality of renewable energy in Japan, thereafter, is not that renewable energy developments must come to a close in Japan, but rather that the medium may not satisfy

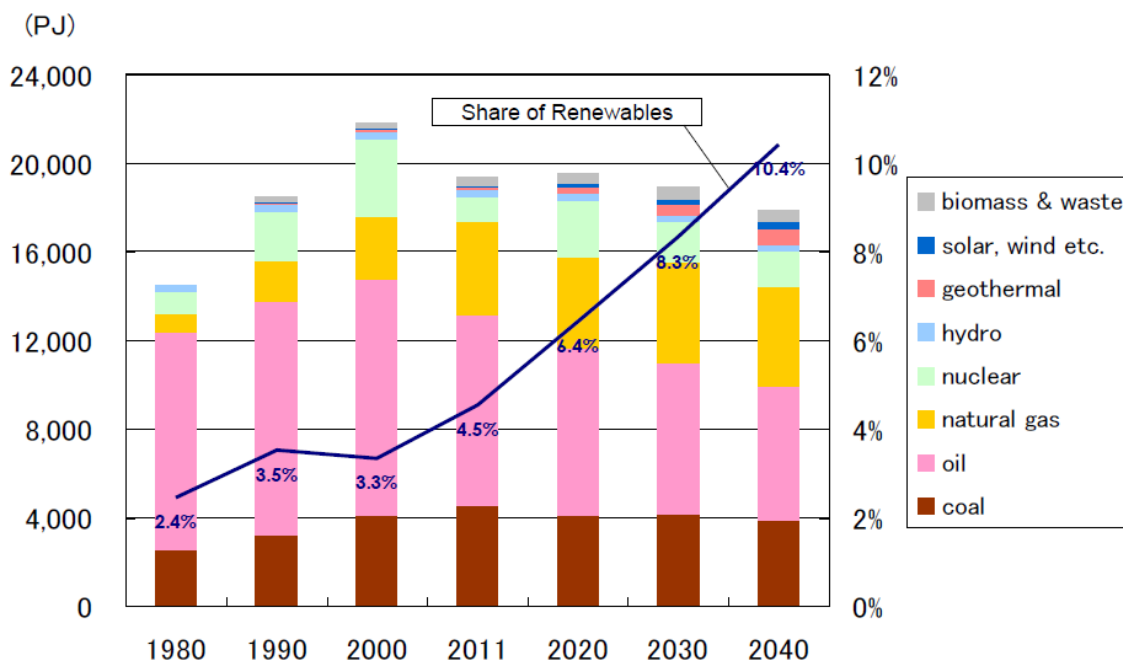
⁴⁹ "Floating wind turbine starts trial off Fukushima." *Japan News*. Yomiuri Shinbun, 12 Nov. 2013. Web. 20 Nov 2013. <<http://the-japan-news.com/news/article/0000788400>>.

short-term energy needs and must thereby be acknowledged as an investment for the future benefit of the country.

The prospects of renewable energy (including solar and wind) are considered by many organizations (METI, IEEJ, TEPCO, etc) to be marginal at best, and due to high fixed costs and R&D costs, the total increment of renewables may only increase from 1% to roughly 2% of Japan's total energy production. This is hardly enough to alone satisfy the nearly 30% deficit in current Japanese energy production due to the shutdown of nuclear. While the technologies may not satisfy Japan's immediate pressing energy qualms, it does not mean that renewable energies must be disbanded. After all, there are still very many great benefits that can come out of renewable energy production – including stable as well as clean energy production – that could still prompt Japan to become a major world leader in a renewable energy movement. In this regard, a responsible policy plan laying out how Japan invests in renewable energy technology, and at what pace is also an integral issue in Japan's overall energy strategy.

Finding Japan's responsible "Best-Mix"

At this time, there is still no one clear mission pioneering the next era of Japanese energy stability. To put the challenges of Japanese energy diversification into perspective, it is useful to observe the complexity of piecing the possible puzzle pieces together. In the chart below provided by IEEJ, a series of potential combinations of Japanese energy diversification are proposed in order to meet total energy demand. As a base, much like the METI pie-chart listed previously, pre-Fukushima proportions are provided from 2010 for comparison. With nuclear shown first increasing from Fukushima-levels (implying the aforementioned nuclear restart scenario) there is a clear representation that nuclear energy generation remains on a path towards incremental reduction. This is a more realistic – and responsible – outlook on Japanese handling of nuclear energy that is neither growing to the previously anticipated ~50% production proportions of the 2010 energy plan, nor a representation of a hasty, complete nuclear phase-out plan.



A curious trend in IEEJ's above posted graph also leads to speculation on another factor that may dictate the future of Japanese energy policy – that of population. While marginal, the progression from 2020 projections to 2040 projections does show a noticeable decrease in Japanese energy demand. With a low birthrate, aging demographic and overall slowly shrinking population, Japan very well may not need as much energy in the future to satisfy its domestic demand. While this is long term, and by no means an answer or solution to Japan's current pressing energy concerns, it is an important footnote to be considered when contemplating a best-mix for Japanese energy supply.

As early as this summer, NRA certified nuclear reactors are slated to be restarted—though the above cited Oi court decision seems ominous. This includes Japan's goals to establish reliable base load energy, as well as a source to utilize the country's stockpiles of plutonium that it already has. Even so, as nuclear energy will be resized to a smaller fraction of Japan's overall energy production, there are also efforts to export Japanese nuclear infrastructure and intelligence abroad – as of now, these projects are being established in Vietnam and Turkey.

The bottom line is that the future of Japan's energy diversification initiatives are hardly mere projections of the future, but a reality currently taking shape right now – and a reality that is under high pressure as well. Even if debates continue in Japan regarding the usage of nuclear energy, or the increase of fossil fuel imports, it can no longer go unnoticed that renewable energies as well as the US shale gas boom are also possibly more at the forefront of Japan's national energy agenda than perhaps that of any other country in the world.

In the past few years, Japan has inarguably been handed a basket of lemons, but in the world of modern energy advancements as well as renewable, clean energy, Japan may be on the threshold of turning its lemons into lemonade and positioning itself as a global leader in a new renewable energy revolution. This outlook, however, may prove to be overly idealistic, leaving Japan to find a comfortable middle ground – a best-mix scenario – for energy diversification.

This best-mix scenario can take a myriad of forms, but it is much more than simply finding any energy supply to meet demand. The mission of finding the best way, or rather, the most “responsible” way to meet Japan's energy demand is now at the core of the Japanese government's energy agenda, or at least it should be. Following another news conference related to the approval of the 2014 Japan Basic Energy Plan, METI Minister Motegi revealed the current Japanese administration's understanding that “each energy source has its own characteristics.” With the existence of no one “perfect [energy source] in terms of stable supply, cost, environmental impacts and safety,” Japan has a great challenge to find its own most-responsible energy solution.⁵⁰ While many factors can lead to this outcome, one fact that cannot be denied is

⁵⁰ Watanabe, Chisaki, and Masumi Suga. "Japan Atomic Power's Role Supported in Basic Energy Plan." *Bloomberg Business Week*. Bloomberg, 13 Apr. 2014. Web. 12 May 2014. <<http://www.businessweek.com/news/2014-04-10/japan-s-cabinet-approves-post-fukushima-basic-energy-plan>>

that various advances taking place throughout Japan are pushing the country to diversify and embrace different energy sources, and this is occurring at an unprecedented rate.

There is no questioning that the 15 member task force comprised mainly of academics that worked together to produce the 78 page 2014 Japan Basic Energy Plan considered many of intricacies of all options laid forth above. The coming years will naturally pit Japan against many more challenges as it attempts to stabilize an effective energy plan, but what is commendable of recent efforts is that the country is becoming much more rational about the importance of both short and long term visions for its energy strategies. Highlighting this very point before walking away from flashing camera lights, Motegi, his voice booming through the press conference's microphone loudspeaker, called for securing "an energy supply-demand structure that is realistic and well-balanced."^{xviii} In other words, a responsible strategy to best lay the groundwork for a healthy energy supply for Japan now, and for many decades still to come.

Japan's Nuclear Dawn in the Post-Fukushima Era

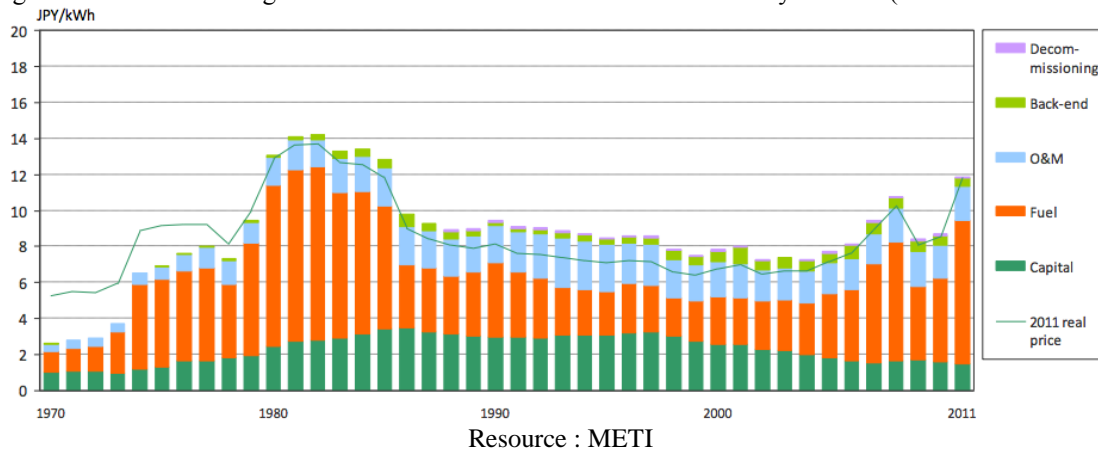
By Guli Du

Introduction

Before the Fukushima Dai-Ichi nuclear accident, which happened on March 11, 2011, Japan heavily relied on nuclear energy. Prior to this disaster, nuclear energy accounted for roughly 30% of Japan's electricity, and 15% of Japan's primary energy consumption (IAE: Energy Balance of OECD Countries). In addition, Japan ranked behind only the United States and France in nuclear electricity production.

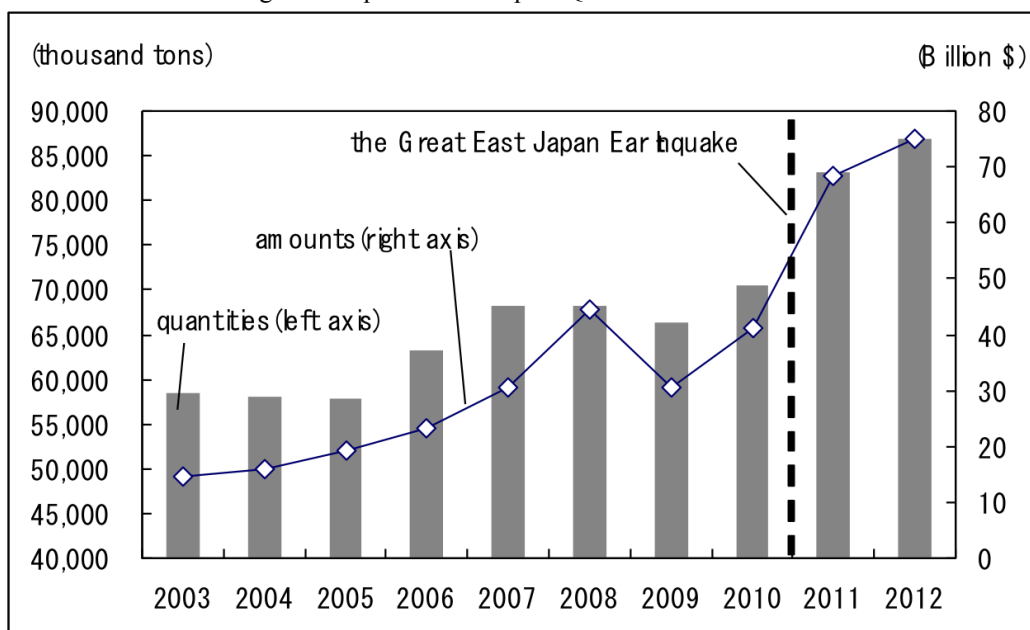
In the previous basic energy plan, nuclear power was regarded as a mainstay energy source. The Japanese government considered nuclear power a low-carbon, economical, quasi-domestic energy source that was also environmentally friendly, since it does not emit carbon dioxide. Japan planned to add at least 14 more nuclear reactors by 2030. It also sought to raise nuclear power's share of total electricity generation from 28% in the fiscal year 2010 to 53% by 2030. Such a high reliance was primarily a result of nuclear energy's comparatively low cost, as is shown in Diagram 1.

Diagram 1 Trends in Average Power Generation Unit Cost for All Electricity Sources (Fiscal Year 1970-2011)



Since 2011, however, the nuclear power share in domestic electricity generation has decreased to zero due to the long-term shutdowns of nuclear power plants (NPPs) for inspections by the newly created Nuclear Regulation Authority (NRA). By contrast, the thermal-power generation rate has jumped to 90% of the total. In particular, LNG generated power shares approximately 50% of Japan's total energy mix. As a result, the cost of thermal generation replacement fuel is estimated to have increased by 3.1 trillion yen from FY2010 to FY2012. In 2013, imports of LNG and thermal coal worth 8.2 trillion yen (\$80 billion) accounted for nearly 10% of total Japanese imports of 81.3 trillion yen (\$793 billion). In other words, fuel costs increased by about 3.6 trillion yen in FY 2013, compared to the FY 2010 amount (see diagram 2).

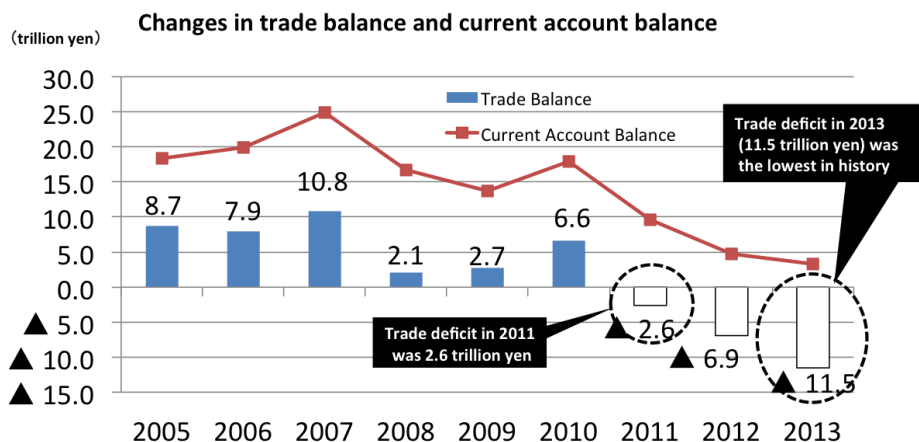
Diagram 2 Japan's LNG Import Quantities and Amounts



Source : Ministry of Finance (Trade Statistics of Japan)

Accordingly, the increase in imports of expensive fossil fuel, including LNG, is considered as one of the reasons for Japan's expanding trade deficit (see Diagram 3). Large energy firms are especially influenced by the shutoff of nuclear energy. For example, having lost a stunning 81.2% of its market capitalization between March 10 of 2011 and April 2 of 2014, TEPCO (Tokyo Electric Power Company) is not viable in its current form. In addition, Kyushu Electric's reliance on nuclear power was 42% of generating assets and Hokkaido Electric's reliance was 30%. Their respective losses of market capitalization are 38.9% and 58.2%.

Diagram 3 2005 to 2013 Japan's Trade Balance

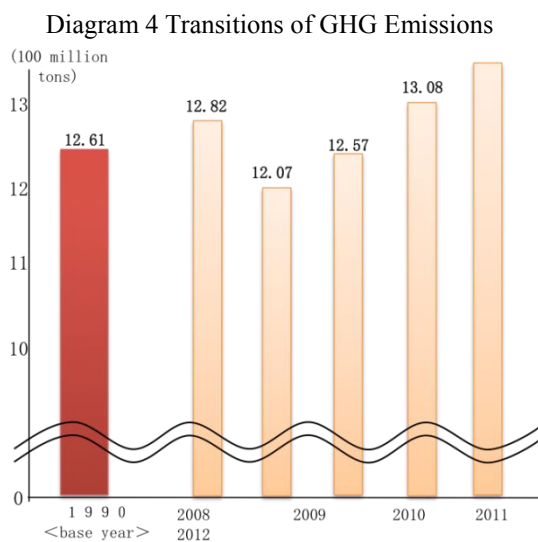


Source: METI (Ministry of Economy, Trade and Industry)

Although renewables would seem to be the new panacea – as some anti-nuclear power politicians and groups have claimed – Japan is nowhere near ready to start filling the huge energy gap left by nuclear plant shutdowns. For one thing, the initial cost of getting renewables

on line is the main stumbling block for the widespread adoption of these new technologies. It is much harder to finance the high upfront investment. Comparatively, the initial investment of conventional fossil fuel is much lower on a per unit basis. Consequently, the Japanese government has to have implemented a feed-in-tariff (FIT) program, which obliges the electric utilities to purchase electricity from almost all renewable energy producers in order to encourage investment in those resources. Under this framework, producers of electricity generated by renewables enjoy a guaranteed fixed price for long-term sales. The price is set high enough to ensure that the renewables industry is profitable. However, consumers have to offset the high return to renewable producers by paying more for their electricity. In other words, such a framework causes market distortions. Gradually reducing the price for renewable energy under the FIT could be one way to promote efficiency and reduce the risk of distortion.

In addition, the increase in power costs also severely affects the profitability and competitiveness of small and medium-sized firms in Japan, not to mention the fact that greenhouse gas (GHG) emissions have also substantially increased (see Diagram 4). Thus, the Japanese government has to tackle possible power shortages this summer again, since all the NPPs are still left offline. Hence, the Japanese people asked the government to make the utmost effort to ensure a stable energy supply to avoid planned blackouts.



Source: METI

At the same time, many Japanese scholars and officials, who are supportive of nuclear energy, argue that nuclear power is an affordable source of electricity and useful for combating global warming. It is a type of environment-friendly energy, which is economically efficient and can ensure stable supply. As a resource-poor country, Japan is dependent on imports for 96% of its primary energy supply without nuclear energy. Particularly, Japan imports nearly 90% of its total crude oil from the Middle East. Such a dependency makes Japan's energy supply structure extremely vulnerable. It is difficult for Japan to secure resources on its own in the case of problems in overseas supply. Thus, energy security has always been a problem and concern of Japan's.

Moreover, Japan's commitment to drastically reduce GHG emissions has compelled groups and individuals with anti-nuclear power stances to rethink the importance of restarting nuclear reactors. Indeed, no one in the anti-nuclear movement could create a politically viable means of combining a nuclear pullout with the reduction of GHG emissions. Therefore, such consequences of zero use of nuclear energy, which emerged in the past two years, have forced the Japanese government to reconsider restarting as many nuclear reactors as possible to meet short-term problems.

Japan's New Basic Energy Plan and Indications of Energy Policy

On April 11, 2014, the Japanese Cabinet approved the 78-page new Basic Energy Plan, which sets out policies for the production and supply of Japan's future energy mix, including nuclear energy and clean energy initiatives. Conventionally, the key points of the energy policy are safety, stable supply, minimum economic burden, and environmental-friendliness. In this new plan, nuclear power is described as "an important base load electricity source," though it is not likely that Japanese nuclear consumption will reach pre-Fukushima levels any time soon. Such a definition continuously indicates the importance of nuclear energy as the foundation of the stability of energy supply-demand structures.

The current technology allows nuclear power to generate energy at a constant rate and a lower cost than alternatives like solar or wind power. According to METI, nuclear power is a quasi-domestic source that provides a stable power supply and energy efficiency, operates inexpensively and reposefully, and has a free GHG profile during operation. Meanwhile, this plan also emphasizes the priority of safety considerations in the restart and operation of any nuclear plants. Only the nuclear reactors that meet new safety standards will be restarted.

Nonetheless, the new plan does not clarify the schedule of restarting nuclear reactors or how much electricity will be generated by nuclear energy in the total energy mix in Japan. Moreover, the plan doesn't rule out the possibility of constructing new nuclear power plants and reactors. Such ambiguity is probably because the government has not determined when idled reactors will be reactivated or how many of them will be, whether in the short-term or in the long-run. Hence, many opposition party members have criticized the basic plan for this ambiguity.

Besides the restart plan and requirement, the new Basic Energy Plan also states that dependence on nuclear power will be reduced as much as possible in the long-run. Consequently, renewable energies will be introduced and developed to maximum capacity as quickly as possible during a three-year period from 2013, and the Japanese government will continue positive promotion efforts thereafter, thereby supplementing the absence of nuclear energy. Though the proportion of power sources was not specified, the basic plan contained a footnote stating that the government plans to raise the percentage of renewable energy sources, including hydraulic power generation, to 13.5% in 2020 and to about 20% in 2030. However, the public debate also began warming up regarding Japan's deployment of energy alternatives such as solar and wind. The instability of wind power, the lack of space, the high latitude location of Japan, and other current technological limitations all impose restrictions on the utilization of renewable energy.

Therefore, the restart of nuclear reactors is inevitable in Japan, even though there would be much local resistance. First and foremost, ensuring safety is the prerequisite for nuclear power

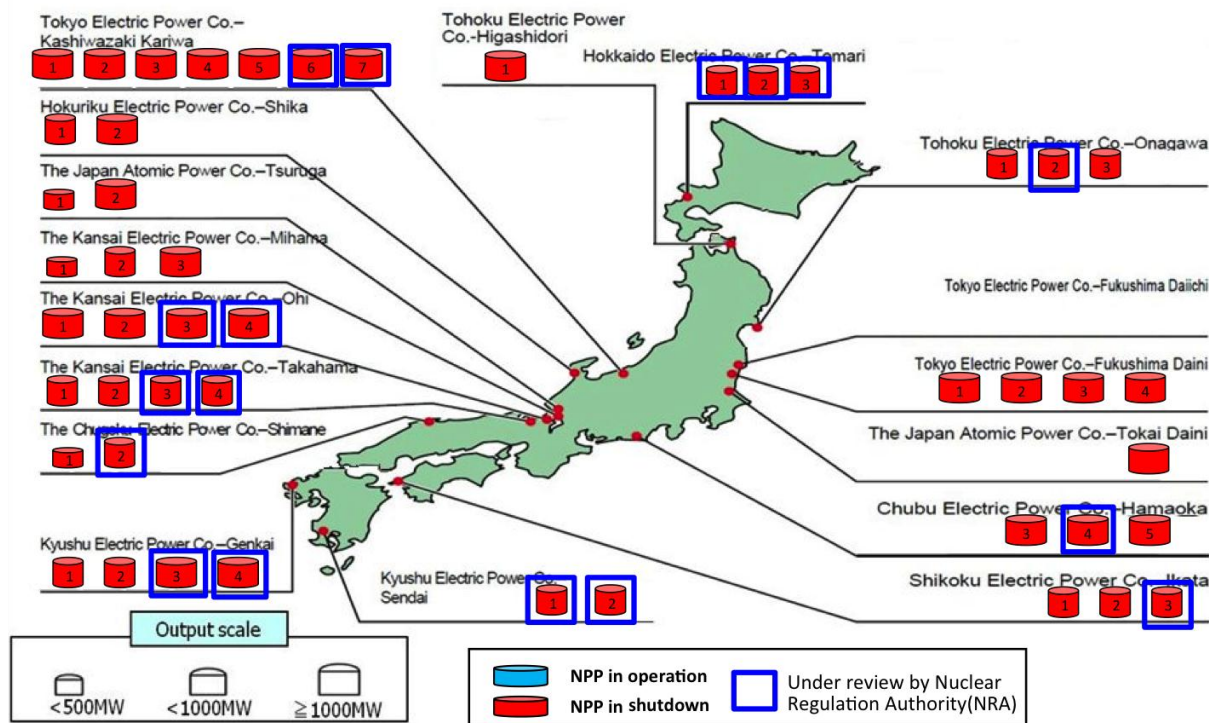
generation. Correspondingly, the scale of nuclear plants will be reviewed based on the need for a stable energy supply, cost reduction, global warming prevention, and maintenance of technical and personnel levels. Theoretically, restarting is acceptable, but renewing, rebuilding, and reestablishing are not up for discussion yet.

Then and now, the Liberal Democratic Party (LDP) has announced its medium-to long-term policy for keeping nuclear energy in Japan's energy mix, as long as the safety of nuclear reactors is secured. Japan will revive and promote nuclear power generation. The Abe administration hopes to restart reactors after they undergo safety checks by the Nuclear Regulation Authority (NRA) as well as to continue to promote a nuclear recycling policy, though Abe has said that the government would reduce dependence on nuclear power as much as possible.

Specifically, several nuclear power plants are proposed for restarting this summer if each plant's community agrees. Particularly, in the Kansai region, nuclear generated cheap electricity is highly demanded, since it composed more than 40% of total electricity. Ideally, Sendai I and II in Kyusyu and the Ikata nuclear power plant in Shikoku should become the first echelon. They have good conditions and are out of danger of tsunamis. For instance, the Ikata unit is on the other side of Shikoku Island towards the Pacific Ocean. The local community of Ikata is also very supportive of the restart, since it benefits their economy.

Until now, no power companies have mentioned the possibility of permanent shut downs, nor has METI. Nevertheless, not every reactor can pass the NRA's restart security inspection mainly due to the risk of tsunamis and the active-fault problem, which could possibly trigger an earthquake. Half of the current reactors have a plan to restart, though the future is not clear. However, even if most of the 48 reactors in Japan don't have critical safety issues, the possible number of restart reactors will be seven to ten at most in 2014 or shortly after, as predicted by METI officials. Indeed, though electric power companies applied for checks on 17 reactors at 10 nuclear power plants, only the Sendai nuclear power plant in Kagoshima Prefecture has been scheduled for an on-site safety inspection for the I and II units. The locations of nuclear reactors in Japan are shown in Diagram 5.

Diagram 5 Nuclear Power Plants in Japan



Source: METI

Moreover, the new construction issue is also controversial in Japan. On the one hand, Japan, as an earthquake country, should not rely on nuclear energy. On the other hand, as a practical country, trade deficits and economic cost are other concerns. The Japanese government has to balance international and domestic risks. In particular, TEPCO has submitted new construction reports, and the units officially under construction are believed to continue to build.

Recently, the Chugoku unit 3 is almost done and is waiting for a security check, but it hasn't sent the security report to the NRA yet, as of April 2014. The 40% done Ohma NPP, a 1383 MWe ABWR type of reactor, should be the first Japanese nuclear construction project to restart, although no start-up date has been given. The Higashidori unit 1, which just started its construction at the time of Fukushima accident, has no restart plan either. Other units that were preparing for construction, such as the Kaminoseki unit I&II and Sendai unit III, are probably to be built, only after the restart of the first current several reactors.

Currently, mainstream Japanese nuclear experts in this area take the view that there is a possibility of constructing more reactors. If there were a plan to phase out nuclear power in the future, the government would remain silent at this time. Some experts further argue that the government should set goals and policies, and then convince the opposition side. Some also believe that the Japanese government has already set the agenda but does not want to unveil it while public opposition is strong.

According to a poll on March 24, 2014, conducted by Tokyo Shimbun, 56.6% of the Japanese people opposed the restarting of any nuclear capacity, and only 36.2% supported the restarts. In

addition, the poll not only showed sustained opposition to nuclear energy, but also showed great sensitivity to the perceived risk. Accordingly, besides the facilities of the infamous Fukushima Daiichi NPP, only 12% of the Japanese public had little or no concern regarding the risk of possible nuclear accidents at other NPPs. On the other hand, 50% had a fair degree of concern, and 36% had a very high degree of concern. Additionally, 76% of respondents believed that the lack of nuclear waste disposal facilities was a serious problem.

A month later, an Asahi Shimbun poll showed that 39% of Japanese approved the Abe cabinet's decision "in its newly adopted plan for the fundamentals of Japan's energy resources to abandon the DPJ administration's policy of eliminating Japan's nuclear power generation in the future and continue to use nuclear power generation." Although the support rate for nuclear energy had increased by about 3%, those opposed still totaled 46%, higher than the supporters.

Besides public opinion, the turnaround on nuclear energy policy that the DPJ-led government under Prime Minister Naoto Kan made set off political conflict with other political parties. Back in 2012, the Energy and Environment Council Government of Japan proposed the Innovative Strategy for Energy and Environment, which set a goal of phasing out nuclear power by the 2030s, saying reactors would no longer be built. At that time, such a policy change threw the electricity industry into a dilemma, as electric firms were proceeding with business plans in line with the government's previous nuclear-supportive energy plan. It was extremely hard for electric firms to promptly modify their business plans in Japan.

With the launching of the Abe administration, the government shifted gears toward approval of nuclear energy in only one year. Abe argued that it would be irresponsible to completely end nuclear power generation, saying "[t]o provide a stable supply of electricity at low prices, nuclear power plants are necessary." Those who support Abe say that the proportion of nuclear power should be kept at about 20%, which means maintaining nuclear reactors already in operation and constructing some new plants. The newly released Basic Energy Plan has created divisions between the LDP and New Komeito and the DPJ (Democratic Party of Japan) on the future of nuclear energy.

The ruling Liberal Democratic Party and its coalition partner the New Komeito differ greatly on the use of nuclear power, including restarting idle reactors, exporting nuclear technology, and continuing Japan's troubled nuclear fuel-cycle program. The New Komeito remains cautious as the party aims to terminate all nuclear power generation, which it has publicly pledged. Furthermore, in the recent Tokyo gubernatorial race, ex-Prime Minister Morihiro Hosokawa allied with former Prime Minister Junichiro Koizumi to campaign for zero use of nuclear power. The two former leaders have since established an NGO, which focuses on promoting anti-nuclear programs.

However, most members of the LDP dismiss this political union as meaningless, since neither of the two former leaders have much political clout to sway public opinion. Moreover, since the Tokyo voters elected the LDP-endorsed gubernatorial candidate overwhelmingly, the message to the nation is that the anti-nuclear movement has limited appeal to the electorate.

The new Basic Energy Plan also brings up the troubled Monju fast-breeder program and the problem of disposal and recycling of nuclear waste. Accordingly, Monju, which was once described as a “prototype fast-breeder reactor,” has been changed into “an international research stronghold” in the plan. Indeed, the Monju fast breeder program has been stopped since 1996, when it had an accident. Since then, the fate of the program has been a social matter and not simply a technical issue. For almost 20 years, the Japanese government has never succeeded in restarting the Monju reactor, which just kept on experiencing one problem after another.

The main problem of restarting Monju is the potentially long duration time and costs that will be needed. It is not costly to maintain the facility, but once it is restarted, Japan will have to suffer the high cost of operating this now antiquated plant, so it may even take several decades to get back on track.

The other problem is regarding handling of the nuclear material. Even if the plant has been shut down, spent fuel and waste accumulated there has to be disposed of. Japan presently has to maintain the waste on site, since the recycling plant is also offline.

According to the Basic Plan, the implementation system of Monju will be realigned, reflecting the lessons and experience learned from past efforts. It also emphasizes the need for thoroughgoing reforms based on the reassessment and examination of the Monju site, aiming at compiling research findings. After meeting the new regulations and standards, the Monju research program and the results of research and development of fast breeders will be summarized. In accordance with the Monju project, development of fast breeders will be back on agenda after reexamination, with the cooperation of the United States and France.

The problem of restarting a nuclear fuel cycle requires a mid to long-term response. The Japanese government wants to introduce a flexible policy response in order to “respond to technological trends, energy demand and supply, and the international situation.” Consequently, along with the estimation of the future operating of NPPs, amount of nuclear fuel, and quantity of spent nuclear fuel, the nuclear fuel cycle system should be pushed forward, according to government plans.

If so, the Japanese government has to tackle the nuclear waste issue. Even if Japan plans to build no new nuclear reactors, it has to figure out a solution for the nuclear waste disposal issue. It is critical to have long-term disposal or final disposal solutions. The government needs to indicate locations that are scientifically more suitable in the selection of final disposal sites and seek the local community’s understanding. In addition, the new basic plan stipulates the promotion of the nuclear fuel cycle, whereby the spent nuclear fuel is reprocessed to produce new nuclear fuel (plutonium) for power generation. Unfortunately, the fuel cycle plan is even more controversial, facing both domestic and international opposition.

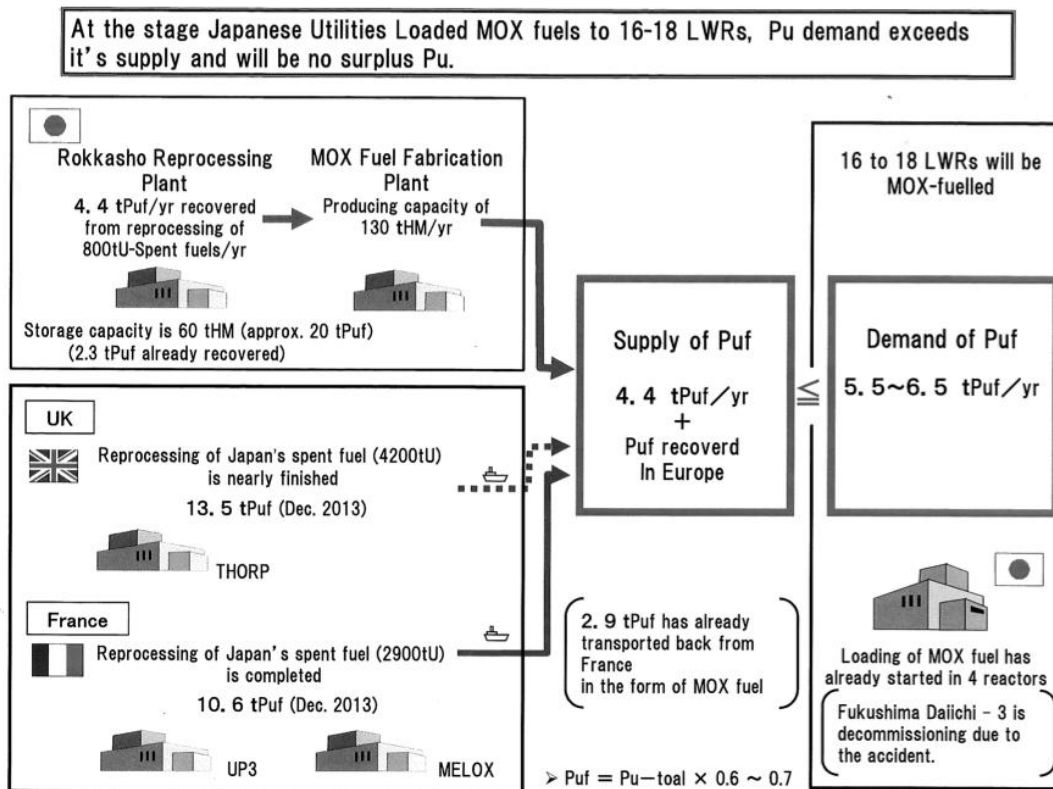
Previously, China and Russia expressed concern about Japan’s nuclear material reserve. Recently, at the 2014 Nuclear Security Summit, leaders of the US and Japan agreed to remove and dispose more than 700 pounds of weapons-grade highly enriched uranium (HEU) and plutonium from the Fast Critical Assembly (FCA) at the Japan Atomic Energy Agency (JAEA)

in Tokai Mura in Ibaraki Prefecture. Nonetheless, other than these weapon-grade nuclear materials, Japan maintains a large amount of separated plutonium in both Japan and Europe.

In fact, besides the Rokkasho Reprocessing Plant in Japan, which is under the examination by the NRA until October 2014, Japan owns nearly 30 tons of plutonium in Britain and France. Formerly, Japan exported 4,200 tons of spent fuel to the UK, where it was reprocessed into 13.5 tons of plutonium, and 2,900 tons of spent fuel to France, which has completed the reprocessing of 10.6 tons of plutonium. Since the Fukushima accident and technical stagnation, most of the stock has had to be maintained in the UK and France. In fact, France has only sent 2.9 tons back to Japan (the entire framework of the spent nuclear fuel reprocessing program is shown in Diagram 6). Thus, although transportation was included in the MOX fuel reprocessing contracts, Japan has had to pay for the expanded storage of the reprocessed materials. Neither Britain nor France is willing to maintain indefinitely these radioactive materials for Japan.

Furthermore, the nuclear fuel cycle in Japan creates another problem: the gap between the utility and necessity. At present, Japan has no way to deal with nuclear waste, making it a major headache for policy makers. The Rokkasho Reprocessing Plant can supply 4.4 tons of plutonium each year. Adding the recovered fuel in Europe, the amount of plutonium Japan owns is much more than its demand of plutonium by 5.5 to 6.5 tons per year. As the nuclear materials are not necessary while all the nuclear reactors in Japan are offline, it is assumed that these materials should not be there. Hence, it will be another task for the Japanese government to tackle in the future, as well as a driving force for restarting nuclear reactors.

Diagram 6 Japan's Reprocessed Plutonium



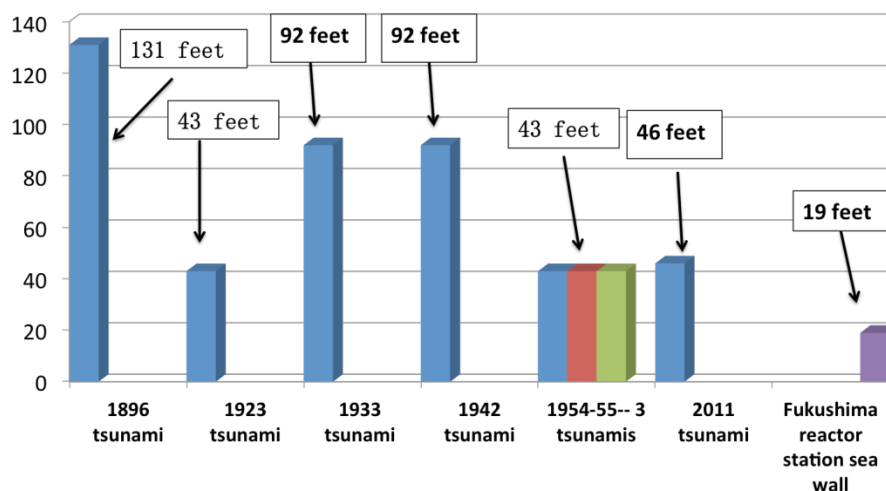
Source: Nuclear Energy Department of TEPCO

The NRA and Current Situations of the Fukushima NPP

Before assessing the new nuclear regulatory institution, the NRA, it is necessary to explain what caused the Fukushima accident and what was the previous means of nuclear regulation in Japan. Some Japanese scholars argue that the accident was not a man-made calamity, but rather a natural disaster. They insist that the main cause of this accident was the tsunami, which flooded the emergency power generating units and caused the reaction chamber to be left without cooling water supply, thereby leading to the meltdown of the fuel rods. Afterwards, water in contact with the extremely hot zirconium-clad fuel rods created hydrogen, which caused the reactor shell to explode.

However, some American scholars point out that the designers and constructors of the Fukushima NPP did not heed the documented history of tsunamis in the Fukushima area, as is shown in Diagram 7. The containments failed when hit by the detonation shock wave. In one word, Japanese plant operators were negligent and employed reactors that were designed by the uninformed scientists and reactor designers in New York without incorporating the unique geographical conditions in this area. Why did such an oversight occur?

Diagram 7 History Of Tsunamis in Fukushima Area



Source: Prof. Alvarez, *The Fukushima Accident*, SAIS

The inadequacies in the design that failed to consider the tsunami risk can also be blamed on the former nuclear regulatory structure, which failed to require preparation for tsunamis of the scale that was seen on March 11, 2011. In fact, before the Fukushima accident, the former regulator, the Nuclear and Industrial Safety Agency (NISA), was known to be friendly to power companies. It was accused of encouraging some nuclear companies to unfairly influence public debate regarding the development of nuclear energy in Japan. Moreover, NISA's location within METI was seen at an insufficient level of independence, which fostered a potential conflict of interest for METI as both promoter and regulator of nuclear energy.

Consequently, the Nuclear Regulation Authority (NRA) was established after the Fukushima accident. Unlike NISA, the NRA's top priority is safety. Two main factors of the NRA are integration and independence. On the one hand, it integrates nuclear regulation functions

regarding safety, security, safeguards, radiation monitoring, and radioisotopes regulation all in one. On the other hand, it separates the functions for nuclear regulation and nuclear promotion as an independent commission body, which provides guidance and standard for nuclear regulation independently. In particular, it applies a “no-return-rule,” which prohibits staffs of the NRA from transferring to the administrative organization for nuclear promotion. The NRA makes new budget accounting classification by “nuclear safety regulation measure,” in the special account for energy resources.

In addition, there are three key components under the NRA, including the Reactor Safety Examination Committee, Nuclear Fuel Safety Examination Committee, and Radiation Council. The NRA consists of the Commission (chairman and 4 commissioners) and the Secretariat, plus a staff of approximately 80. The chairman and commissioners were appointed by the Prime Minister after the approval of the National Diet. They are selected from experts who have integrity and sufficient knowledge of and experience in nuclear safety.

Compared to the US, the number of reactors in Japan is not too many for the NRA with its 80 experts to inspect. There are also additional experts from METI’s technology department to assist the NRA. But the NRA’s screening work has been progressing slowly. Currently, among the 48 nuclear reactors, 17 units have submitted their security reports, which are under examination by the NRA. Beside the only Sendai nuclear power plant in Kagoshima Prefecture that has been scheduled for an on-site safety inspection for the I and II units and will probably restart this summer, most of the reactors have an ambiguous future.

While the NRA fulfills the requirement of the IAEA regarding independence, namely the separation from the promotion sector of the government in terms of Human Resource and Budget, some Japanese experts argue that the NRA has exaggerated its independence and has even become narrow-minded, as witnessed by its slow progress. The other implication of independence is that the NRA is not protected by the government or any other institutions. Therefore, it would be the only body that should be responsible for any possible accident or incident. In other words, too much burden on their responsibility makes them too cautious to make decisions.

Nonetheless, the NRA has formulated explicit and innovative rules to regulate Japan’s nuclear industry. First of all, the NRA possesses the right to legally request severe accident measures to the licensees against severe accidents. It also introduced new legal requirement for visualizing NPP’s safety and security information. New regulation standards have been enforced since July 8, 2013. The new regulatory requirements are applying to all power reactors without exception.

Secondly, the NRA requires the regulation system to be based on the latest scientific and technical knowledge. It develops new technical standards for nuclear safety and applies to existing licensed nuclear facilities as a legal obligation. Particularly, it introduces type certification system for specific equipment that distinctively improves safety of nuclear facilities. Besides, it establishes a more efficient and bottom-up reporting system for modification of specific nuclear equipment.

Thirdly, the NRA has set forth a 40-year operational limit of lifetime from the passed date of its pre-service inspection for all the NPPs in Japan. Application period will be from April to July in 2015. Operation of aging reactors, including units of Mihama I&II, Takahama I&II, Shimane I, Genkai I, and Tsuruga I, will be allowed until July 2016 (grace period: 3 years). Special utilities will be needed to perform the inspection of aging deterioration by the time of application. It will also establish maintenance and management policies. Moreover, the NRA can issue permission to extend operational limit of NPPs by a certain period no longer than 20 years. But such a permission can be issued only once for each reactor and under the circumstances that the NPP complies with technical standard made by the NRA, which checks its safety considering aging of nuclear facilities by long time operation.

Fourthly, the NRA will turn on efforts for obtaining the understanding and cooperation from the relevant local municipalities after it makes the safety judgment, though it is not a legal requirement to get prior consent from the local government for the restart of NPPs. In this process, METI will make an explanation on the necessity of restarting NPPs in terms of energy policy, while the NRA's obligation is to explain the details of its review on conformity to the new regulatory requirements.

Fifthly, the NRA has enforced new regulatory requirements of the fuel cycle facilities since December 2013. The Rokkasho Reprocessing Plant is under the examination of the NRA and is expected to finish the inspection in October 2014.

Last but not least, the NRA has implemented special safety regulation for disaster-experienced NPPs, meaning the Fukushima Daiichi NPP. According to METI's "Progress Status of Fukushima and TEPCO's 2014 Fukushima Daiichi NPS Prompt Reports," the decommissioning is under orderly organized process. Each units of Fukushima NPP has its own individual decommissioning schedule, including the installation of the cover for fuel removal, the gantry, and the fuel handling system, the removal of rubble, and other measures of decontamination, shielding, and reducing the radiation dose. TEPCO addressed in its report that water management will be the first priority of the entity that it created for Fukushima cleanup. It also acknowledged shortcomings, especially the various leaks and other mishaps related to the management of contaminated water on the site.

Previously, about \$10 billion had been reserved by the end of September 2013 for the decommissioning and contaminated water management of Fukushima NPP. TEPCO has also announced its plan in the report to further secure a 1 trillion yen (\$10 billion) by their cost cutting efforts and investment control over the next 10 years. According to the Ministry of Environment, the cost of decontamination is estimated to be about 2.5 trillion yen (\$25 billion) and that of provisional storage of contaminated materials is approximately 1.1 trillion yen (\$11 billion). In addition, the cost of compensation for victims is estimated about 4.9 trillion yen (\$49 billion).

US Co-dependence on Japan's Nuclear and Japan's Nuclear Export

With a dramatically shrinking domestic market of nuclear energy, Japanese nuclear firms have to seek business abroad. Ultimately, the US supports Japan's nuclear exports, as long as Japan complies with all the US-Japan joint statements regarding nuclear non-proliferation. This fact

may shock many people who are not familiar with nuclear manufacture industry: the famous American nuclear firms, Westinghouse and GE, are respectively subsidiary corporations of Japanese corporations, Toshiba and Hitachi. In February 2005, Toshiba Ltd. purchased 77% shares of the Westinghouse Corporation; Hitachi Ltd. has also merged with GE's nuclear power division to supply reactor components.

After the Three Mile Island nuclear power plant accident in 1979, many of the planned nuclear reactors in the US were cancelled, severely contracting the nuclear market in the US. Over the past 25 years, the US has lost its indigenous industrial nuclear manufacturing facilities and become dependent on Japan's nuclear business. Actually, Japanese firms are in charge of all the four new nuclear reactors that are under construction in the US. Most of the NPPs in the US are using components produced by Japanese firms. Moreover, Japan produces the components for NPPs internationally through subordinate relationships with American firms. For example, Japan provides the nuclear components to China through a business contract between the Westinghouse and the General Electric Nuclear Power Group and China National Nuclear Corporation in China.

From Japan's perspective, domestic nuclear plant construction has decreased since 2000 and stagnated from September 2013, when the last nuclear reactor was shut down in Japan. None has been restarted since. Hence, it is important for nuclear firms to keep engineers and workers and for operating the factories by exporting nuclear technology.

In specific terms, Japan has been signing contracts with several emerging markets to export its nuclear technology. In the case of India, Japanese manufacturers produce the components, rather than exporting whole reactors there. In contrast, Vietnam, the UAE, Turkey, and some East European countries are interested in importing entire reactors from Japan.

Currently, a nuclear export contract is being negotiated between the governments of Japan and Vietnam. The Vietnamese government selected Japan as the partner of building NPPs at a 2nd Site, Vinh Hai site, in October 2011. Eventually, the International Nuclear Energy Development of Japan (JINED) will export nuclear technology to Vietnam under a concrete plan. Established in October 15, 2010, JINED is an electricity company, which is also regulated by the NRA. It announced support for the nuclear construction project in Vietnam on September 23, 2011, and will provide a package that includes human resource development, financing, fuel services, as well as construction, operation and maintenance of nuclear power plants in an effective and efficient way. Although formal details have yet to be unveiled, some insiders expect that JINED will export two whole reactors to Vietnam, with the capacity of 1000 to 1300 MWs for each. But the reactor type remains to be seen.

Moreover, JAEA has proposed developing a 100 MWs demonstration High Temperature Reactor (HTR) at Abu Dhabi, the UAE with Emirates Nuclear Energy Corp (ENEC), and expedited by the Japan Engineers Federation (JEF). JAEA's Japan Materials Testing Reactor (JMTR) at the Oarai R&D Centre is being refurbished in 2011 for the resumption of operation. This center was producing some radioisotopes, notably Mo-99, as well as enabled basic research on LWR fuel and materials, and other applications. JMTR was initially converted from 93% HEU fuel to 45% enriched fuel in 1991, and then to 19.8% enriched fuel in 1994.

In addition, Mitsubishi is also negotiating with Turkey, regarding the construction of nuclear power plant at the Sinop Site but faces possible competition with nuclear firms from South Korea, which has been successfully producing export-oriented reactors. However, in November 2010, South Korea failed to reach an agreement with Turkey to build nuclear power plants at the Sinop Site. China is also a potential competitor, which is more market oriented compare to Japan and South Korea, and good at penetrating the nuclear markets of developing countries. However, the Minister of Foreign Affairs of Turkey has showed his endorsement of Japan on January 8, 2013:

I have confidence in Japanese nuclear safety and technology. I would like to promote cooperation with Japan for nuclear power plant construction in Turkey.” Thus, Japan still has advantages in this competition.

Similarly, as early as it was in February 2012, the Prime Minister of Lithuania expressed his expectation for high-level nuclear technology of Japan to Lithuania’s new NPP construction plan at the Japan-Lithuania summit. The Mines and Energy Minister of Brazil also expressed high interest in utilizing the “high level nuclear technology of Japan” in May 2013. Only one month later, the Prime Minister of Poland expressed his expectation that Poland will promote cooperation with Japan in the field of nuclear power at the Japan-Poland summit.

Regarding nuclear exports, the Ministry of Foreign Affairs is the controlling agency. Under the provisions of the Foreign Exchange and Foreign Trade law, it decides which type of product and to which country it can be exported. Additionally, the NRA is also in charge of the safety regulation. There are also other laws, including electricity regulations, which have been revised in recent years. Moreover, unlike the case of the US, where there is open competition and the market sets the price, Japan has a monopoly market, e.g., one has to choose TEPCO as the electricity provider in Tokyo. Abe may change that situation with new legislation in the near future.

Nuclear Non-proliferation

As mentioned above, it is no wonder why the US government is positive and supportive to Japan’s restarting its nuclear reactors and continuing nuclear plant exports. Additionally, the exploitation of huge volumes of shale gas thanks to a technological breakthrough has sparked an energy boom in the US but led to a shrinking of the American nuclear energy market. As a result, US nuclear energy-related firms are eager to export their technology, especially the design parts to Japan. Moreover, as a long-time ally of the US, Japan has become an important supporter of President Obama’s global non-proliferation strategy. Japan’s nuclear non-proliferation policy and its exports control regime match US concerns regarding nuclear proliferation in the world. For example, a top priority is that Japan must complete the spent fuel reprocessing for those countries importing its nuclear plants and should not export the technology of reprocessing to those countries or any other country.

In a broad sense, US-Japan cooperation on nuclear non-proliferation has worked extremely well. These two countries possess the same goals, same agenda, and have no policy differences regarding nuclear non-proliferation. Bilaterally, Japan and the US work together under the

Nuclear Security Working Group toward nine nuclear security goals. In multilateral fora, they cooperate closely on the Nuclear Security Summits, the Global Initiative to Combat Nuclear Terrorism, and the Global Partnership against the Spread of Weapons and Materials of Mass Destruction.

The current agenda of the bilateral US-Japan dialogue is the Probabilistic Risk Approach (PRA). This is the way to quantitatively evaluate the risk of an accident, such as one for 1 million operating years. In the US, PRA is the basis of the discussion between the NRC (Nuclear Regulatory Commission) and power companies and the basis of peer review system like the INPO (Institute of Nuclear Plant Operators).

In specific terms, after the Fukushima accident, the US has become deeply involved in Japan's nuclear non-proliferation policy area and the decommissioning process of Fukushima NPP. Established at the US-Japan summit in April 2012, the Bilateral Commission on Civil Nuclear Cooperation "serves as a standing senior-level forum to foster a comprehensive strategic dialogue." In its July 2012 and November 2013 meetings, this commission consolidates and expands bilateral cooperation on civil nuclear energy, addressing issues such as nuclear safety and regulation, cleanup from the Fukushima nuclear accident, nuclear energy research and development, nuclear non-proliferation, safeguards and security, and emergency response.

In addition, Japan and the US have signed joint statements at the annual Nuclear Security Summit meetings. At the latest such summit in March 2014, in addition to the Joint Statement on Transport Security signed by France, South Korea, the UK, the US, and Japan, the two countries also issue a Joint Statement by the Leaders of Japan and the United States on Contributions to Global Minimization of Nuclear Material. Moreover, the Obama administration has expressed its appreciation to Japan for its October 2013 announcement of intention to ratify the Convention on Supplementary Compensation for Nuclear Damage, which will benefit to the establishment of a global nuclear liability regime.

The nuclear ambitions of North Korea have long been a serious concern of Japan and the US in a bilateral and multilateral (Six Party Talks, UN) context. The two countries agree on the importance of somehow convincing North Korea to give up its nuclear arsenal. But the threat from the DPRK's missiles is real and immediate. Japan and the US as allies have strengthened their cooperation to meet that threat by such means as installing a ballistic missile defense in Japan, including construction of a new X-Band radar facility. The US has also announced the deployment of two additional Aegis anti-ballistic missile vessels to Japan by 2017, further enhancing Japan's defenses.

Despite North Korea's development of nuclear weapons that could target Japan, particularly in a miniaturized version mounted on missiles that could reach Japan, the Japanese people believe that a nuclear weapons option for their country to meet the threat is out of the question. Japan will not opt for nuclear weapons mainly for the following reasons. First, while Japan may have the capability of building a nuclear weapon, it does not have the intention. The Japanese people are devoted to the principles of peace and non-proliferation, given that Japan is the only nuclear-bombed country in the world. Hiroshima and Nagasaki have become almost religious symbols of Japan's pursuit of peace in the world. Second, most Japanese believe conventional weapons

would be sufficient for it to defend the homeland during a wartime scenario. They also rely on the US' nuclear umbrella. Last but not least, Japan abides by its Three Non-Nuclear Principles (非核三原則 Hikaku San Gensoku), adopted by the Diet as a resolution in 1971. They reflect the strong sentiments of the people and remain a firm tenet of national policy. The principles are: not possessing, not producing, and not allowing the introduction of nuclear weapons into Japan.

Conclusion

In sum, although the Japanese government has yet to give details on the future of nuclear energy in the country, including its restart plan, Japan's nuclear reactors will be ready to restart once the NRA clears them for safety, and if there are no local barriers in their path. A restart was already blocked in one prefecture by a local court decision. Moreover, the public's attitude could also be a problem. Opinion polls show a majority of Japanese opposed to nuclear power, though the percentages have been decreasing. Still, despite the anti-nuclear stance of the LDP's coalition partner, the New Komeito, the Abe administration remains committed to restarting as many nuclear plants as possible, in light of the excessive price the country is paying for power based on imported LNG and other fossil fuels, and the impossibility of using renewables as a quick fix to fill the nuclear power gap.

With the decommissioning process of the Fukushima Nuclear Power Plant now well underway, though it will take many years to complete, Japanese nuclear firms are again looking for business opportunities in other countries, especially emerging markets. Nuclear plant exports are a pillar in Abe's economic strategy. With the support of the US, Japan's nuclear plant makers will again be aiming at expanding overseas to seek new markets for facilities and technologies. Besides cooperating on civil nuclear energy, the US and Japan also maintain an almost seamless-web relationship when it comes to nuclear non-proliferation issues. Such a consociation enhances the nuclear capacity of both countries and contributes to the peaceful use of nuclear energy worldwide.

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Is TPP the Cure for Japan's Medical Industry?

By Edward Rivera

"I have maintained that I am willing to act like a drill bit; strong enough to break through the solid rock of vested interests. Soon, our deregulation package will be set in motion. Designated areas, on my own watch, will cut through red tape. There, over the next two years, no vested interests will remain immune from my drill... TPP will remain a central pillar of my economic policy."

-Prime Minister Shinzo Abe, 'A New Vision from A New Japan,' the World Economic Forum 2014

Introduction

The system of universal healthcare in Japan has long been regarded as low-cost and effective, with the Japanese population generally enjoying good health and a long life expectancy. Healthcare spending in Japan has long been below the average given by the Organization for Economic Corporation and Development (OECD). Yet, when the medical industry in Japan is scrutinized, the collective view has become that it is in desperate need of reform and finds itself mired in an unsustainable antiquated structure spiraling towards disaster. There are a number of reasons for this growing crisis, which the administration of Prime Minister Abe has recognized and seeks to reverse.

The most prevalent cause is that the national medical insurance system is slowly growing bankrupt, according to the Japan Economic Foundation (JEF). This is the result of rapid demographic shifts in Japan as the population ages rapidly and fewer babies are born. Though this is common to developed countries, Japan is operating at high speed. During the early postwar decades, Japan enjoyed a 'pyramid structure' in its demographics, involving large population of young people paying into the system to support a small population of elderly. For the national medical system, this was a relatively highly sustainable system. Today nearly 25% of Japan's population is 65 or over (JEF Data). With the birth rate lagging below that of the population replacement rate and a high concentration of the elderly, the pyramid has morphed into a deformed quadrilateral. The demographic dilemma explains the expensive upkeep of the system. To make matters worse, healthcare costs have continued to escalate, and there has been a serious lag in Japan adopting new technologies to make the system more efficient. The medical industry, thus, under fire politically, has been included in the priority list of reform agenda areas targeted by Prime Minister Abe. Making matters more complicated, the medical industry has become entangled in Trans-Pacific Partnership (TPP) talks, with entrenched medical industry interests fearing that Japan's joining the TPP, opening up the medical market to foreign competition, will further wreck a system that has already been weakened by its protected status.

Figure 2.3
Changes in the Population Pyramid



Source: Statistics Bureau, MIC; Ministry of Health, Labour and Welfare.

The Trans Pacific Partnership (TPP) would conceivably begin to force change to the system, though not nearly enough. The Abe administration has proposed under the rubric of Abenomics, a three-arrow strategy to rescue the Japanese economy. The first two arrows -- monetary policy and fiscal stimulation -- have already gone into effect. The third arrow, structural reform, has yet to be fully fleshed out, but the parts revealed so far include restructuring of the labor force, agricultural sector, and medical industry. While there are numerous reforms slated for the medical system, Japan's joining the TPP would introduce important first steps. Increasing competition in the medical industry may drive up prices for some consumers but it will also potentially provide the best types of healthcare, expand transparency, and create more efficiency in the system. This will depend in part on how the increased competition comes about. The evidence for this stems from the root of the problems in the stagnant medical industry, which will be discussed further. Opposed to such drastic changes is the Japan Medical Association (JMA), which views increased competition as 'destroying the Japanese healthcare system'. Interestingly, JMA has joined forces with other opponents of TPP, including the agricultural cooperatives (JA), together forming a formidable political force with many members of the Diet supporting their causes.

Three Arrows	Structural Reforms
1. Monetary Policy – Forms of Quantitative Easing aimed at bringing down the value of the Yen and increasing spending in order to maintain inflation	1. Labor Reform/Womenomics – Removing practices that are inefficient from the labor system. Encouraging more women participation in the labor force.
2. Fiscal Policy – Increasing spending to contribute to consumption and maintain inflation	2. Reforming the Agriculture Industry – Removing subsidies and discouraging inefficient practices. Some degree of further liberalization
3. Structural Reforms	3. Reforming the Medical Industry

As an element in Prime Minister Abe's third arrow, TPP is seen by widely by economists as a means of completing the now moribund Doha Development Round, an enhancement to the World Trade Organization (WTO), as well as strengthening the bilateral economic relationship with the United States by establishing through TPP negotiations a virtual free trade agreement (FTA) between the two countries. Japanese economists who favor FTAs lament the deteriorating condition of the WTO and understand the need to revitalize it, which is precisely what will

happen if the TPP negotiations create a new regional trade regime that completes the agenda set by the WTO. While the WTO is seen widely as being highly effective as a dispute settlement mechanism, its rules are out of date. The rule-setting aspect of the TPP would fill in the gaps. Though the reforms' overall impact on the global trading system is not clear cut, a successful TPP is seen as in part outright replacing certain WTO functions and enhancing them in other areas. The strengthening of the bilateral relationship with the US, a major trading partner with which Japan has yet to have an FTA with, may itself be the ultimate prize for Japan of the TPP. The concessions required to reach the goal have become increasingly difficult as US and Japanese negotiators at working and decision-making levels go down to the wire in trying to reach a qualitative agreement, at the time of the paper's writing (May 2014). The stumbling block, however, lies in the protected agricultural sector and not the medical industry sector.

Perhaps what's most striking about the TPP negotiations, when talking to experts, is that it may in reality be only a small part of the inevitable reform course introduced by Abe. While TPP requires a higher tariff liberalization rate compared to what Japan is at now, an estimated 93%, it may be possible for Japan to join the TPP at a 95% liberalization rate – depending on how successful its negotiators are, but there are expectations that the third arrow of structural reform will actually push this up to 97-98%. Whether this is a political bargaining position to bring it down is still unclear. Only time will tell. What is clear is that if predictions such as this hold accurate, Abe's third arrow may ultimately open the door to TPP participation.

Abenomics

When Prime Minister Abe came into office in December 2012, he did so promising to revitalize the Japanese economy. The country had been in a deflationary state with little growth for two “lost decades.” The international financial crisis in 2008 did not help, and three years of lackluster economic policy from the ruling Democratic Party of Japan (DPJ) only made matters worse. Abe's party, the Liberal Democratic Party (LDP), won the national election in December 2012 in great part because of the electorate's hope that he and his party could turn the economy around. The key areas in need of immediate attention including the financial services sector, fiscal spending, budget balancing, national health insurance and pension reform, agricultural subsidies, and the labor force. These problems share the same roots, mainly the slowdown of the Japanese economy and the aging society. Abe came in with high approval ratings equal to those of the administration of Junichiro Koizumi, prime minister from 2001 to 2006, and thanks to his economic program, has continued to keep them at a respectable 50 to 60 percent level ever since.

The success of the first two arrows has been largely evident with depreciation of the yen against the dollar starting at the end of 2012 and continuing throughout 2013. A weak yen makes Japanese exports cheaper in dollar terms and has helped boost the economy. But a weak yen also makes imports more expensive, particularly energy resources, hurting the economy. However, Abe's administration now faces other mounting challenges to his economic plans. The yen has stabilized in 2014, and investor confidence in the stock market has been waning, as indicated by the fall in the Nikkei in recent months (see graph). The economy could roll back into the doldrums unless the Abe administration manages to push through significant structural reforms and reach an agreement on TPP that would be a major signal to investors who have now lost confidence. Investors are reportedly worried that the yen may continue to strengthen again, marking an end to the Abenomics reforms that have failed to perform. Another blow, has been

that the market's worried about current geopolitical uncertainties, such as the Ukrainian situation, which could impact on Japan's economic progress.



The fall of the Nikkei is just one of the many problems the Abe administration now faces. Though consumer spending has not been hit too hard so far by the recent hike in the consumption tax, there are a number of reasons for pessimism in the economic outlook. The government's decision to hike the consumption tax, despite the weak economy, has been widely criticized in Japan. Generally speaking increasing the consumption tax proves to be regressive since for people with lower income levels, consumption makes up the greatest percentage of income expenditure. Consumption taxes also do not necessarily increase revenue collected from taxes, because they can offset themselves by discouraging spending. Moreover, wages in Japan have continued to be flat. The logic for raising the consumption tax comes from the need to pay down the national debt, which is now well over 200% of GDP. But critics fear that the tax hike will lead to another recession. The government may even hike the tax again next year from the current 8% to 10%. In a country suffering from deflation, the Bank of Japan in agreement with the Abe administration, has set a 2% inflation target, but inflation without increases in wages will only negatively affect consumer spending, another signal to wary investors.

Prime Minister Abe, however, remains bullish about the economy. He continues to proclaim that his reforms will ultimately reboot the economy. But since the remainder of his third-arrow package will not be revealed until June (after this paper went to press), we will have to take him at his word. It remains to be seen whether ultimately Abe's promises break the back of the deflationary cycle, bring about sustained real growth in wages, and sign the TPP agreement will happen on his watch.

The reforms may end up being watered down since some of them will face heavy opposition. Last June when the first reforms were announced, which mostly consisted of targets to be met throughout the years, there was a general criticism that the Third Arrow was proving to be lackluster. This was possibly the result of these reforms coming right before crucial upper house Elections in Parliament. The most contentious of these reforms remains agriculture. However, expanding labor participation through the inclusion of women should not be a particularly contentious issue in terms of political backlash. The other labor industry reforms, such as enhancing labor mobility and making room for employees to be fired, have been underway since

the passing of the 2006 Corporate Governance law. Reform of healthcare and the Japanese medical industry may shape up to be more contentious because of the conflation of issues in Japan.

Yet, as Japan ages rapidly, investment in facilities for elderly care is sorely needed. A quarter of the population is 65 or older now, but by 2035, it will reach a third of all Japanese. TPP should make it easier for new entrants, including foreign companies, to enter that segment of the medical market, but complex rules and regulations have been keeping newcomers out. For example, each of Japan's 47 prefectures issue licenses for nursing homes in their areas. But local governments often deny licenses to avoid paying required subsidies to nursing-home workers, who themselves have to hold several licenses and qualifications to work. The system is tied up in red tape. In addition, pharmaceutical firms complain that strict rules on clinical trials and on prescribing new drugs make access to the Japanese market lengthier and costlier than other leading economies. Japan is often years behind other advanced economies in introducing new breakthrough drugs and medical devices that other countries already have.

TPP Process

Although Japan's joining TPP may not usher in much needed reforms, per se, it indeed can serve as a catalyst to get reforms underway, as in the medical industry sector. But first, what is TPP? The partnership, now led by the US, is primarily a massive, high-quality free trade agreement, which serves to liberalize markets, set new rules for trade and investment, and strengthen bilateral and multilateral economic interdependence among the TPP members. The process began in 2002 when the leaders of Singapore, New Zealand, and Chile began negotiations. In 2005 during their fifth round of negotiations, Brunei joined in and a comprehensive agreement was shortly reached. There are many areas other than trade in goods and services addressed, for example, measures for adopting intellectual property rights standards that are in line with the WTO. A number of early agreements came into effect during 2006.

Besides agreeing on trade liberalization, the initial phase of TPP (now known as TPSEP) focused on the strengthening of relations in several key areas by forming strategic partnerships. The first is economic cooperation, which includes establishing contacts among different economic sectors to foster growth between nations. The second is research, science and development. This also ties in with goals to enhance primary industry, which foster further R&D sharing and development between nations. The TPSEP's article 20.6 states:

This Agreement is open to accession on terms to be agreed among the Parties, by any APEC Economy or other State. The terms of such accession shall take into account the circumstances of that APEC Economy or other State, in particular with respect to timetables for liberalization.

Liberalization is of course still a key aspect of the agreement that was reached by these four original nations. The agreement states in its preamble the importance of continuing a process of liberalization and throughout the document notes that the TPSEP's objectives are to be seen as an extension of those of APEC.

In 2008 the U.S. joined TPP negotiations, drastically expanding its scope. The interest in a new TPP by the Bush administration and carried over to the Obama administration in 2009, at which point the U.S. began to take the lead. The first round of talks occurred in 2010 and since then there have been over 20 rounds. The negotiations now include the U.S., Brunei, New Zealand, Singapore, Chile, Australia, Peru, Vietnam, Malaysia, Mexico, Canada, and Japan. Thailand and South Korea have both expressed interest in joining the negotiations. Since Japan joined, the main stumbling block to completion of the agreement has become agriculture, which will be discussed below.

Figure 1. Trans-Pacific Partnership Countries
(2012)



On March 15, 2013, Prime Minister Abe announced that Japan would formally join TPP negotiations. The Asahi Shimbun conducted a poll that month which found that 53% of Japanese people supported joining the TPP, far above the 23% who opposed Japan's entry. An interesting result in the poll was that 71% of respondents supported Abe's plan to join the talks even if Japan in the end did not become a TPP member. Answering another question, 65% of respondents expected some positive results should Japan join the TPP. The importance of joining the process was clearly on the minds of most Japanese who may have been influenced by Abe's own words that TPP was in Japan's national interest, and that he would not sacrifice Japan's agricultural sector during the negotiations. He has kept his word on this aspect so far.

In April 2013, in another Asahi poll, 55% of the Japanese public favored joining the TPP negotiations. A year later, many are not so sure, reflecting the focus in the talks on Japan's list of "sacred areas" in the agricultural sector that may have to be sacrificed in the end. In April 2014, the support rate had dropped to 31% according to an NHK poll. But a majority of people were now in the 'largely indifferent' category, possibly indicating ambivalence. Indeed, there seems to be a growing doubt in Japan, particularly among serious TPP watchers that the launching of the TPP will actually succeed. The reality seems to be that as the talks have dragged on, with Japanese negotiators hanging tough on such agricultural issues as rice, beef, and pork, the Japanese people have begun to either lose interest or have second thoughts.

In part, the current state of the Japanese economy may be weighing on people's minds. Polls show up to 70% or more of the public do not detect any changes in their economic lives as a result of Abenomics. Abe's support, though still relatively high, has been slipping. In March 2013, an Asahi poll showed 65% of Japanese supporting the Abe Cabinet, but a year later, support had dropped to 50%. The hike in the consumption tax by the Abe government also has hurt consumer confidence. It seems logical to assume that if joining TPP means giving in on sensitive areas in agriculture and opening the doors to more competitive imports, the average Japanese citizen may be asking whether the sacrifice will be worth it.

Stalling the Process

Politically, Japan's joining the TPP has been a contentious issue from the outset, with the arguments pro and con creating divisions even within political parties. In addition to the agricultural sector, the fear is that TPP will erode if not destroy the medical system. This indeed has been the battle cry of the JMA, which has allied itself with other TPP opponents. There are at least 200 LDP Diet members who support the cause. On the agricultural side, the powerful lobbying activities of the Central Union of Agricultural Cooperatives (also known as JA) have challenged the Abe administration on two fronts. First, JA has the ability to amass popular support – read votes – a trend that could undermine Abe's economic agenda, which includes drastic agricultural reform. The second front is JA's capability of lining up support for its cause in the Liberal Democratic Party, which is heavily represented in the farming prefectures.

Turning to JMA, the other shield fending off Abe's third arrow, the organization has for some reason narrow-mindedly resisted reforms and modernization since at least the 1960s. The result has been a growing crisis in the medical system with not enough hospitals and hospital beds to meet growing needs, an amazing shortage of physicians and nurses, and a resistance to technological changes that have become commonly accepted or routine in other advanced economies. The so-called 'narrow-mindedness' of organized Japanese physicians has remained a constant since the 1960s when the U.S., trying to get into the Japanese market, first encountered problems with the system's inherent closed-nature and lack of efficiency as barriers to trade. The reimbursement system for health care services in Japan still does not recognize certain advanced technologies commonly accepted outside of Japan. A study conducted by the American Chamber of Commerce in Japan (ACCIJ) found that adoption of such remains slow, particularly in the case of preventative care and related technologies. The JMA has been accused of putting self-interests of physicians first over the greater interests or rights of patients. It might fear a threat to the livelihoods of doctors should competition increase and force transparency into the system. Its anti-TPP stances in order to gain public support tend to exaggerate the issues. JMA has stated that the TPP would 'destroy' Japan's National Health Insurance system, for example. The JMA's concerns over NHI pricing are likely real, as this would affect physicians' income, but the notion that joining TPP would destroy NHI requires a belief that such would bring about major structural reforms favoring foreign firms. When the DPJ was in power, its leaders, too, vied with the JMA over TPP, which the party favored joining. In October 2012, then DPJ Vice-President Yoshito Sengoku reportedly called the JMA "paranoid" about TPP (Pharma-Japan Web). This seems an apt description given the nature of the claims the JMA has made.

In Japan the issue of the TPP affecting the medical industry has been largely conflated with the agricultural issue, most probably as a result of JMA mobilizing against the TPP. In an Asahi Shimbun poll from March 2013 previously cited, the public was virtually split 39% yes to 40% no over whether they thought Prime Minister Abe could protect both healthcare and agriculture in TPP negotiations. It appears that in the public's mind the two issues have become a set, which obscures the issue as to whether a flawed system should be protected or instead forced to reform.

The Asahi Shimbun		
Japan's participation in the TPP	Support 53%	Oppose 23
Abe's announcement to enter TPP talks	Approve 71%	Disapprove 18
Can Abe protect agriculture and health insurance in the TPP talks?	Yes 39%	No 40
Answers other than those above or non-answers are omitted.		

Structure of Medical Industry

One worrisome sign for the Japanese medical sector is that as medical service fees, controlled by government regulation, have been reduced, the costs associated with medical care have continued to go up. In part, this trend reflects the lag in increasing reimbursements for adopting new technologies. Physicians in Japan are reimbursed on a fee-for-service system and approval for new technologies in Japan can be extremely slow. In some cases, Japanese companies have resorted to U.S. FDA approval in order to speed up the process at home. This has been most common outside the medical industry, in the area of food additives, but, according to reform advocates, has expanded into the medical sector. This may not be surprising given these statistics: although, the number of approved new medicines in 2013 was about the same in the U.S. and Japan (FDA approved 29 new medicines; its Japanese counterpart approved 28), the median approval time in the U.S. was 304 days compared with 487 days in Japan (covering 2004-2013, according to FDA Voice). The TPP can facilitate the creation of a quicker approval mechanism, though how high this issue is on the agenda is unclear. However, it has been brought up in early negotiation rounds that the TPP would likely facilitate quicker approval of pharmaceuticals and certain medical technologies.

Due to insufficiencies in the medical system, it is conceivable that joining TPP could stimulate market mechanisms now dormant, such as ushering in a comprehensive preventative care market. Furthermore, in the case of STD detection technology the process for reimbursement increases and technology adoption has been slow to the point where Japan has become the only developed nation that sees an upward trend of HIV detection at later stages (ACCJ). Another sign of lack of proper preventative care incentives through reimbursement is that until recently, the technology that monitors sugar levels was only reimbursed at advanced stages of diabetes for patients requiring insulin.

The ACCJ in its reports stresses the importance of changing the incentives for physicians to promote much needed systemic change and how that will contribute to the economy. The OECD

notes that while Japan has the same expenditures on health per capita GDP as the EU, it also has the lowest rate among OECD countries of people who feel healthy at 30%. Even though the expenditure on health care per capita is the same, the OECD has also noted in the past that the source of funding is different. In 2010 82.1% of the funding came from public sources, while on average only 72.2% is publically funded in OECD countries (OECD 2013). This means that the burden of healthcare in Japan is higher than may be assumed by simply looking at expenditure per person. It also suggests that the Japanese people might not be as concerned with reform because they are not as exposed as other populations to the costs involved.

The large number of people who feel ill is further evidence of lack of proper preventative care and why reforming the current health insurance reimbursement mechanisms is so important. The results of an ACCJ survey have serious implications:

Over 15 percent of the respondents to the ACCJ survey said that they work, but that their ability to work during the previous one month had been undermined by health problems they experienced themselves.¹⁰ Ten percent said that they work, but their ability to work during the previous one month had been undermined by health problems of family members. This suggests that each month an estimated 16 million Japanese workers' ability to work is undermined by their own health problems and 10 million workers' ability to work is undermined by health problems of their family members. (ACCJ White Paper, May 2017)

The ACCJ in its report addresses what these implications are. Having an unhealthy aging society is not only costing Japan money in terms of medical expenses through the healthcare system, but is affecting labor productivity.

The perverse incentives created by the current reimbursement system are also likely to explain inefficiencies and excesses on the part of physicians. According to OECD health data, Japan greatly leads in MRI and CAT Scan use, carrying out almost twice as many MRI tests as the second highest user and three times as many CAT Scans. These are more traditional technologies and set up to get reimbursement fees. In contrast new diagnostics testing that helps with disease prevention is not adequately reflected in its share of reimbursement so there's limited incentive for its use (ACCJ). Another key area identified in the white paper is the lack of home care. Modifications for homecare use devices and drugs are not offered reimbursement, so companies do not have an incentive to invest in this area.

Another area of concern in the medical industry is the medical service itself. Regulation of price controls may be proving detrimental to the system in two ways. Because Japanese consumers bear so little of the costs, they have less incentive to take care of health concerns immediately, which contributes to the preventative care problems Japan currently faces. (For example, how many Japanese people go to the dentist only when their tooth hurts and has to be pulled out?) There is evidence that one downside of the current medical-care system is that it may be weeding out exceptionally talented physicians who are not being rewarded for their abilities. (Some of Tokyo's best preventative dentists by choice are not in the health insurance system, requiring their patients to pay full cash for their excellent treatment.) Some of the aforementioned problems will see some improvement through TPP initiatives, but as the ACCJ notes real improvement will only come through a structural change. If the recommendation of the ACCJ to

change reimbursements so that they are based on keeping patients healthy is taken into account in the Third Arrow, it will go a long way to ameliorating systemic problems without a complete overhaul of the national health insurance system.

Pharmaceuticals, Medical Industry, and Transparency

Pharmaceutical companies, both domestic and foreign, that are doing business in Japan stand to gain from Japan as a member of the TPP. Reform to the medical industry will allow for greater innovation and perhaps the sale of more technology. Though pharmaceutical companies may be reliant on the current system since they are able to count on physicians to refer customers to them or over-prescribe medicine, there are number of other areas in which the TPP will give them advantages. One area of particular interest is the Intellectual Property Rights issue. The U.S. has a large and powerful pharmaceutical industry presence in Japan, which prior to Japan joining the talks, constituted 80% of the market share. One of the initiatives of PhRMA, the group representative, is to extend the patent rights of certain types of drugs, ‘biologic’ medicines in particular to 12 years starting from the time the medicine is approved by regulators (Japan Times March 2013). The reason this would be a huge breakthrough for pharmaceutical companies is because even though patents protect products for up to 20 years, the research and development aspect can take more than half of that time.

Though the Japanese Association of Medical Technologists has not weighed in on the subject of TPP, it has a clear mission statement of increasing international cooperation and furthering the use of medical technology. This is true for other large industries in Japan related to medical technology services as well. As noted by Ryosuke Tsuchiya, an expert in medical care, during a panel of trade experts, while the JMA may be opposed to the TPP, the medical device industries and pharmaceutical companies have not spoken out at all. There are suggestions that any disputes that might arise over TPP can be worked out separately, since some of the interests between U.S. and Japanese companies in the medical sector align. Ira Wolf, who is the U.S. PhRMA representative in Japan, has stressed the importance of IPR and said in 2011 that IPR provisions would benefit Japanese pharmaceutical companies even if they did not join the TPP.

The position that business and technologically oriented members of the Japanese medical industry take makes it clear that their interests do not completely align with those of the JMA. If true, this may stand as proof that the medical profession is generally unaware that the companies developing and selling medicine and medical devices are not on their side, when it comes to medical reform. A buzzword for medical reform in modern societies is ‘transparency.’ In Japan the lack of transparency is surprising and shows that the JMA is representative not only of physician interests but also of such an attitude. Japan does not have utilized or well-established Web-MD type-sites where people can go to figure out what may be wrong with them. This reflects a lack of interest on the part of Japanese physicians to opening up even medical information that would benefit the Japanese consumer. This shows a substantial difference between the US where calls for transparency are listened to. Ultimately, this is the one area where TPP may help improve the medical industry in terms of structural reform. If physicians experience more competition for pay or at least have their incentive structure changed, transparency of some sort is likely to follow. However, as stated early on, the TPP’s reform agenda is not enough. Structural changes on the government level will have to be made to address the incentives mentioned in the previous section.

The most obvious lack of transparency comes in the form of record keeping. Japanese medical records are still overwhelmingly paper-based, and this was the reason for the loss of patient data in the 3/11-earthquake and tsunami disaster in northern Japan. The failure to move towards patient record keeping is related to an attempt to keep the system more opaque on the part of medical physicians in Japan. The Electronic Healthcare Record system and the Electronic Receipt System have been pushing for changes in record keeping since the passage of the Basic IT Law in 2000. The EHR has an adoption rate of 12.5% by hospitals nationwide; while the ERS has a 97% adoption rate (ACCJ) this seems to be a clear indication of where interests lie. The ACCJ recommendation is that the reimbursement system should be restructured to provide incentives for IT uses. This is one area where TPP might be able to prove as effective as an Abenomics structural reform. Lack of electronic recordkeeping makes review of efficient practices a difficult task. By introducing market competition this could potentially be resolved for several reasons. Improved Pharmaceutical competition will create incentive for record keeping and better technology usage. Though it is unclear how far the provisions of the original TPSEP will be changed, under the original document there is emphasis placed on collaborative research and development. There is also Article 12.9 of the TPSEP, which as it stands will ensure that transparency of services is reviewed.

In a recent message from Ira Wolf to the Japan Forum of NBR, the reasons cited for increased interests of U.S. pharmaceutical companies in Japan involved the undertaking of structural reforms through Abenomics. Two of the eight reasons given were that Abenomics is putting healthcare and pharmaceuticals as central economic drivers, and that there is commitment in the Abe administration to reform. One other inclusion of interest is that Japan is improving the environment for clinical trials, which it hopes will make Japan a more attractive place to perform them. What the representative of U.S. pharmaceutical interests thinks will increase competition in Japan is Abenomics and not TPP. This brings the paper back to the initial point that TPP will not be the cure for the medical industry, it will at best perhaps be a Band-Aid. While TPP can bring about greater competition, it is not exclusively TPP that can do so. Real competition will also come with structural reforms to the Japanese medical industry.

Agriculture

Agricultural reform is linked to both Abenomics and to TPP. In the case of Abenomics, the reform agenda includes drastic changes in farm management and efficiency. Here, Abe's reform record so far has been spotty, despite his stated commitment. Although he has proposed that Japan will double food and agriculture product exports by 2020, only one of his proposals released so far has the potential for structural reform: his call to increase the size of farms on leased land. In order to accomplish increasing the size of farms to a proposed 20 to 30 hectares, it is likely that an overwhelming number of small-scale independent farmers may have to leave farming. About 80% of Japanese farmers already are marginal producers. Abe has proposed cutting acreage reduction subsidies for rice farmers by half this year, but interestingly, a simultaneous subsidy for farmers to switch to growing rice for feed-stock could offset that.

Part of the problem with using TPP for structural reform in agriculture is that much like the medical industry it will prove insufficient. If Abe holds true to his goal, then the entire shape of the agricultural landscape in Japan will change. Agriculture would be treated as a growth industry to be promoted instead of as a declining industry to be protected. Since 1984 the value

of Japan's agricultural output is estimated to have declined by a third, while income from farming has decline by almost half. Even with the addition of 1 million hectares through public works since the 1960s, Japan has on aggregate lost about 1.4 million hectares due to abandonment and conversion for other uses. As noted by Stephen Harner in an article for *Forbes Magazine*, the need for reform is desperate and that remains true regardless of what happens with TPP and Japan's 'sacred five' items.

Though there is a high level of sympathy from the Japanese public for the farmers, when surveyed by the Asahi Shimbun about the removal of tariffs from 586 products listed under the five critical items of rice, wheat, dairy, beef & pork, and sugar, 46% were in favor and only 28% opposed. The removal of tariffs on these critical items (aka the 'sacred five') has been the main area of contention between Japan and the U.S. in TPP negotiations this year. The U.S. has made concessions on rice and wheat (*Japan Times*, April 2014), which is an important step towards reaching an agreement now that trade negotiations have started in Vietnam. Beef and pork have remained problematic, but as will be shown below, Japan has recently agreed to concessions in these areas. Because the JA commands such disproportionate and powerful influence over the Diet across party lines, if the concessions that Abe receives do not satisfy JA enough, he risks facing a divided party openly opposed to his policy.

Automobiles

The U.S. and Japan have a history of trade friction going back to the 1970s over how closed the Japanese market truly is. In a series of talks beginning in 2012 the U.S. and Japan reached multiple agreements on autos, parallel to the main TPP talks. The U.S. wants to put off reducing tariffs on Japanese vehicle imports until the last possible minute – a concession to Detroit's Big Three and the auto labor union. The U.S. also called for greater auto market access in Japan, resulting in Japan unilaterally extending the number of U.S. cars that qualify for its preferential handling procedure from 2,000 to 5,000 (USTR 2013). U.S. automobile manufacturers have long called for greater access to the markets, so were dissatisfied with this concession. They adamantly oppose Japan's membership to the TPP, citing a number of reasons. In 2012, two-thirds of the U.S.' trade deficit in automobiles was due to Japan. As noted by the Democrats of the U.S. House Committee on Ways and Means' fact sheet, Japan has a tariff rate of zero on autos while the U.S. has tariff rates of 2.5% for cars and 25% for trucks. While one can respect the desire to keep U.S. jobs the realities of economic growth involve a level of destructive creation. The automotive market in the U.S. has unfortunately not been as competitive. Liberalization yields higher economic growth and return. It also leads to better quality and better-priced consumer goods. It is the bane of laissez-faire economists to have to convince governments of this.

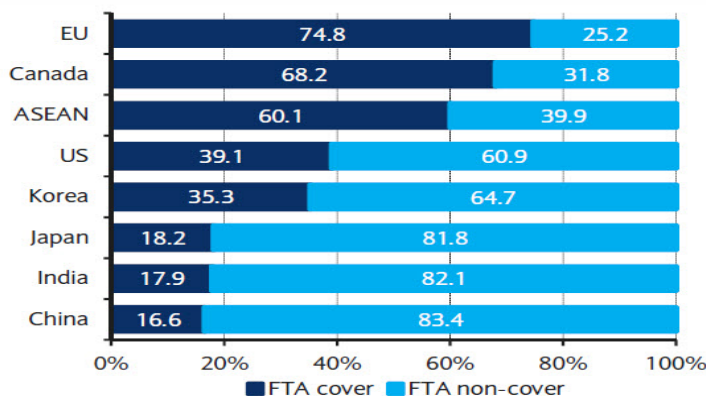
There is a long held belief that Japanese markets are closed due to discriminatory business practices. This accusation, still prevalent, makes the automotive industry issue still contentious. One spurious argument coming from supporters of the U.S. automotive industry is that Japan has a history of currency intervention that makes exports more attractive when it artificially weakens the yen. This argument holds no water, given that Japan has not engaged in monetary intervention recently on anywhere near the level of the United States. At its height of QE spending the U.S. spent about 85bn a month (Fontevicchia Forbes 2013), Japan at its height may spend about 57bn a month. It seems disingenuous to blame another economy for trying to

recover through the same intervention strategy and a strategy being used to a lesser extent at that. There is a lack of acknowledgement on the U.S. side that Japan has a simple comparative advantage in its automotive industry. This argument is reminiscent of WTO DS 44 when Kodak claimed that Fuji Film blocked it out of the Japanese market, even though the reality had been that Kodak could not compete and had seen declining revenue everywhere. The case went in favor of Japan. (For a discussion of the myth of Japan's closed markets, see Miwa and Ramseyer's *The Fable of the Keiretsu*.) Ultimately the automotive dispute should not be an issue that hinders the TPP negotiations since it goes against liberalization and certainly does not encourage Japan to make needed concessions in the more important sector, agriculture.

FTA Lag and the Grand FTA

Japan has lagged behind other countries in terms of its FTA coverage. As seen in the figure below Japan currently only has 18.2 percent coverage through its FTAs. Japan has concluded a total of thirteen free trade agreements to date. The first one was with Singapore in 2002. The remaining in their order of completion were with Mexico, Malaysia, Chile, Thailand, Brunei, Indonesia, ASEAN, Philippines, Switzerland, Vietnam, India, and Peru. The graph below shows that Japan lags behind Korea, US, ASEAN, Canada and the EU. Even though 13 free trade agreements may sound like a substantial number, Japan conducts limited trade with those countries. Of Japan's top ten trading partners, who together make up roughly 60% of Japan's share of trade, only three have free trade agreements with it: Thailand at 3.7%, Indonesia at 3%, and Malaysia at 2.9%. This lag is significant for a few reasons. One is that it means Japan could have stronger ties and exchange with its top five trade partners. These are China at 20%, the U.S. at 13.1%, and Korea at 6%, and Australia at 4.4%, and Taiwan at 4.2%.

Japan lagging in its FTA coverage for trade



The advantages of TPP for FTA coverage are already significant and may end up being even larger. TPP would account for 27.5% of Japan's trade but only increase FTA coverage by 14.4%, as it stands. However, Korea has expressed interest in joining the process. Its entry could raise Japan's coverage of TPP up to 20.4% and bring it to 38.8% or near the current U.S. trade coverage level of 39.1%. As the TPP currently stands it will allow Japan FTA coverage for its second largest and fourth largest trading partners, the United States and Australia, respectively.

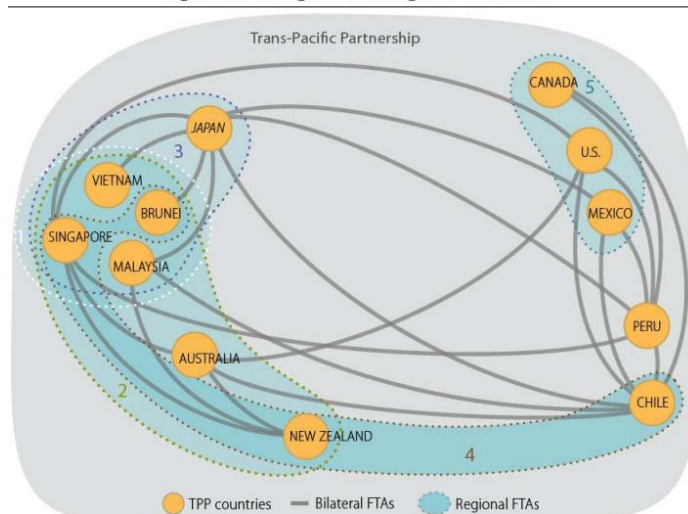
It is worth noting that the greatest prize for Japan in terms of expanding FTA coverage would be the Regional Comprehensive Economic Partnership, which will include its largest trading

partner, China. RCEP members make up 46.5 percent of Japan's trade share and an agreement would lead to increased FTA coverage of 30.7% (JIIA). RCEP negotiations are expected to be completed by the end of 2015. The talks currently revolve around whether countries should engage in trade discussions with negative lists or positive lists, that is to say with lists that mention what is on the table or lists that mention what is not on the table for negotiations. If the pessimists that Japan will not in the end join TPP are proven right, RCEP may end up being more attractive to Japan. The reason for this is that RCEP is likely to be less ambitious in its tariff reductions than TPP, so greater allowance will likely be made for Japan to cherry pick what it wants to liberalize or protect. There is also a possibility that Japan will actually become a member of both regimes, expanding its FTA coverage to 63.3% (JIIA).

The importance of Japan joining either of these regional agreements is that each in the eyes of many could be a potential springboard for an event broader FTA. The Doha Round of the WTO, which has formally been under negotiation since 2001, ultimately floundered as the result of competing interests negotiating for exceptions to contentious issues, such as agriculture. The possibilities for a series of larger FTAs serving to facilitate the Doha Round or its successor could serve to revitalize the WTO trade liberalization process. In 2006, APEC announced its goal of Free Trade Area of the Asia Pacific (FTAAP). TPSEP was seen as a first step. Now the TPP and RCEP are seen as potentially being able to reach that goal by simplifying future negotiations between the groupings. The amount of trade coverage for an FTAAP would potentially be greater than 63.3% for Japan, since it would likely make both the TPP and RCEP more comprehensive in coverage.

Bilateral Reality

Figure 2. Existing FTAs among TPP Countries



TPP is seen as an essential revamping of Japan's economic relationships, including that with China. It may also be seen as an attempt at a regional balancing strategy, but only in terms of solely driving economic growth and cooperation between Japan and China. There are many Japanese who see China as a threat to Japan, either strategically due to the maritime clash over the Senkaku Isles, or economically, as China's economic influence in regional and global terms threatens to edge out that of Japan. Still, Japan and China, even during the height of their

territorial dispute, have continued to maintain a strong, interdependent economic relationship, with China taking the largest share of Japan's trade and significant amounts of investment. However, in the public's mind, there is a fear of a rising China that the media has tended to aggravate with its negative coverage of Chinese affairs. It is also hard for Japanese to forget the scenes in China in late 2012 when protestors of the Japanese government's purchase of the Senkakus engaged in wanton destruction of Japanese property and goods, with media reports claiming that Chinese officials guided and encouraged the destructive action.

The dispute settlement mechanism in the WTO has recently moved more towards settlements outside the formality of bilateral agreements. While Japan clearly still sees the WTO as a great mechanism for leveraging in its trade disputes with the U.S., there's a growing preference for outside settlement on Japan's part, such as in WTO DS322, which came to an end in a memorandum of understanding. RCEP with the inclusion of China and Japan will represent a real region-wide FTA. Where the TPP and U.S. relations will fit in the balance of an evolving WTO and possible RCEP is unclear. The utilization of the WTO will decline along with preferable dispute settlement mechanisms and the informal agreements to settle disputes may change the current system. What is clear is that the WTO's negotiation round has failed. A major attraction of the TPP is that it includes a dispute settlement system that will impose fines. Japan continues to view the WTO as an important part for leverage in any trade disputes with the U.S. that it considers as unfair. However, using the WTO is a long process, and DS322 took eight years to resolve. Having an FTA may streamline dispute settlements between both nations, which would certainly serve to strengthen the bilateral ties and reduce the pressures of the larger dispute settlement system in the WTO.

Of course there are the purely economic considerations of strengthening the bilateral relationships through TPP. As noted by a 2013 CRS report the data available likely underestimate just how important the U.S. and Japan are to each other economically. Japan contributes to the East Asian supply and production networks that export to the U.S. With the possibility of a larger regional FTA down the line, emerging from TPP, the U.S. will be tapping into bigger and bigger sources of exports. As mentioned earlier, the TPP provides potential mechanisms for increased cooperation in a number of R&D areas, something that will benefit both economies greatly as world leaders in sciences and technologies. This paper has largely focused on the Japan side, but returning to the graph that shows existing FTAs, it's worth noting that of the U.S.'s three large trading partners in the TPP, Japan is the only one that is not yet covered by an FTA. Both Mexico and Canada are covered under NAFTA. So while it's true that the U.S. coverage will be vital for Japan, the reverse is also true for the U.S.

Conclusions

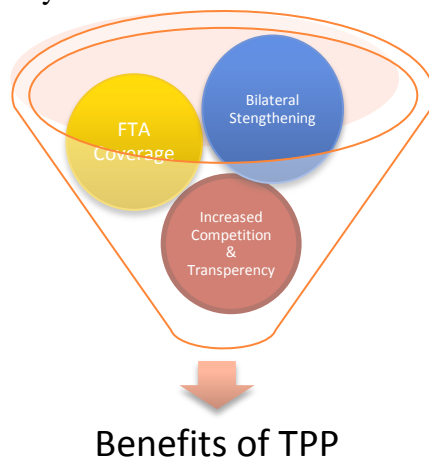
As with agricultural reform, medical reform in Japan is inescapable with or without TPP. It has been slowly occurring since the 1990s, but the 3/11 disaster, the aging population, and new trends in treating illness have highlighted the importance of moving systemic reform at a faster pace. With the ACCJ and EBC making healthcare recommendations that incorporate technology, medical companies on both sides eager to open up the market, government in need of lowering costs in part through privatization, and the Third Arrow looming, JMA remains the last true defender of maintaining a closed and protected medical system.

What TPP will do immediately for Japan is to strengthen bilateral economic ties with the U.S. and to expand its overall FTA coverage. Arguments in Japan over TPP include challenges that can be largely overcome if Abe's proposed reforms to counter them are as bold as some TPP proponents in Japan expect them to be. While the medical industry is not a main focus for the U.S. in its TPP negotiations with Japan, JMA in order to block reforms, has teamed up with JA, the protector of agricultural interests, to make it a make-or-break TPP issue. But both organization know that the real threat to their vested interests is not the U.S. but a feisty prime minister who plans comprehensive reforms that ultimately will make both sectors stronger, but diminish the power of its ersatz champions – JMA and JA.

The U.S. must not get sidelined by reverting to traditional rhetoric about the alleged closed market for this and that product or service in Japan, particularly the sideshow of breaking into the automobile market – at least two decades late. Japan makes most of its autos now in the U.S. and judging from sales and recent Big Three history, continues to maintain its comparative advantage in the automotive industry.

The key to a successful FTA between the U.S. and Japan may lie in the willingness of both side to make meaningful compromises in the down-to-the-wire negotiations that keep the high-quality of the TPP goals intact. President Obama has to show the Congress and the American people that he has brought home the bacon. So does Abe. It will do no good if either or both play to the politically motivated crowd that takes an all or nothing approach. Both sides will have to feel the pain in making a better deal on tariff reductions – Japan on its sacred five, for example.

Still, although TPP continues to be a central pillar of economic policy for the Abe administration, the third arrow of drastic structural reforms remains its central pillar. Progress on Abenomics will depend on how long Abe can continue to muster political and popular support for proposed reforms – the business sector already is on board. But it will be a tough balancing act at first. As seen in the agricultural sector, some reforms may have to be initially superficial in order to avoid the full force of a backlash. If Abe splits the LDP, it would make it hard for Abe to push through reforms in other areas while maintaining his promise to strengthen the Japanese economy. When Abe spoke at the World Economic Forum he hinted at how strong his future reforms would be. If that truly proves to be the case – with no sector is immune from his drill -- his new vision for Japan may come true. Economics is often driven by expectations, TPP progress may very well be able such a catalyst, bringing back investor confidence, giving impetus to Abe's reform agenda, and showing the Japanese people that Abe is still serious about his intentions to reboot the economy.



Diamonds in the Rough: Abe to Draw out Hidden Gems of Human Talent

By Erin Weeks

Introduction

In December 2012, Shinzo Abe found himself serving for the second time as Prime Minister of Japan. He had served initially in 2006-2007 but resigned suddenly for health reasons with a largely unfinished policy agenda. This was his second chance to try to steer Japan's future, focusing initially on the battered economy, suffering from two decades of deflation and periodic recession. He immediately unveiled a three-pronged strategy, dubbed "Abenomics", designed to reinvigorate the country's economic base. His "three arrows" covered a wide range of monetary, fiscal policy, and structural reform tactics. The first two were on par with other strategies taken by governments around the world after the global financial crisis and the collapse of the US housing market in 2008. He exhorted the Bank of Japan to inject large quantities of yen into the lackluster economy and set an inflation target; he compiled a stimulus budget that centered on greater government spending on social infrastructure. The third arrow, undefined at first, has turned into a catch-all for various structural reforms aimed at promoting growth. It even aims to revive a dying agriculture sector through drastic reform. From deregulating and opening the electricity market to joining President Obama's Trans-Pacific Partnership (TPP), Prime Minister Abe's second time at bat has parked new enthusiasm in Japan, as seen in the soaring of the stock market and the much-heralded weakening of an allegedly overvalued yen.

For the first time in Japan's postwar economic history, the status of women in the labor market has been given priority attention under the rubric of 'Womenomics'. The term, coined from a 1999 Goldman Sachs report, describes the impact that promoting gender equality and female buy-in into the economy can have.⁵¹ Abe's liberal agenda in this regard has gained positive press in the domestic and international media. It has sparked debate at prestigious think tanks such as a conference at the Brookings Institution in late September of 2013, entitled "From Abenomics to Womenomics: Working Women and Japan's Economic Revival," and in non-governmental organizations (NGOs) such as the U.S.-Japan Council (USJC), in a March 2014 conference entitled, "Delivering on the Promise of Womenomics: How Americans can Contribute". Both of these events featured as panelists and speakers successful Japanese women who are leaders in business and politics. They included the Director-General of Japan's Ministry of Education, Culture, Sports, Science and Technology (MEXT), Ms. Kumiko Bando, and former chief executive officer, president and chairman of the board for Berlitz, Ms. Yukako Uchinaga.

These noteworthy women, however, are part of a relatively small cohort. Abe's womenomics goals are aimed at changing the situation of women being woefully unrepresented in the top ranks of business, politics and academia in Japan. What has been done by Prime Minister Abe so far? What are the potential consequences of these actions? What impact will gender advancement in Japan have on the United States? This paper will address aspects of all of these

⁵¹ Womenomics 3.0, Goldman Sachs. 1 Oct 2010

questions in order to provide an assessment of the likelihood of womenomics' success. First, a discussion of the history of gender equality in Japan is relevant and necessary to provide the framework for today's situation. This section will describe pre-World War II movements, relevant clauses of the Japanese Constitution, international trends and their feedback effect on domestic legislation and movements, and the approximate position of women in the economy as of Abe's speech at Davos last September. Next, this paper will address the government's stance in regards to women, as well as its goals and efforts to improve equality between sexes. It will specifically evaluate how the promises of previous Japanese administrations match up to Abe's promises and what may have sparked the sudden high-powered focus on women's issues. The third section of this paper addresses what concrete actions have been taken since Abe's reelection domestically within the business and public sectors. The fourth section addresses why the United States' government and private sector care about these issues, while the final section takes a look at potential further steps to enhance gender equality both in the short- and long- term as well as alternative and complementary policy options that may have similar effects.

Background

Japan's struggle to achieve equal opportunities for women is an old one. It is also one which most countries in the world have experienced. Just as women were banned from acting on stage in England during the time of Shakespeare, Japanese women were (and still are) banned from performing Kabuki or even entering the Sumo ring. In both cases, the reasoning behind such traditions can be placed at the feet of concerns about public morality and fears that the women would use the theater as a front for prostitution or, in the case of Sumo, that the ring was in the Shinto folk religion a taboo area for women. Such concerns about "appropriate work" for women may have been further exacerbated with the ending of the Shogunate (in 1867) and Japan's forced opening to the Western World by Commodore Perry.

Japan's Constitution and Gender Equality

According to a literature review by Barbara Molony, legislation was passed by the Meiji government in Japan in 1890 "legally barr[ing] [women] from joining political parties and attending political rallies."⁵² This changed the paradigm of discrimination from class to gender as prior to this, female heads-of-households (typically widows) had the power to vote in their local assemblies.⁵³ A healthy bluestocking movement in the 1920s and the 1930s occurred in tandem with a movement for universal suffrage for males during the Taisho democracy. While the men succeeded, the women succumbed to nationalistic propaganda and pressure embodied by slogans such as "良妻賢母" (*ryousai, kenbo*) and "軍国の母" (*gunkoku no haha*) or 'good wife, wise mother,' and 'mother of the military,' and women's inclusion in government fell by the wayside until the end of World War II.

One of the major focuses of the U.S. Occupation was the revitalization of Japanese government and economic structure. To that end, the Occupation helped Japan craft a postwar constitution acceptable both to the Supreme Command of Allied Powers (SCAP) and to Japan. It is within

⁵² Molony, Barbara. Book Review. "A Place in Public: Women's Rights in Meiji Japan by Marnie S. Anderson; *Reforming Japan: The Woman's Christian Temperance Union in the Meiji Period* by Elizabeth Dorn Lublin; and *Women and Public Life in Early Meiji Japan: The Development of the Women's Movement* by Mara Patessio." *Harvard Journal of Asiatic Studies* 73(1): June 2013, 194-203.

⁵³ *Ibid.* (Molony)

this constitution that the women of Japan gained their right to vote, with explicit references in Article 14 (“All of the people are equal under the law and there shall be no discrimination in political, economic or social relations because of race, creed, sex, social status or family origin...”), Article 15 (“Universal adult suffrage is guaranteed with regard to the election of public officials...”), Article 24 (“With regard to choice of spouse, property rights, inheritance, choice of domicile, divorce and other matters pertaining to marriage and the family, laws shall be enacted from the standpoint of individual dignity and the essential equality of the sexes...”), and Article 26 (“All people shall be obligated to have all boys and girls under their protection receive ordinary education as provided for by law...”).⁵⁴ Article 14 and 24 are of particular interest because of their explicit mention of the equality of sexes. Interestingly, it is also these articles that were shaped by the only female contributor to Japan’s postwar constitution who was also a member of the SCAP team, Beate Sirota Gordon. Accordingly, there has been rightist backlash regarding Japan’s postwar constitution in general and these articles in particular due to the fact that an American woman drafted them.

Japan’s Woman’s Lib Movement

Similar to the United States and the United Kingdom, Japan also had a period of civil unrest during the mid- to late- 20th century. While much of the momentum of Japan’s movement was subsumed into labor rights and security debates, a not-insignificant sector promoted greater equality in gender roles, particularly in the workplace.

Following these global trends, the United Nations (UN) announced in 1979 that the 1980s would be the Decade for Women. Within the same year, the General Assembly also announced the Convention on the Elimination of All Forms of Discrimination (“the Convention”) as part of the same push for greater recognition of women’s issues.

It was not until this point that the Japanese government, confronted both by international and domestic pressures, made progress in legislating equality of the sexes beyond what was set out in the Constitution. The Government of Japan ratified the Convention in 1985. A year later, the Equal Employment Opportunity Law (EEOL) went into effect. While progressive for Japan, the law had “little potential for undermining the structural mechanisms which perpetuate sexual job segregation in the employment system.”⁵⁵ In other words, on the surface, the law displayed an effort to change the status quo. However, in reality, it cannot be said to have had a catalytic effect on improving gender equality.

In a similar pattern, in 1999, four years after the Beijing Conference on Women, the UN issued a report update on gender. In this same year, Japan revised its EEOL to account for more stringent measures and passed the Basic Law for a Gender Equal Society.

On the other hand, there is no apparent international movement that explains the transformation of the Bureau of Labor and Gender Equality into the Ministry of Labor and Gender Equality under the Koizumi administration in 2005. The Koizumi government also amended the Child Care and Family Care Leave Law (CCFCLL) of 1992.

⁵⁴ Japan Constitution

⁵⁵ Lim, Cheung Ling. “Equal Employment Opportunities for Japanese Women: Changing Company Practice.” Thesis. The London School of Economics and Political Science. University of London. 1990. Web. 7 May 2014.

Despite being a developed nation, with the world's third highest GDP, it is apparent that much of the impetus to address the gender equality issue in Japan came from external forces, rather than internal pressure. This lack of domestic buy-in may be one of the causes for the situation that Japan finds itself in today.

Japan's Gender Equality Laws

Japan has taken steps to create an equal employment field for men and women and to create a society supportive of women in the workplace. However, as Lim indicated in her thesis regarding the EEOL of 1985, many of these initiatives were primarily superficial rather than structural.⁵⁶

For instance, before the EEOL was in place, and even after, women in Japan were offered a choice of two career tracks to the one that most men were offered.⁵⁷ The presence of these two tracks for one gender rather than for both or none even after the enactment of the EEOL suggests that equal employment opportunity had a different definition than might otherwise be thought. Specifically, it shows that businesses had certain jobs and positions dedicated solely to women. These positions, primarily administrative in nature, often lacked potential for promotion to leadership roles.

Furthermore, it was not until the EEOL was revised in 1999 that companies were actually legally prohibited from “[discriminating] against female workers at all stages of the employment process including recruiting, hiring, placement, and promotion.”⁵⁸ Prior to this, companies simply had to try to not utilize discriminatory measures in their employment processes. In addition, after the 1999 revision, the most profound penalty a company that was found to have discriminated in their hiring process faced was public naming.⁵⁹

Around the same time, a legislated curfew for women to prevent them from working overtime was repealed.⁶⁰ Under this curfew, women had to leave by seven p.m. A company inspector would walk the floor at this time to ensure adherence to this law. Several reasons for such a curfew can be imagined including safety and efforts to support women in balancing home and work. A similar curfew did not exist for men.

The Child Care and Family Care Leave Law (CCFCLL) of 1992 only allowed for women to take protected time off in order to manage the needs of their family. The government revised the CCFCLL in 2002 with the rationale that “since men and women are subject to same working conditions, the worker responsible for child-rearing and nursing care can be protected regardless

⁵⁶ Lim, Cheung Ling. “Equal Employment Opportunities for Japanese Women: Changing Company Practice.” Thesis. The London School of Economics and Political Science. University of London. 1990. Web. 7 May 2014.

⁵⁷ Anonymous Source. The two career tracks referred to are the administrative (secretarial) versus professional tracks.

⁵⁸ Iino, Natsuko. “Women’s Social Progress in Japan and Future Issues.” *Journal of Japanese Trade and Industry*: January/February 2002.

⁵⁹ Iino, Natsuko. “Women’s Social Progress in Japan and Future Issues.” *Journal of Japanese Trade and Industry*: January/February 2002.

⁶⁰ Iino, Natsuko. “Women’s Social Progress in Japan and Future Issues.” *Journal of Japanese Trade and Industry*: January/February 2002.

of gender.”⁶¹ The prior unequal applicability of the law may have reinforced ideas about gender roles. In addition, while designed to encourage continued labor participation without fear of repercussion from their employer, the law may have actually negatively impacted a company’s desire to hire or promote a woman. If a company is required to hold a woman’s position for long-term periods while she is out on leave, it may leave the company short-handed.⁶² This may be seen as unfair from the male employee’s perspective.

Overall, Japan’s attempts at legislated gender equality failed to get at the deeper issues. Indeed, the original efforts to do so may even have reinforced the structural issues rather alleviated them.

Women, Society, and Work

Female participation in Japan’s labor force has increased in tandem with worsening economic conditions and the advances in legislation. However, despite all of the work done in establishing the equality of the sexes through the Constitution and job opportunity equality through passage of the Equal Employment Opportunity Law, Japan is still struggling overall with equal treatment of its men and women, particularly in upper levels of the labor force as well as government. A significant contributor to the rise in the labor participation rate stems from the increase in the number of women who are employed part-time, from 28 percent in 1990 to 43 percent in 2009.⁶³ Only 4 percent of women are on boards of companies listed in the stock exchange.⁶⁴ There have been numerous reasons given for this ‘bamboo ceiling’ including cultural preferences as well as expectations of businesses in regards to women.

Cultural Preferences and Stereotypes

When picturing a Japanese woman, the Western stereotype tends to be that of Japan’s most famous female figures, the *geisha*. What this stereotype embodies is that of the ideal companion: well-educated, soft-spoken, and able to entertain or sit quietly as needed. In many ways, the same stereotype exists still amongst the Japanese as to women’s place in society. According to Naoyuki Haraoka, executive director for the Japan Economic Foundation, Japanese women have a preference to stay at home, particularly after they are married and have children.⁶⁵ This may explain why despite increasing numbers of highly educated Japanese women, the number of Japanese women in executive or managerial positions is quite low. According to an article in the *Economist* published 27 March 2014, one businessman even said that “In wealthy places like Tokyo, many women simply do not wish to work.”⁶⁶

Women in Japan who do want to work need to find ways to balance housework and limited childcare in addition to managing their careers. Unlike in the United States, where, after a certain age, parents tend to make use of teenaged and young adult babysitters, drawing from labor pools

⁶¹ Iino, Natsuko. “Women’s Social Progress in Japan and Future Issues.” *Journal of Japanese Trade and Industry*: January/February 2002.

⁶² Analysis aided by post-presentation remarks from Hasegawa-san in reference to TEPCO’s maternal leave policy and his own division.

⁶³ *Womenomics 3.0*, Goldman Sachs. 1 Oct 2010

⁶⁴ World Economic Forum. “Gender Gap Index Report 2013,” Oct 25 2013. From <http://www.weforum.org/reports/global-gender-gap-report-2013>. Accessed 4 November 2013.

⁶⁵ Interview, 20 March 2014.

⁶⁶ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

of their own children, neighbors, or the children of friends who are looking for ways to earn pocket money, young adults in Japan tend to be enrolled in afterschool cram school and afterschool club activities that can take up large numbers of hours. Babysitters are a rarity, unless grandma happens to live with the family.

Business Expectations

Of greater impact on the gap, however, may be the business expectations of Japanese corporate culture. In the third year of university, students undergo *shuushoku katsudou*, which roughly means “job-seeking activities” and refers to the job search and hiring season of most Japanese companies. Therefore, it is at this point in time that most Japanese men and women find their future work determined. Furthermore, the company sought is ideally one that they will grow old with and retire from.⁶⁷ For these reasons, once an employee takes a break from his or her career for a lengthy period of time, it can be difficult for them to find similar employment with similar benefits and promotion potential elsewhere.

In addition, the average hours worked annually by full-time employees in Japan is over 2,000.⁶⁸ Depending on the situation, childcare and/or housework can take up a fair amount of time. Cultural expectations of women to take care of the home and the children affecting the amount of hours worked by women vis-à-vis men can be seen in a study conducted by the Research Institute of Economy, Trade and Industry (RIETI). Using data from a single company with 32,000 total employees worldwide, RIETI found that women overall work less than their male counterparts. In particular, married women with small children work 22 percent fewer hours than married men (with no distinction between married men with or without small children).⁶⁹ Given that Japan’s typical corporate promotion structure revolves around both tenure and productivity—and productivity is often measured by hours worked rather than actual output—once a woman leaves her position to have a child, even if she returns to work, her promotion potential therefore falls drastically.

The Gender Pay Gap

As of 2012, women in Japan on average make approximately 29 percent less than men.⁷⁰ According to the “Summary Report of Basic Survey on Wage Structure (Nationwide) 2012,” the average working age of women and men in Japan is 40 and 42.5 respectively. The younger age of women in the workforce indicates that women drop out of the labor force earlier than men do and work for fewer years continuously (8.9:13.2). Perhaps due to these differences, women’s overall average monthly salary is JPY 233,100 compared to men’s JPY 329,000. Furthermore,

⁶⁷ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

⁶⁸ “Easing work-hour regulations.” *The Japan Times*, 7 May 2014. Web. 7 May 2014. This puts the simple calculation of the average full-time work week at a little over 38 hours (2000 hours/52 weeks) without accounting for national holidays or corporate holidays. It also does not account for the semi-required socializing outside of working hours.

⁶⁹ Kato, Takao; Kawaguchi, Daiji; Owan, Hideo; “Dynamics of the Gender Gap in the Workplace: An econometric study of a large Japanese firm.” May 2013, Rev. Dec 2013. Research Institute of Economy, Trade and Industry. Accessed 24 Feb 2014.

⁷⁰ “OECD iLibrary: Statistics/OECD Factbook/2013/Jobs and Wages”. *OECD iLibrary*, OECD, 2013. Web. 7 May 2014.

women's average monthly salaries peak between the ages of 45-49 at JPY 256,600.⁷¹ A number of reasons may explain this: determinants of pay and external considerations such as taxes and welfare regulations.

First, “female wages are less determined by performance with the firm and instead to a large extent depend on which firm women work for.”⁷² In other words, a woman can perform as well as a man for the same company in the same role and while her colleague's pay will reflect upon both his performance on the job in addition to corporate policy, her pay will primarily reflect corporate policy. The Ministry of Health, Labor, and Welfare released a report in 2012 which noted that female wages varied less by size of company than male wages.⁷³ Greater variations in the average monthly wage for men due to the size of the company could come from a number of factors. Among these might be due to a performance-based pay scale and greater diversity of job types for male employees than female employees. Additionally, these wages increase at a much slower rate of change for women than they do for men

Second, government regulations regarding taxes and health care can also determine the type of work and typical compensation they receive. To the first, Japan's tax code provides substantial benefits to married couples in which one of the couple is employed as a regular, full-time employee of a licensed company and the other earns no more than approximately \$10,000 annually. This “encourages women to stay in poorer paying part-time jobs.”⁷⁴ Furthermore, companies generally pay “dependent allowances” to their employees. If the employee in question is a married male, this number equals the number of minor, unemployed children plus the wife if the wife does not work. For female married workers, these allowances are usually zero if the husband is also employed and the children have been reported to the husband's employer.⁷⁵

Finally, the pay gap may also demonstrate the differences in business and cultural expectations: women in Japan are culturally expected to place primary importance on the home and childrearing. In order to do so, they may drop out of the labor force sooner or work fewer hours in order to take care of the home, childrearing, or aging parents. Despite similar starting salaries in comparison to male employees, these pressures could depress overall earnings for women.

Women and the Career Track

Many Japanese companies typically hire in one of two tracks: administrative, which typically means administrative with limited upward mobility, and career, typically used to groom employees for a greater range of jobs and responsibilities including management. The number of supervisory positions for women has increased from 4.6 percent in 1989 to 14.4 percent in 2012. Despite the higher number of supervisory positions, the number of female heads of sections or departments (部長/課長) has increased less; Keidanren (Japan Business Federation) found that of

⁷¹ MHLW Income Survey, 2012

⁷² Saito, Yukiko and Takeshi Kouno. “Rising Wage inequality within firms: Evidence from Japanese health insurance society data.” RIETI, June 2012.

⁷³ MHLW Income Survey, 2012

⁷⁴ “Honda taps woman to board, promotes foreigner.” The Associated Press. 24 Feb 2014. Web. 28 March 2014.

⁷⁵ Kato, Takao; Kawaguchi, Daiji; Owan, Hideo; “Dynamics of the Gender Gap in the Workplace: An econometric study of a large Japanese firm.” Research Institute of Economy, Trade and Industry. METI. May 2013, Rev. Dec 2013.

the 107 companies that responded affirmatively to the question of whether they had a female supervisor, the majority of those only had one. Furthermore, when asked about promotion above the level of supervisor (主任), often hesitated for a number of reasons: their ability to manage work-life balance, actual promotional potential in their jobs and a lack of other females around them in a similar position.⁷⁶

The first point goes back to the basis for promotion in Japanese and other societies: quantity over quality of work. Cultural expectations may also play a role in the number of women that not only wish to work but also wish to advance their careers into upper management. Dr. Nobuhide Hatasa of the Japan Institute of International Affairs (JIIA) suggested that many Japanese women prefer not to disagree or order around their male counterparts.⁷⁷ Mass media has typically reinforced these cultural expectations through popular culture such as dramas, comics, and movies although that is changing with can-do heroines that often know better than their male colleagues.⁷⁸

The second and third reasons (positions with low potential for promotion and lack of role models) are often overlooked in discussions of gender-labor force issues.⁷⁹ Together, these reasons suggest that marriage and cultural expectations may have less of an impact on driving women out of the labor force than previously thought. In fact, one study reports that when asked why they left their job, Japanese women most often cited dissatisfaction with their jobs and underutilization. This is contrary to American women who responded with child care and elderly relations as their main reason for leaving.⁸⁰ These findings may point to a self-perpetuating cycle: as suggested by the *Economist* article, businesses do not want to invest time and money into providing women with the training necessary for promotion to management levels for fear that they will not see a return on that investment. They cite that the woman in question may leave indefinitely post-marriage or post-childbirth; alternatively, they leave after marriage or childbirth because they have been denied these opportunities for growth within the company.⁸¹

In sum, despite the lower than OECD average female labor participation rates, Japan is progressively moving towards greater inclusion of women in the labor force. Yet obstacles such as cultural expectations, structural interference such as taxes or access to childcare and women's preferences still exist.

Women and the Government of Japan

The government of Japan has been aware of these obstacles to increased participation for a number of years. In many ways, the government demonstrates issues similar to those seen in the corporate sphere. To address these problems, since the early 2000s, they have declared a number

⁷⁶ Keidanren, 2014 Women's Action Plan.

⁷⁷ Interview. Nobuhide Hatasa and Riho Okada, Japan Institute of International Affairs. 18 March 2014.

⁷⁸ "Hataraki Man" is one such drama. The tradeoff is that these women then are often portrayed as being incapable of being able to handle their family or romantic relationships.

⁷⁹ Neither of these reasons were mentioned in my two interviews, nor did they come up in informal discussions.

⁸⁰ "Japanese women and work: Holding back half the nation." *The Economist*. 29 March 2014. Web. 29 March 2014.

⁸¹ "Japanese women and work: Holding back half the nation." *The Economist*. 29 March 2014. Web. 29 March 2014.

of targets to be reached by 2020 and put in place a number of initiatives designed to help achieve these goals. However, it is only recently that the endeavor to actively increase women's participation in the labor force, and in particular, among the upper echelons of government and business has gained traction among these communities. This momentum can be primarily attributed to Prime Minister Shinzo Abe and the popular support for his "Japan is Back!" campaign.

Abe's Position

There are a number of reasons Prime Minister Abe might have to want to redress the gender balance in Japan. Most pressing among these are Japan's reputation and Japan's future as a stable, developed economy.

Since the World Economic Forum (WEF) began producing its Global Gender Gap Index, Japan has consistently scored in the bottom quartile. However, in recent years, these numbers have slid even further from 101 in 2012 to 105 in 2013. While Japan scores well in education and health, its poor scores in the economic and political criteria of the index put its rank on a level similar to a number of Middle Eastern countries. Among the developed nations, only Korea scores lower. Furthermore, during the routine assessment and briefing carried out by the UN Human Rights Council, Japan's gender policies were called into question, with several recommendations made as to how to address these issues.

These are both politically embarrassing events for any country, much less one of Japan's economic might. It also impinges upon the reputation of the Japan International Cooperation Agency (JICA) as one of JICA's key development areas is in gender and women's rights.

Of more pressing interest to the Japanese government and for Abe's economic recovery goals are the potential effects of increasing women's labor force participation on Japan's economy. According to the Goldman Sachs' "Womenomics: 3.0 Report" if the number of women in Japan actively participating in the labor force matched the male labor force participation rate, that would 8.2 million workers which could have the effect of boosting Japan's GDP by 15 percent.⁸² This boost comes from increases in consumption and taxes.

The rise in consumption is obvious: if more women are working and, in particular, are working as full-time employees, total disposable income should increase. A fair amount of this income will be spent in the childcare goods and services industry which will provide opportunities for the expansion of this area in Japan as housewives return to the labor force.⁸³

The increase in taxes is doubly beneficial. One of the major problems facing Japan is its declining birthrates and aging populations. This twinned problem greatly impacts the stability of Japan's economy and in the long run, the country itself. In the year 2006, Japan's birthrate and mortality rate became approximately equal. Two years later, in 2008, Japan's population peaked. This means that Japan's labor force will only decrease in numbers as fewer people replace those who are retiring. This will have a negative impact on Japan's fiscal budget as a greater proportion of tax revenues will go to supporting the pension. Promoting the reentry of

⁸² Womenomics 3.0, Goldman Sachs. 1 Oct 2010

⁸³ Womenomics 3.0, Goldman Sachs. 1 Oct 2010

women will provide a larger tax base for the government to draw upon and support the continuation of the services that the government provides. Furthermore, working to encourage women's reentry will remove a free-rider from the pension plan as well. At this moment, Japan's tax code allows the spouse of a full-time regular employee to not make contributions to the pension fund while still reaping the benefits.

Abe has made his commitment to these issues known at a number of forums internationally and domestically from the World Economic Forum held in Davos to speeches before constituents in Tokyo.

Targets before the Arrows

The targets that Abe set for womenomics to reach are not unique. Prime Minister Koizumi was the first to deliberately state the goal of 30 percent leadership roles filled by women by 2020 in 2003 in both the public and private sectors.⁸⁴ According to a report by the International Labor Organization (ILO) in 2004, only 10.1 percent of leadership roles encompassing government, legislators, senior officials and management were filled by women. As of 1 February 2014, 10.8 percent of legislators were female while 4.5 percent were in upper level management.⁸⁵

Furthermore, to achieve these goals, Prime Minister Koizumi's minister of Gender Equality and Labor in 2005 suggested increasing childcare facilities, thereby improving the speed at which women that wanted to return to work could do more quickly than otherwise. The Democratic Party of Japan (DPJ) announced similar initiatives during its 2009 campaign including abolishment of traditional unequal tax deductions for married couples and introduction of child-rearing subsidies. They also reaffirmed support for Koizumi's women in leadership target. In doing so, the large number of swing female voters in Japan may have been swayed to overthrow the long time rule of the LDP. In a similar fashion, Abe's efforts to make headway on the gender issue may have a political side to it as well.

Riding the Momentum

Almost a year and a half has passed (at this writing) since Prime Minister Abe began his second time at the helm of government. Within that time frame, both the private sector and the government have shown great support for his efforts in making the tenets of womenomics a reality.

Diversify, Risk, and Reward

From the Tokyo Stock Exchange to the corporate boardroom, Japan's private sector has also started to realize—and act on that realization—of the importance of diversity in the workplace. Apparently, their motives are self-interest and not altruistic.

In 2013, the Government of Japan through the Ministry of Economy, Trade, and Industry (METI) joined with the Tokyo Stock Exchange to create the Nadeshiko Brand Index. A sister brand to the Diversity Management Selection 100 Project of METI which is designed to

⁸⁴ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

⁸⁵ “Women in National Parliaments.” Inter-Parliamentary Union. 1 Feb 2014. Web. 5 May 2014 and “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

highlight companies that practice diversity in their employment, the Nadeshiko Brand is specifically meant to mark those businesses that are “outstanding for encouraging women’s empowerment.”⁸⁶ The Nadeshiko Brand companies are chosen from the First Section of the TSE based upon corporate social responsibility policies that indicate high levels of career guidance and promoting work-life balance practices.

For FY2012, 72 companies were selected. Of these, the seventeen highest scoring companies based off of two criteria were publicly announced. To further demonstrate the benefits of diversity, the TSE used the stock market as the basis of value and found that these 72 companies consistently outperformed the overall TOPIX index from which these companies were drawn. Goldman Sachs “Womenomics 3.0” finds similar results.⁸⁷ The chosen companies of the FY 2013 Nadeshiko Brand increased the number of top performers from 17 to 26, seven of which were repeats from the previous year. Such a trend indicates that Japan’s largest corporations are beginning to place greater importance on the issue.

Internationally significant companies have also begun to make more independent moves to improve diversity. Honda promoted its first female board member in February as well as its first foreigner as an executive-level manager. Honda officials stressed that the choice had nothing to do with public appeasement or improving their corporate image. They stressed that Ms. Kunii, the woman chosen, was the best person for the position.⁸⁸ In a similar move, Nomura Holdings also appointed the first female president for their banking unit, Nomura Trust and Banking. This will make Nomura a pioneer in the Japan banking world as Japan’s top three banks do not have a single female executive. The Bank of Japan, Japan’s central bank, has one female on its board of nine. The promotion of a woman to such an important post in a male-dominated field heralds further changes that may be ahead.

A look at the top ten companies of 2010 (Nippon Telegraph and Telecommunications (NTT), Mitsubishi Corp, Honda Motor, Mitsui & Co., East Japan Railways, Canon, Nippon Steel, JFE Holdings, KDDI, and Sumitomo) shows that all have CSR policies listed on their websites. cursory navigation of these policies shows that four of the ten specifically mention diversity in the workplace or the promotion and support of women.

Canon, one of those four, established its CSR policies in 2012. Alongside these policies, it implemented its VIVID program, which is designed to promote and enhance diversity. Canon does so by offering classes to women to help them achieve greater work-life balance and leadership techniques. Furthermore, women led the design of the PowerShot E1, a camera targeted at women.⁸⁹

Mitsubishi Corp has begun to encourage all of its workers to leave before 7 p.m., a more equitable variation on the women-only curfew of 15 years prior, in order to promote a healthier,

⁸⁶ “Diversity Management Selection 100 and Nadeshiko Brand.” Special Report. Japan Ministry of Economy, Trade, and Industry. June/July 2013. Web. 7 May 2014.

⁸⁷ Womenomics 3.0, Goldman Sachs. 1 Oct 2010

⁸⁸ “Honda taps woman to board, promotes foreigner.” The Associated Press. 24 Feb 2014. Web. 28 March 2014.

⁸⁹ Corporate Governance Report. Canon. Sept 2013. Web. Feb 2014.

more productive life.⁹⁰ Itochu, another trading company similar to Mitsubishi Corp, has banned working past 10 p.m. outright. In October 2013, its board implemented a regulation promoting morning overtime instead. The change is designed to support women who have responsibilities to their families as well as to their jobs.⁹¹ The American Chamber of Commerce Japan (ACCJ) notes that Proctor & Gamble have also begun a flexible work program within their Japanese offices.⁹²

Finally, Keidanren, Japan's premier business association, has also hopped on the womenomics bandwagon with their release of the "Action Plan for increased female labor: For improved competitiveness in business and sustainable growth" (女性活躍アクション・プラン～企業競争力の向上と経済の持続的成長のために) in April 2014.⁹³ The introduction outlines the association's view that of primary importance for a country facing both a declining birth rate and an aging population is the ability to take advantage of diverse talent. For Japan, it continues, this increased diversity begins with increasing gender diversity.

Their document examines several problems: continuous employment, management/supervisor position promotions, the traditional roles of men and women, as well as the low number of women in the technology and science sector. Keidanren finds that the main reason for the previously slow rate of improvement in the situation on women is due to the way in which it has been presented: as a development or social issue rather than one of economics. It needs to be presented and promoted on a more wider-scale in economic terms—as a matter of increasing competitiveness and Japan's prospects for sustainable growth.

Keidanren suggests several ways to go about achieving this growth—one of the more concrete options is to remove the different track options presented to women upon employment. They also present a five-point plan demonstrating their commitment to the women's equality goal: 1) Publish the individual plans to increase gender diversity of the member firms; 2) Implement a training program and support network for the development of female managers' skills with an end goal to create a workshop designed to promote women's leadership; 3) Create a periodic "diversity management seminar" to remind management of the benefits and necessity of having a diversified workforce; 4) Broaden pre-employment students' understanding of different career paths and encourage their ambition by sending representatives to schools; and 5) Design and publish a pamphlet in cooperation with education and government institutions to introduce firms' female workers employed in the sciences to younger generations and produce an exhibit to further encourage women's entry into these fields.⁹⁴ These actions are all, to some extent, similar to initiatives that the government has also begun to investigate.

⁹⁰ "Japanese women and work: Holding back half the nation." *The Economist*. 29 March 2014. Web. 29 March 2014.

⁹¹ "Itochu to Ban Late Night Overtime and Encourage Morning-focused Working Style." Japan for Sustainability. 31 Oct. 2013. Web. 7 May 2014.

⁹² "2013 CSR Yearbook in Diversity." American Chamber of Commerce Japan. 2013.

⁹³ Keidanren. "女性活躍アクション・プラン～企業競争力の向上と経済の持続的成長のために～ (Action Plan for increased female labor: For improved competitiveness in business and sustainable growth)." Keidanren. 15 April 2014. Web. 5 May 2014.

⁹⁴ Keidanren. "女性活躍アクション・プラン～企業競争力の向上と経済の持続的成長のために～ (Action Plan for increased female labor: For improved competitiveness in business and sustainable growth)." Keidanren. 15 April 2014. Web. 5 May 2014.

Reform Makeover

Since coming to power, the Abe administration has commissioned a number of reports to look at the feasibility of achieving the primary goal of womenomics—bringing women back into the labor force. Among the policies either already implemented or currently under consideration are METI’s Nadeshiko Brand, deregulation of the childcare sector, revision of the tax code, as well as a number of different labor and immigration reform policies.

The Nadeshiko Brand, as described above, is a collaborative effort between METI and the Tokyo Stock Exchange. It is part of the prime minister’s efforts to promote the increased participation of women in the labor force in order to grow Japan’s economy. It proposes a voluntary quota system to increase the number of female executives and board members (with at least one woman on every company’s board by 2020). So far, the Index has had moderate success with a 52 percent increase in the number of companies singled out for the distinction since last year.⁹⁵

Prime Minister Abe has also promised to improve childcare accessibility. In concrete terms, his administration is looking at decreasing the number of children on waiting lists at childcare facilities throughout Japan through deregulation and subsidies. His national model is predicated upon the work of Yokohama Mayor Fumiko Hayashi. In the years since Ms. Hayashi was elected, she has brought the numbers of parents waiting for access to childcare facilities from one of the highest in Japan to approximately zero through a deregulation process similar to what Abe would like to institute.⁹⁶ The partnership model spearheaded through Ms. Hayashi’s efforts has meant matching landowners of areas of convenience to the family in question and interested private companies.

The Abe administration has also announced plans to revise the tax code in such a way that marriage deductions will no longer exist, although deductions for other dependents and situations such as the death of the significant other may. Currently, if the spouse made less than 1.3 million yen (approximately \$13,000), the main breadwinner could claim them as a dependent for 380,000 yen (approximately \$3,800). In addition to this cap, a spouse that made less than 1.08 million yen (approximately \$10,800) did not have to pay into the National Pension and could still receive payouts. Through the elimination of these benefits, Abe hopes to encourage both halves of a married couple to work. To encourage more children, there have also been discussions about providing larger financial subsidies and incentives to families with a third child.

The government has also been looking at specific labor initiatives and reform programs to promote access to labor. Recently, Prime Minister Abe announced a plan to expand a pilot program that would provide paid internships to women who had been out of the labor force for some time in order to facilitate their introduction back into full-time, hopefully regular, work. An article in the *Japan Times* that ran in May 2014 announced a proposed labor reform that would allow employees to choose the way in which their work would be evaluated: in the traditional manner based upon hours work or a method based upon productivity as laid out by the

⁹⁵ Frischkorn, Bradford. “Nadeshiko Brand adds Takeda to the Index.” JapanRealTime, (WSJ Blog). 4 March 2014. Web. 7 March 2014.

⁹⁶ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

management of the company. The argument for such a change is that “it is essential that more people who find it difficult to regularly work eight hours a day at workplaces – such as mothers raising small children and people who need to take care of failing parents – join the labor force through a system that rewards them for their work done, not the hours spent at work.”⁹⁷

A more controversial change proposed by the Abe administration deals with the loosening of immigration restrictions. At the World Economic Forum in Davos in January, Abe announced a bid to improve access to childcare services as well as the labor necessary for manual work that many young Japanese eschew as 3K (*kitanai, kitsui, or kiken* -- dirty, difficult, or dangerous) in order to ease the burden of family and work many women carry.⁹⁸

Both the private and the public sector of Japan have shown enthusiasm and initiative in pursuing reforms meant to encourage more women to remain in or return to the labor force. However, there is international interest in seeing Japan achieve these goals as well.

A Trans-Pacific Partnership?

Self-Interest: The Basis for Most Forms of Cooperation

The U.S. is interested in improving the positions of women in Japan for several reasons including the reputation of any joint development program it may implement with Japan in women’s empowerment, U.S. domestic pressure, and the purported international economic impact of ‘womenomics’. Japan’s momentum on its labor issues in this respect may provide similar innovation for the United States as its own women have increasingly begun to choose to opt out of work in order to be stay-at-home moms.

Internationally, gender issues are a major area of cooperation for the U.S. and Japan. In the U.S.-Japan Global and Regional Cooperation Fact Sheet, gender equality is specifically highlighted, with the example given of promoting entrepreneurship by women in ASEAN countries with the WECREATE initiative. In February 2014, the United States and Japan conducted the first senior-level development dialogue between two Japanese government officials and two officials from the U.S. Agency for International Development (USAID) and the two from U.S. Department of State. Japan’s poor record with gender discrimination reflects poorly upon these initiatives, casting doubt upon the validity and capability of any women’s empowerment program that it undertakes.

Domestically, one of President Obama’s campaign promises and a significant part of his administration has been dedicated to the promotion of gender equality and women’s issues both within the U.S. and internationally. His State of the Union Address in January 2014 re-emphasized this point when he mentioned the gender pay gap and the statistic of 77 cents.⁹⁹ Furthermore, within the first month of his second term, the White House released a Presidential

⁹⁷ “Easing work-hour regulations.” *The Japan Times*, 7 May 2014. Web. 7 May 2014.

⁹⁸ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014.

⁹⁹ This is the overall average wage a woman earns for every dollar a man earns in the United States. As pointed out in Anne-Marie Slaughter’s article in *The Atlantic*, this does not account for the fact that men 1) often work more and longer hours than women; 2) choose to go into higher paying (math-intensive or dangerous) fields than women do.

Memorandum on the “Coordination of Programs to Promote Gender Equality and Empower Women and Girls Globally.” Coupled with his appointment of Caroline Kennedy to the Japanese ambassadorial post, the first female ambassador to be appointed to Japan, it is not hard to understand his interest in the situation.

As of this moment, the U.S. receives a small economic benefit from Japan’s gender gap: the disenfranchised nature of Japan’s system means that greater numbers of women in Japan study abroad than men. One reason for this is because work prospects for women within domestic companies are lower than they are for men. A university student studying abroad is set back further due to the nature of hiring cycles of Japanese companies—the majority of job hunting is done in the third year, the same time most students study abroad. This means that the U.S. benefits in two ways: Japanese women that study abroad in the U.S. contribute directly to the U.S. economy through revenue from the extra consumption and U.S. companies benefit from being able to draw upon a pool of talented workers with often underappreciated global experience.¹⁰⁰ In the 2013 Yearbook on CSR Diversity published by the ACCJ, the U.S. Foreign Commercial Service suggests that the fact they have more client-facing female staff than male may be due to the fact that their organization is an “indirect beneficiary of relatively lesser opportunity with the private sector.”¹⁰¹ Unlike the greater corporate Japan, of the 67 ACCJ members who responded to the Yearbook survey on the issue, 50 percent had women on their Japanese boards of directors indicating that these member companies have taken advantage of their counterparts’ reluctance to change their practices.

Cooperating with Japan is unlikely to change these facts—it may, in fact, improve the labor talent pool from which American and other foreign companies can draw. At the moment, only 65 percent of women with tertiary educations in Japan are employed. This is a huge waste of prospective talent. Also, other side benefits exist. Some Japanese companies operating in the U.S. often do not change their operating practices to match their different geographical location. Through improving the overseas situation of Japanese women at Japanese companies in Japan, these diversity-promoting personnel policies could lead to a matching change in operating procedure at their U.S. locations. Furthermore, it may also promote greater diversity in promotions overall as Japanese corporate culture adjusts to more women, greater numbers of foreign hires may also become mainstream.

Finally, Japan is one of the U.S.’s most important allies. Cooperating on a ‘soft’ issue such as gender has a number of political benefits, including the strengthening of political ties and potentially greater access to Japan’s service markets as more childcare goods and services come into demand alongside the increased female labor participation rate. In other words, it is a fairly non-controversial way to improve the relationship.

Ahead of the Curve

A number of cooperative efforts between the U.S. and Japan already exist to promote women’s leadership in Japan. Among these are NGO and civil society efforts such as the Japan Women’s Leadership Initiative, which hosts female leaders from Japan at a U.S. university to provide

¹⁰⁰ “Japanese women and work: Holding back half the nation.” *The Economist*. 29 March 2014. Web. 29 March 2014. Also, JEF interview with Haraoka-san and the Embassy briefing suggested similar ideas.

¹⁰¹ “2013 CSR Yearbook in Diversity.” American Chamber of Commerce Japan. 2013.

leadership training and mentoring. The U.S.-Japan Council hosted a recent event dedicated specifically to the topic of areas of cooperation in the Japan gender equality issue. The government also has several programs designed to promote women in leadership, among them a seminar and exchange on Japanese Female Entrepreneurs.

The U.S. has a number of reasons to be interested in the state of equality between genders in Japan. From the global impact a boost in Japan's GDP could have, to creating more accepting environments for U.S. workers in Japanese affiliates to work in, from improving cooperation in joint gender-related projects outside of Japan, to smoothing a path for the next female U.S. ambassador to the country, assisting Japan in its endeavors is a worthwhile project.

The Future

The Japanese government under the Abe administration has made a fair amount of headway on undertaking practical solutions to encouraging woman to return to the labor force over the past year, making strides in achieving necessary tax reforms; publicly encouraging companies with inclusive work and personnel policies; highlighting childcare, education, and training; and considering a range of labor reform policies including internships and alternative evaluation methods. Still, there is a lot to consider.

A Woman's Prerogative

It is often said that a woman's prerogative is to change her mind. While not for quite the same reasons, changing the minds and habits of individual and corporate behavior may not be as easy as the government hopes. For example, neither increased access to childcare services nor the goal to have 30 percent of all leadership positions filled by women by 2020 is a new policy. The same can be said of many other initiatives that Abe has introduced, although the momentum pushing these issues forward points to progress.

Childcare may play a significant role in the reason why women leave the workforce. However, it may not be the reason they stay out. Instead, dead-end positions and the nature of full-time employment in Japan may have a greater impact on their decision. Japan's labor laws, as they stand, offer a great deal of inflexible protection and benefits to full-time, regular employees. The tax code has similar provisions. While these structural issues remain unchanged, women returning to the labor force will continue to find it hard to find desirable work.

Even with accessible childcare, women may choose to enroll their children and still not work. This would defeat the purpose of reducing waiting lists. Improved conditions for leadership roles may similarly not induce women to accept management and leadership roles due to other factors including the transfer structure that many of Japan's firms and institutions utilize. If one spouse chooses to stay and the other to go, this may cause domestic friction or added stress if the employee has children. If a promotion is offered around the same time as the spouse's transfer, it will depend upon the couple as to the decision that is made.

One Hand Clapping

The policies that the government has looked at primarily target women: making it easier for a woman to balance her work responsibilities with her home life, removing incentives for the lower-paid spouse (statistically female) to limit her working hours by doing away with relevant

tax deductions and benefits, instituting paid internship programs primarily geared towards helping women reacclimatize to the work force. Yet women, while important, are only half of Japan’s population—and for Japan’s gender equality problems to have remained at the level they are today despite numerous debates on how to rectify the situation, Japan’s males are going to have to buy in to the change as well.

The below chart demonstrates the differences between the percentage of men taking leave under the CCFCLL and the percentage of women doing the same. As Japan’s population continues to age and the average age of marriage likewise continues to increase, no doubt this number will also increase. However, both Japan’s government and corporations should ensure that their employees are aware of the policy and encourage their workers equally to take advantage of it, if necessary. The men of Japan have one of the lowest hourly averages related to childcare in the OECD. Rather than gearing classes solely towards helping women manage a work-life balance for women to manage, companies should consider offering these seminars to all employees, regardless of gender.

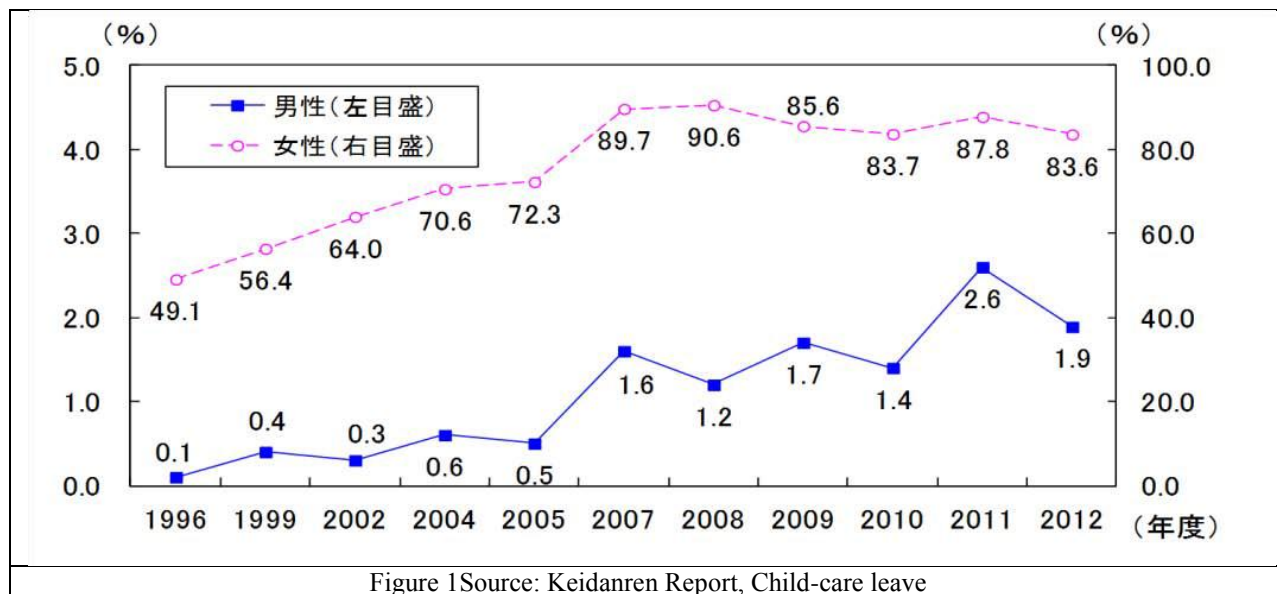


Figure 1 Source: Keidanren Report, Child-care leave

Do as I say, not as I do

Abe’s 30 percent leadership goal looks suspicious from an outside standpoint. It proves that to some extent, while Abe talks a good game and is certainly making a substantial visible effort towards improving the women’s situation, certain areas are still glossed over. Contrary to his goal, Abe’s cabinet has only two women out of a total of 20 ministers. From a public relations perspective, Abe should have gone for at least three women for this would have put him halfway to his objective and given him room to improve as proof of his dedication to his promises after the next election. Appointing two women marks no change from his first cabinet and therefore no progress for the political empowerment of women. Furthermore, both of his current female

cabinet members are in ‘soft’ ministerial positions with little actual policy power.¹⁰² Similar numbers are evident for the other officers of the Cabinet with five out of 25 Vice Ministers, and none of Abe’s special advisors are female at this time.

In addition, Japan is a prime ministerial country that utilizes a combination of first-past-the-post and proportional voting. Yet in the same election that voted in the Liberal Democratic Party (LDP) and Abe with his plan, only 13 of the 57 proportional seats that the LDP won went to women—22.8 percent. Of the current 359 LDP members in the Diet, only 40 (11.1 percent) are women. While not low, the number of proportional representation seats suggests several things: first, that the leadership of the LDP may not fully support Abe’s goals and second, that women themselves may not be interested in politics. If that is the case, Abe’s goals for governments will remain in the subjunctive rather than future until something changes culturally.

It also does not help Abe’s case that his appointed governor for NHK (Japan’s version of BBC) has foot-in-mouth disease, with statements on how gender equality legislation caused birthrates to drop or similarly, that women should prioritize family over outside work. Nor does it help his case that women do not appear to be involved in the actual formulation of policies to improve gender equality. At the meeting regarding cooperation on gender with the U.S. earlier this year, the two attending Japanese officials were both male. In most of the televised portions of Obama’s visit to Tokyo in April 2014, the only women that are visible despite gender policy being on the agenda are from the U.S. Such behavior on Abe’s part or his representatives sends the message that the administration is not of one mind and reflects poorly on its sincerity in these matters.

Conclusion

The Japanese government’s method of addressing the gender gap issue has been one of fits and starts. Often, it appears to come only when squeezed between domestic movements and a hard place. In recent examples, the hard place has been international pressure (such as the UN’s Decade of Women and various international conferences on women’s issues). More recently, it is based on the perceived economic benefit of keeping skilled labor in the labor force. Previously, lack of government and corporate buy-in to these initiatives kept gender equality from progressing as rapidly as it otherwise might. This time, the apparent lack of the average female voice and the fixation on gender equality as a selling point economically may still prove to be stumbling blocks in the years ahead.

Abe’s successful return and continued popularity have made a number of analysts cautiously optimistic about womenomics and what it means for Japan’s economic recovery. Furthermore, with the government fully backing the initiative, one analyst suggested that womenomics will succeed as ‘Cool Biz’ succeeded. However, ‘Cool Biz’ was a program aimed at decreasing energy costs by instituting a simple wardrobe change. Womenomics revolves around revising

¹⁰² The titles of these women are: Minister in charge of Support for Women’s Empowerment and Child-Rearing, Minister of State for Consumer Affairs and Food Safety, Minister of State for Measures of Declining Birthrate, and Minister of State for Gender Equality (Masako Mori; and Minister in charge of Administrative Reform, Civil Service Reform, “Cool Japan” Strategy, “Challenge Again” Initiative, and Minister of State for Regulatory Reform (Tomomi Inada). Also of note, Masako Mori is the only minister whose name is not a hyperlink to biographic information.

ingrained patterns of behavior on both the corporate and individual level and fundamentally requires two separate parties to have the will to succeed. Despite both being government initiatives, the scale for the two programs is vastly different.

In order to achieve the goals set out by the administration, the Japanese government has to overcome a number of difficulties. Caution and good timing is needed before implementing drastic changes to the tax code and the childcare system. For instance, if the spouse tax deduction incentivized marriage, Japan may see a decrease in the marriage rate, which may similarly lead to decreases in the birth rate post-implementation. If the tax reform goes into effect before the revised childcare system has been put in place, expected revenues may not be realized when women are unable to return to work due to the lack of available services.

Whether it is the cultural attitude that women should be self-effacing and are uncomfortable in positions of power, changing the manner in which Japanese businesses perceive value and productivity among their workers, or convincing women that have left the workforce that there are greater benefits to return, the Japanese government should be prepared to meet its goal of increasing the number of women in the workforce without creating effective change at all levels.

Japanese Direct Investment in the US: One-Way Street

By Xuan Wang

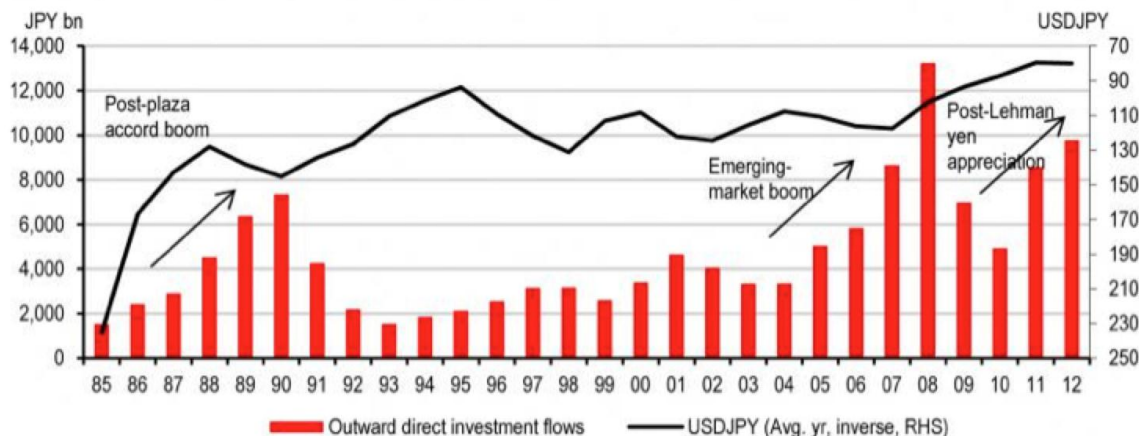
Introduction

International trade has long been the core of Japan’s growth strategy. But due to economic structural change, similar to what has happened in most industrial countries, trade has been gradually losing its importance to the Japanese economy. On the other hand, foreign direct investment (FDI) has been gaining more prominence in supporting economic growth. Structural changes have also affected the economic relationship between Japan and the United States. In the past, the US used to be Japan’s number one trading partner, but today, China has taken that position, and the US instead has become Japan’s largest FDI destination. This paper examines past and current causes for the Japanese FDI boom in the US by analyzing the contributing factors present in the economies of the two countries. While FDI has made a lasting impact on the economies of Japan and the US, there are significant challenges in each market yet to overcome, which this paper also will discuss. For American businesses, the lag in US FDI growth in Japan has been disappointing. This paper will conclude with a look at the reasons for the long-term gap, which continues to be a sore spot for US trade negotiators even today.

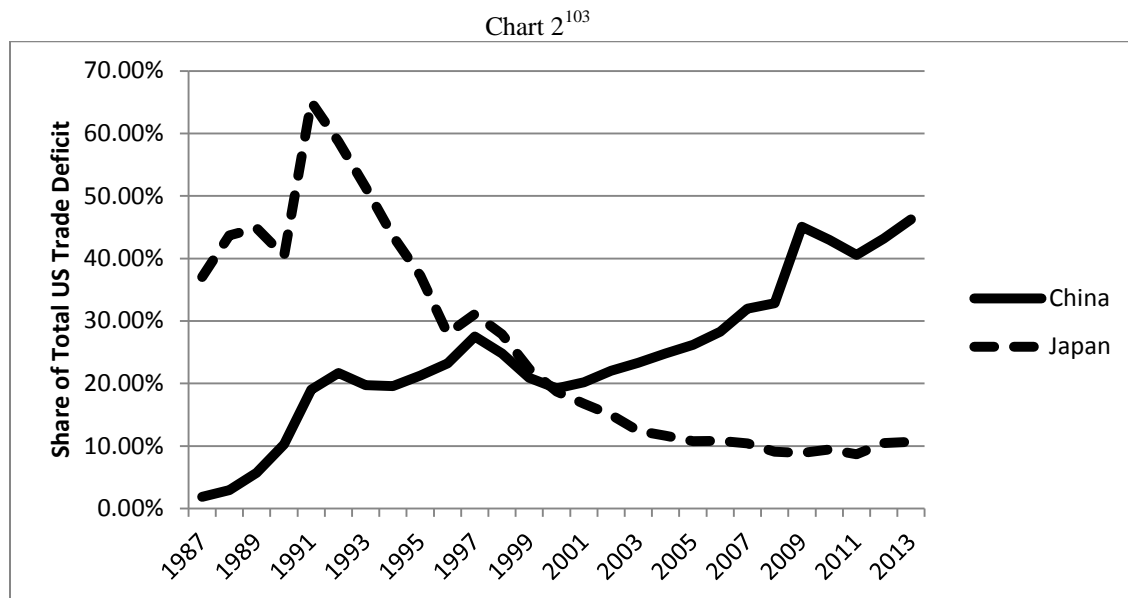
First FDI Boom in the 1980s

In order to understand what drives current Japanese investment in the US, it is necessary to look back into US-Japan trade history. As Chart 1 shows, the first major boom of Japanese FDI in the US took place during the late 1980s. The sharp increase in investment flows was then closely associated with trade issues between the two countries. During the 1980s, because of the high quality and low cost of Japanese products, such as automobiles and electronic products, Japanese firms gained a dominant market share in the US in many manufacturing industries. This contributed to a huge bilateral trade deficit with Japan. Chart 2 shows Japan’s share of the total US trade deficit from the late 1980s to the early 1990s, and it was even higher than China’s share today.

Chart 1



Source: CEIC, HSBC. NB: Exchange rate is annual average.



The competitiveness of Japanese products was the fundamental cause of the US' growing trade deficit with Japan, but there were other underlying reasons, as well. During the early postwar era, the Japanese economy, severely damaged, was a recipient of international aid in order to start its recovery. The US during the Occupation had geopolitical motivation to help Japan rise economically from the ashes and become a stable fledgling democracy. The US needed Japan to have a strong economy and stable democracy in order to combat the threat of communism within Japan and spreading international communism, particularly following the birth of the Communist China in 1949.

The US thus opened its market to Japan, in return for a bilateral security treaty, in order to accelerate the growth of the Japanese economy. At the same time, the Japanese market was allowed to remain largely unopened so that infant industries could be protected. But by the 1980s, as the communist threats diminished toward the end of Cold War, the US found itself flooded with Japanese goods, creating political and labor problems at home. Pressure on Japan to open its markets increased, a series of tough trade negotiations opened some sectors, but the trade imbalance remained politically unsustainable as the US Congress clamored for protective measures.

The substantial and politically unacceptable trade imbalance with Japan invited two responses. First, since exports of highly popular Japanese goods were being restricted by tariffs and other measures, Japanese manufacturers increasingly chose to invest in plant facilities in the US in order to maintain or increase their market shares. FDI meant getting around foreign protectionist barriers to exports. Second, Japanese firms with major presences in the American market knew that the enormity of the trade imbalance was triggering anti-Japanese business sentiment in the

¹⁰³ Census.gov. "Foreign Trade - U.S. Trade with China." Accessed May 12, 2014. <http://www.census.gov/foreign-trade/balance/c5700.html>.

US that could lead to losses of sales and market shares. The US market as the pillar of Japan's economic growth was in danger of being lost.

And indeed, anti-Japanese sentiment in the 1980s reached such a state that an entire category of journalism was devoted to proving that Japan, Inc., was a threat to the very foundations of the American industrial structure. The term "Japan bashing" gained popularity in the US media and books, articles and even movies played up the Japan threat accordingly.

In order to moderate the US' enormous trade deficit, the US government initiated the Plaza Accord in 1985, which was eventually signed by Japan, France, West Germany and Britain. The result was that the yen appreciated from around 250 to the US dollar to 125 yen to the dollar within three years, making Japanese goods much more expensive in the American market.

Japan signed the accord knowing that it would seemingly hurt its economic interests, but it and other West European countries were more concerned about the economic health of the US and the impact on the international economy and security if the US faltered. But the yen's appreciation also had a negative impact on Japan's export driven growth, and Tokyo worried about a recession hitting Japan. Hence, the Bank of Japan lowered the policy interest rate from 5% to 2.5% over 3 years. This unfortunately resulted in abundant credit that contributed to an asset price bubble and the later bursting of Japan's bubble economy around 1990.

Nonetheless, thanks to the strong yen, which made dollar investments cheaper, and the BOJ-driven abundance of cheap credit in Japan, Japanese companies were able to expand their business overseas, with the first choice being investing a lot of that cheap cash in the US. As Chart 1 indicates, the FDI boom grew rapidly immediately after the 1985 Plaza Accord was signed. Investing in plant and equipment in the US was also an appropriate response to curb anti-Japanese sentiment, especially among union members, because the drops in exports were supposed to reduce the US' bilateral trade deficit and the new factories and assembly plants provided jobs to Americans. The irony is that anti-Japanese sentiment did not subside. One reason was that Japan's share of the US global trade deficit remained at a high level into the early 1990s, demonstrating that despite increased prices, the quality of Japanese goods compared to American merchandise still made them attractive choices and that the faulty structure of the American economy and the perceived closed nature of Japan's were trumping the changes in the exchange rate.

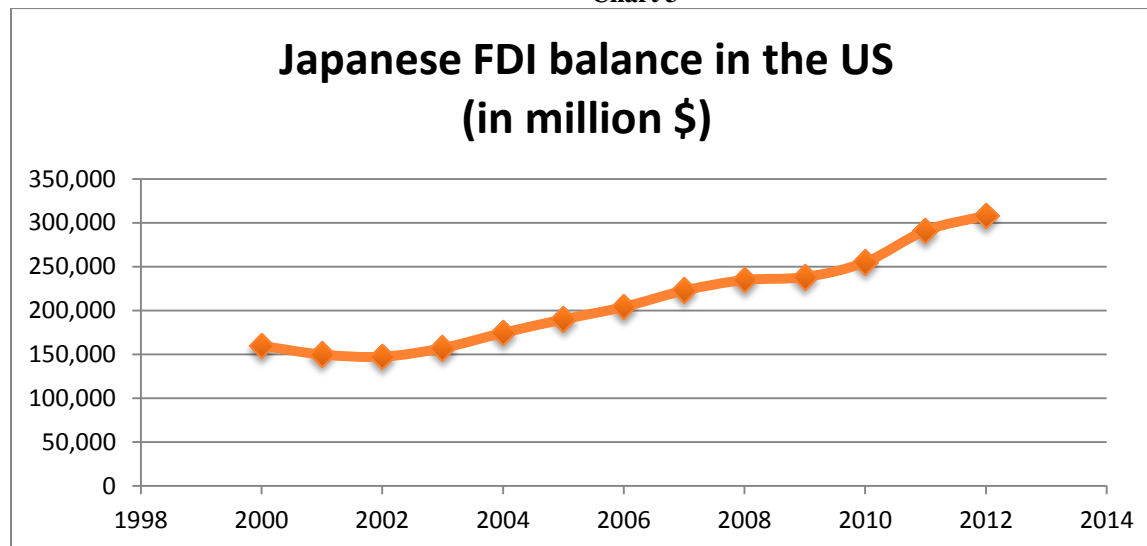
One more well-publicized reason for the continuation of anti-Japanese sentiment was that Japanese investors in the US went too far in their spending frenzy and caught too much attention. For example, Sony acquired Columbia Pictures, and Mitsubishi Estate purchased Rockefeller Center. Since these were considered to be the symbols or icons of the US economy, the press soon picked up such acquisitions as a "Japanese invasion." In addition to large iconic acquisitions, Japanese investors were oblivious to their purchases of property or organization's impact on public sensitivities in the US. For instance, almost all the hotels in Hawaii were bought out by Japanese money in the late 1980s. In addition to hotels, residential property was also purchased for investment purposes. This raised local housing prices, resulting in public protests to local governments against the advancement of Japanese investors into their communities. Following the bubble economy's demise in the early 1990s, Japanese investment

in the US shrunk dramatically. The 1990s, called the “lost decade”, saw a retreat of Japan money from the American scene. It took Japan more than ten years to recover and start seriously investing in the US market again. Currently, another Japanese investment boom is underway in the US market, the reasons for and the nature of which will be analyzed below.

Overview of today’s Japanese investment in the US

Based on their bitter experience in the 1980s, many Japanese companies have learned how to invest in the US in a way that avoids causing trade friction or anti-Japanese sentiment. Moreover, China, with which the US has an enormous trade deficit, has replaced Japan as the biggest “economic threat” – as seen in the political campaigns of the 2012 presidential election, when both the Republican and Democratic camps engaged in bashing China for allegedly taking away American jobs. As a result Japanese investment has been growing substantially in recent years without political notice. According to statistics of the International Trade Administration, Japan was the second largest source of FDI in the US in 2012, second after the UK. At the same time, the US was Japan’s top destination country for its FDI. The US accounts for 36.7% of Japan’s total FDI outflows, which is 5.9 times the amount of Japanese FDI in China.¹⁰⁴ Chart 3 shows Japan’s FDI balance in the US has been increasing steadily for the past ten years. Growth continued even during the financial crisis that hurt the US economy in 2008.

Chart 3



Changing Structure of Japan’s Economy Explains FDI Boom

Japan learned in the 1980s that investing in the US not only avoided protectionist sentiment caused by the huge trade deficit, it also minimized anti-Japanese sentiment. But there is another reason for the recent boom in Japanese investment in the US: structural changes in the Japanese economy. As it is shown by Chart 4, Japan’s working-age population has been shrinking rapidly over the past decade, part of the demographic crisis the country is experiencing. Domestic labor is experiencing shortages in certain sectors and becoming more costly. Japan has no significant

¹⁰⁴国際貿易投資研究所, 増田 耕太郎. "日本企業による対米直接投資 ~リーマンショック後の落ち込みから脱却し拡大~." *国際貿易と投資* 95 (2014): 177-191. Accessed May 1, 2014. <http://www.iti.or.jp/kikan95/95masuda.pdf>.

foreign guest-worker program to offset that trend. Furthermore, a dwindling working-age population implies that domestic consumption will also shrink. The only solution to grow the Japanese economy is by improving productivity. However, due to the rapid aging of the population (over a quarter of the nation is over 65 now), and the increased social welfare burden placed on the working-age population, it is unlikely that sufficient capital can be saved or invested for improving productivity.

At the same time, according to Chart 5, electricity in Japan is much costlier than in the US and other industrialized countries.¹⁰⁵ For electricity-intensive industries, operating in the US is more attractive, given that electricity there is half the cost of power in Japan. Labor shortages, slack consumption, and high utility costs explain why investment in Japan no longer is cost-effective. The choice of investing into building capacity overseas makes the most business sense for Japanese companies.

Chart 4

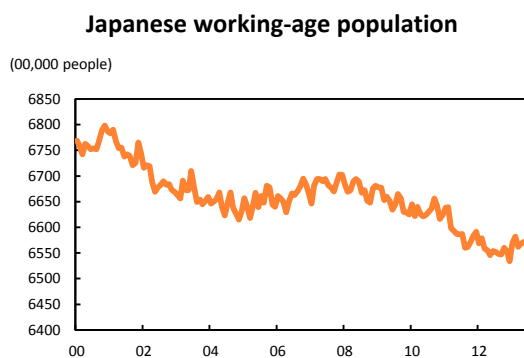
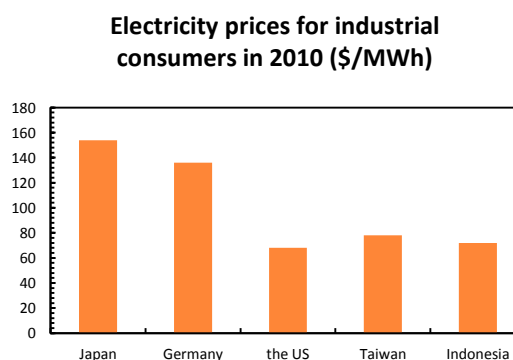


Chart 5

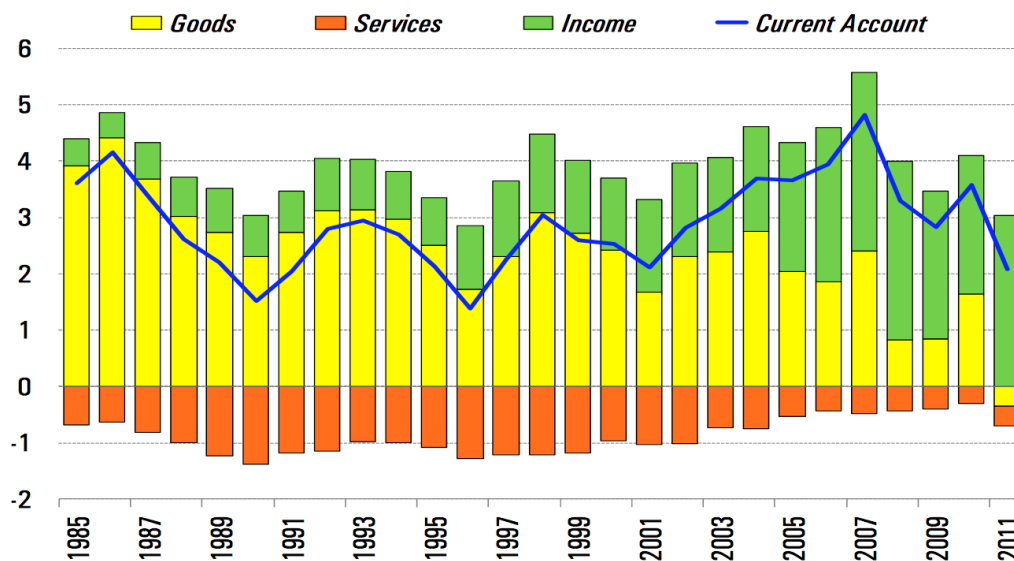


As seen in Chart 6, as a result of increased overseas production, Japan's exports have been decreasing gradually, while its repatriated income from FDI has been increasing rapidly over the past two decades. This phenomenon demonstrates that Japanese companies have changed their business model from producing domestically and exporting to one of producing overseas and selling directly to the local foreign market. In fact, the current account balance, which is the sum of trade balance and investment income, indicates that the overall profit from the overseas investments has remained roughly the same. Japanese companies have not only changed their business model to a global one that requires their presence in their foreign markets. As a result, they are still making the same amount of money overall from a global perspective.

¹⁰⁵ Since this chart is based on data from 2010, it does not account for Japan's current high electricity cost caused by zero-nuclear policy.

Chart 6

Japan: Current Account Balance
(In percent of GDP)

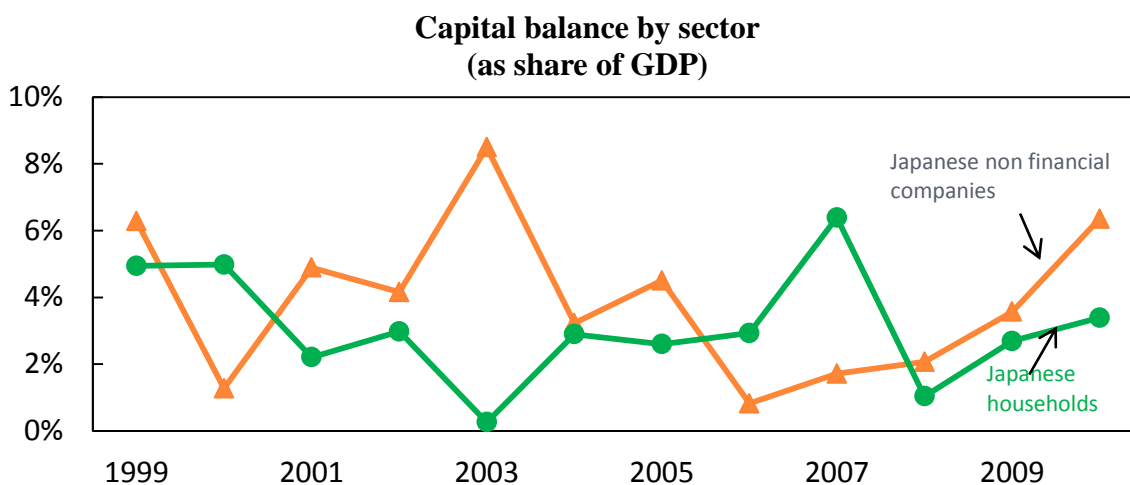


Sources: Haver Analytics; and IMF staff calculations.

Japan Financial background of FDI

In addition to the fundamental changes going on in the structure of the Japanese economy, financial factors also are playing a significant role in encouraging companies to invest overseas. First of all, there is an abundance of capital for use by private firms. After the 2008 global financial crisis, Japanese companies became cautious on making capital investments in order to hold sufficient capital for unexpected crises. Hence, Japanese companies are now rich with cash, which enables them to invest overseas (Chart 7). At the same time, Japanese households have hoarded savings for similar purposes. Since average Japanese have been increasingly investing their savings in the stock market, as reflected by the skyrocketing of the Nikkei Index in 2013, their money has provided more capital to Japanese companies to expand, including investing overseas.

Chart 7



Another financial factor that boosted FDI was the appreciation of the yen during 2008-2012. Because of the financial crisis -- or more specifically, the subprime mortgage crisis that mainly originated in the US financial market -- international investors withdrew some of their investment money in order to minimize the risks they faced in the US. As Japan was considered to have a relatively safe and large capital market, huge amounts of capital was invested in Japan. This heightening demand for yen resulted in its rapid appreciation. From September to December 2008, the yen appreciated from 110 to the dollar to 90 to the dollar.¹⁰⁶ The strong yen reduced the dollar cost of investing in the US. Hence, along with the recovery of the US economy, Japanese FDI in the US has also risen steadily.

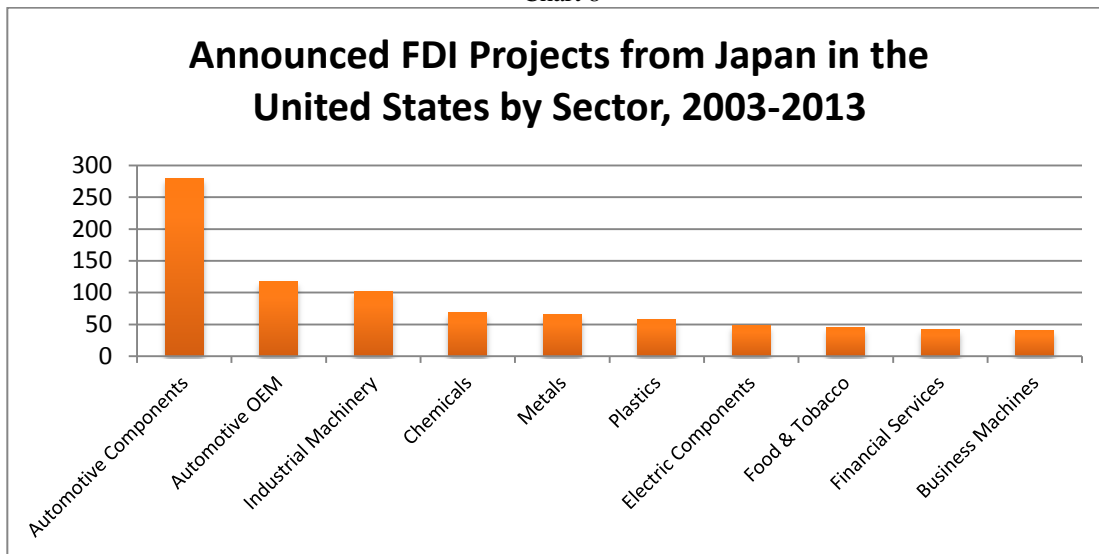
Attractive US Investment Environment

After analyzing the Japanese economic and financial factors that drive Japanese FDI in the US, it is also necessary to see what factors in the US attract Japanese FDI. In a survey, the Japan Bank for International Cooperation (JBIC) listed reasons motivating Japanese companies to invest in the US in 2013. The top reason was the current size of local market, while the second reason was its future growth potential. This lines up with the expectation both the US population and GDP will grow slowly but stably in the future, a sharp contrast from the situation in Japan. Also, as indicated by Chart 8, more than half of Japanese projects in the US over the past ten years are in the automotive sector. Since the US automotive market was the largest until 2010, and the second largest since, the large demand for autos matches the supply capacity of the Japanese economy, which has the comparative advantage in that industry.¹⁰⁷

¹⁰⁶ Yahoo Finance - Business Finance, Stock Market, Quotes, News. "USD/JPY Currency Conversion Chart - Yahoo! Finance." Accessed May 12, 2014. <http://finance.yahoo.com/echarts?s=usdjpy=x>.

¹⁰⁷ Bloomberg - Business, Financial & Economic News, Stock Quotes. "China Ends U.S.'s Reign as Largest Auto Market (Update2) - Bloomberg." Accessed May 12, 2014. http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aE.x_r_l9NZE.

Chart 8



There are other factors that made the US an attractive destination for FDI. The shale-gas boom in the US offers cheap energy and electricity in the US. In addition to the cheap electricity price, the price of natural gas in the US is only 1/5 of that in Japan. Hence, manufacturing in the US is particularly cost effective. This is especially true when considering the top sectors for Japanese FDI are automotive, chemicals, and metals, which are highly energy intensive. At the same time, Japanese energy firms and trading companies have been actively investing in energy assets such as shale gas fields and ports for exporting liquid natural gas. This means that cheap US energy – shale gas -- can not only lower the cost of production in the US, but also can be exported as LNG to Japan at prices lower than that of the rest of the world.

The comparative advantages of the US

There is no doubt that emerging markets are lucrative places to invest due to their rapid growth and mark potentiality. Certainly, Japanese investment money is heading in that direction in significant amounts. But the US remains for most Japanese firms a distinct market that has its unique and attractive virtues. Hence, investing in the US and emerging markets can occur concomitantly as a way to diversify the investment style of Japanese capital. One characteristic of the US market is high-risk high-return. It is common to assume that investments in the US bear lower risk because it has developed and stable political and legal systems. However, the developed legal system might work against the interests of Japanese companies. In the US, it is more likely for a firm to be sued for violations, such as intellectual property infringement. This is especially risky for Japanese companies who are accustomed to the more relaxed legal environment in Japan, a sharp contrast with that in the US. For instance, Nintendo, a video game company, was accused for patent infringement in 2010, and it settled the lawsuit by paying \$7 million in May 2014.¹⁰⁸ It was again sued for another patent infringement in April 2014.¹⁰⁹

¹⁰⁸ Polygon. "Report: Nintendo settles lawsuit alleging ROM chip patent infringement." Accessed May 12, 2014. <http://www.polygon.com/2014/5/6/5686868/nintendo-lawsuit-settles-rom-chip-patent-creative-integrated-systems>.

¹⁰⁹ Digital Spy. "Nintendo sued over Wii U patent by Secure Access - Gaming News." Accessed May 12, 2014. <http://www.digitalspy.com/gaming/news/a565689/nintendo-sued-over-wii-u-patent-by-secure-access.html#~oDD4wyT91oWmLD>.

Nevertheless, even though settling such lawsuits costs money and time for Japanese companies, it is still plausible to say a developed legal system can protect the interests of Japanese companies. Hence, investing in the US is preferable for certain Japanese companies that are not averse to risk-taking.

In addition to the legal environment, the overall economy and investment environment also pose some risk for foreign investors. Two areas in which the US has comparative advantages are information technology (IT) and financial services. But these two industries are also known for being high risk: the bursting of so-called dot-com bubble in 2000 and the 2008 sub-prime crisis being two massive examples. In addition, a large portion of the economic growth in the US is contributed by startup companies, which can be highly profitable but at the same time risky. Nonetheless, this peculiar startup environment in the US offers not only a high economic return, but also requires a new business model for Japanese companies eager to expand internationally. The track record shows that some Japanese corporate investors, like the trading companies, already are actively investing in technologically-advanced, innovative businesses, choosing the US as the FDI destination over the emerging markets. In the future, such attractiveness found in the US market is unlikely to wane.

Roles of Japanese Government and Big Business in Promoting FDI

In addition to offering loans, JBIC also gathers and provides latest overseas business information to Japanese companies. JBIC has representative offices in both New York and Washington, DC, where it can gather the latest economic and political information. Disseminating of such information is particularly beneficial for small and medium-sized Japanese enterprises because they are not likely to establish representative offices in the US just for information gathering. With JBIC's help, Japanese companies can enhance their competitiveness in the US market not only by easy financing of their investment, but also eliminate information asymmetry that might prevent them from effectively entering the US market.

Keidanren (Japan Business Federation) is Japan's premier economic organization, representing the interests of major Japanese corporations. Since it closed down its Washington office several years ago, its efforts are now directed from Tokyo. Now that investment in the US has become a common interest of Japanese business circles, Keidanren has again begun to play a leading role in promoting overseas investment and solving problems Japanese investors face. Assisting Japanese companies to lobby state governments to accept their investments is one of the tasks Keidanren performs. Keidanren organizes trade and investment missions that bring Japanese companies to the US to lobby state governments to favor Japanese investments. In addition, in order to reduce the labor costs of Japanese employees working at US subsidiaries, Keidanren successfully proposed legislation in Japan that was later passed which increased the amount of the income tax deduction of Japanese employees. Keidanren in promoting the interests of Japanese businesses has championed domestic tax reforms, including abolishing the withholding tax, which levies a tax on transfers of foreign income back to Japan.¹¹⁰ Scrapping it would not only encourage more Japanese investment in the US, but also attract more capital inflows from

¹¹⁰ 一般社団法人 日本経済団体連合会. 平成 26 年度税制改正に関する提言. 2013. Accessed May 1, 2014. http://www.keidanren.or.jp/policy/2013/077_honbun.pdf

the US to Japan. The current tendency is to hold the profits overseas in order to avoid being taxed.

Impact of Japanese FDI in the US

For the US economy, increased flows of Japanese FDI are desirable and to be encouraged. Traditionally, state governors led investment missions to Japan to lure Japanese companies to set up plants and offices in return for tax and other incentives. Now, the Japanese companies are coming on their own to the states to propose investment projects. On the macroeconomic level, the US has a perennially huge current account deficit that needs to be offset by an equal amount of capital account surplus. In addition to helping the US economy balance its current account books, Japanese companies also continue to create large numbers of jobs in the US. In 2012, 1.36 million US jobs were directly linked to the Japanese-brand auto manufacturers.¹¹¹ Among 1.36 million jobs, over 650,000 directly work for Japanese affiliates in the US. In addition, the average annual compensation for such jobs is \$76,550, which is 35% higher than the average private sector compensation in the US.¹¹² Since manufacturing is the sector in which Japan invests most heavily in the US, and because that is also the sector which lost the largest number of jobs over the years due to structural changes in the US economy, Japanese investments that create new jobs in manufacturing arguably have mitigated the structural unemployment issue in the US. In addition, since the automotive sector drives the businesses of many related industries, it tends to have large spillover effect on employment figures in the US. In fact, 70% of Japanese-brand automobiles sold in the United States are manufactured in North America.¹¹³ This demonstrates that Japanese companies have been able to adjust their business model based on the criticism raised by the US consumers, and a win-win strategy is valued by Japanese companies in order to operate sustainable business in the US.

Impact of Japanese FDI in Japan

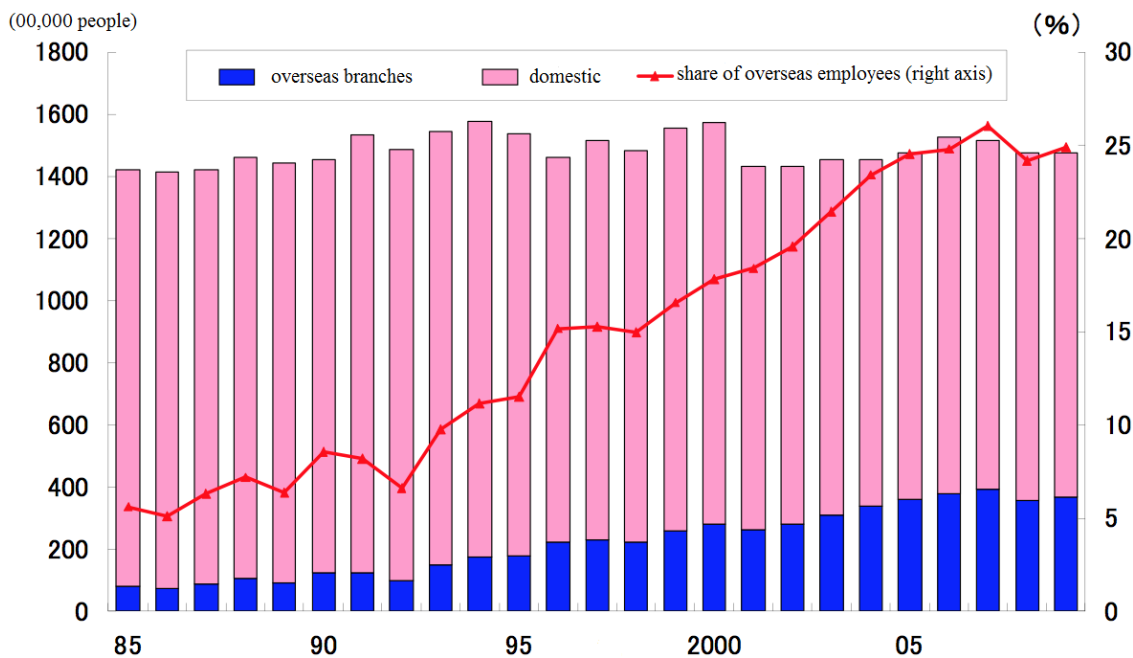
Surging Japanese FDI in the US may be filling company cashboxes, but there are negative consequences for the already weakened Japanese economy. For example, the argument has long been made that the flow of direct investment overseas – particularly plant and equipment investments in manufacturing sectors abroad – is “hollowing out” the Japanese economy. Jobs are being lost in Japan as new ones are created when Japanese companies set up shop abroad. Chart 9 shows the total number of employees hired by Japanese companies has remained largely unchanged for the past two decades. This means as the number of employees working at overseas branches increases, the number of domestic employees are reduced – a zero-sum game argument. Interestingly, the FDI-induced loss in domestic job opportunities is mitigated by demographics: the Japanese workforce also is shrinking as the population ages rapidly and fewer babies are born. This explains the apparent anomaly of the overall unemployment rate in Japan not noticeably growing.

¹¹¹ Global Trade Magazine. "Japanese Automakers 'Positively Impact' US Economy." Accessed May 12, 2014. <http://globaltrademag.com/japanese-automakers-positively-impact-us-economy/>.

¹¹² U.S. Japan Business Council. "Pacific Partners: Japan's Economic Importance to the United States." Accessed May 12, 2014. http://www.usjbc.org/files/2012/07/PacificPartners_FINAL.pdf.

¹¹³ Forbes. "Japanese Branded Cars: Increasingly Made In America By Americans." Accessed May 12, 2014. <http://www.forbes.com/sites/realspin/2013/11/01/japanese-branded-cars-increasingly-made-in-america-by-americans/>.

Chart 9



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Even though the loss of employment opportunities due to FDI indicates that the income of ordinary Japanese households might be affected, there are still ways for average Japanese to benefit from overseas investments by Japanese firms. For example, personal investments in the stock market can be one way for Japanese households to share the profits firms make from their overseas investments. This has been encouraged by Prime Minister Abe, who explicitly stated that the third arrow of Abenomics is “a growth strategy to encourage private investment.” This not only means household wealth will be used to support Japanese companies, but also indicates Japanese households can benefit from the growth of Japanese business. Specifically, in order to promote the interests households make from investing, Nippon Individual Saving Account (NISA), was launched in 2014. NISA allows Japanese households to invest up to 1 million yen per year in a tax-free investment account. In this way, Japanese households can enjoy a larger benefit from and provide a large support to Japanese FDI.

Lastly, investing in the US market will help revitalize the Japanese economy. There are three main benefits Japanese firms can achieve for their business in Japan by investing in the US. First, operating in the US is advantageous for gathering the latest market information. For example, companies can get the latest financial reports from New York, and the most updated policy-related information in Washington, DC. For energy firms, Houston is the best places to be in order to communicate with all the oil majors. Thanks to the significant presences of multinational corporations and international organizations in the US, Japanese firms operating in

¹¹⁴フコク生命. "減少の一途を辿る製造業の雇用." Accessed May 12, 2014. http://www.fukoku-life.co.jp/economy/report/download/report_VOL221.pdf.

the US can have easy access to information from all over the world. This contributes to the ability of those companies to keep up with its competitors in the global market. Second, investing in the US provides Japanese companies opportunities to seek out and absorb the latest technology. This can be achieved by either acquiring intellectual property or increasing cooperation with US firms that have technological advantages. Lastly, investing in the US can strengthen the organizational capacity of Japanese firms. Today, even the company headquarters in Japan is becoming more diversified in focus and global in scope. Foreign business which includes sending employees abroad allows them to adapt to different environments and become more international in outlook and strategy. Moreover, learning the strengths of US companies – or even learning that US companies have something to teach, can lead to managerial reforms that will allow Japanese businesses to face fierce global competition. Thus, active pursuit of foreign investment opportunities can promote structural reorganization of Japanese firms.

Challenges and opportunities of Japanese FDI in the US

What are the challenges that Japanese companies need to face and overcome in order to maximize their investments in the US? One challenge is a tendency of Americans to look askance at trade and foreign investment, seeing such as a zero-sum game. According to a survey by the Pew Research Center, only 67% of US people consider trade and business ties good for the US. This is significantly lower than the 90% level in Germany and China, and the 80% in France and Russia. As discussed above, anti-Japanese sentiment in the 1980s significantly hindered Japanese investment in the US. In fact, such sentiment has not yet disappeared completely. In January 2014, Suntory Holdings Ltd acquired Beam Inc, which is famous for its liquor brand Jim Beam, for \$13 billion. This acquisition triggered widespread anxiety that an iconic American brand was being swallowed up by Japanese companies. As a result, a significant number of comments appeared on Facebook, with American consumers of whiskey threatening to switch from Jim Beam to Jack Daniels as a protest against this acquisition.¹¹⁵ Fortunately, the attention Japan gets today in the popular media is much lower than 25 years ago. As China has surpassed Japan as the second biggest economy in the world and the biggest trade partner of the US, the focal point has shifted to its trading practices – including the recent uproar about industrial spying. According to a survey conducted by Gallup Politics in 2013, 52% of Americans generally viewed China unfavorably, whereas only 15% have such feelings towards Japan.¹¹⁶ As the US and Japan strengthen their relationship in such areas as trade and security affairs, antagonism towards Japan undoubtedly will further diminish in the future.

Oddly, negative US attitudes towards China provide Japanese companies with opportunities to strengthen their investment base in the US. Information and Communication Technology (ICT) is a sizable and sensitive industry because a country's socioeconomic infrastructure can have an undermining effect on national security. As a result of widespread distrust towards Chinese firms, Huawei, the second largest ICT equipment manufacturer in the world, has been repeatedly banned from making acquisitions of US companies. In addition, a Congressional Research

¹¹⁵ Business Insider. "Americans Mad Over Jim Beam Acquisition." Accessed May 12, 2014. <http://www.businessinsider.com/jim-beam-acquisition-jack-daniels-2014-1>.

¹¹⁶ Gallup.Com. "Americans Least Favorable Toward Iran." Accessed May 12, 2014. <http://www.gallup.com/poll/161159/americans-least-favorable-toward-iran.aspx>.

Service report in 2012 accused Huawei of being a national security threat.¹¹⁷ Under such circumstances, Japanese firms can demonstrate their reliability in sensitive areas based on the fact that Japan is an ally of the US.

Such moves are already underway in Japanese FDI in the US. In 2013, Softbank, a major Japanese telecommunications company, acquired Sprint, the third largest wireless network operator in the US, for \$ 21.6 billion. In fact, Softbank is also planning to acquire T-Mobile, the fourth largest wireless network operator, in the very near future. This is a case that exemplifies how Japanese companies can leverage their comparative advantage to succeed in competition with Chinese investors, which are not likely to be allowed to do the same thing in the US. In addition to ICT industry, according to the US-Japan Joint Statement announced in April 2014, cooperation in space industry is also a means of enhancing the alliance. The fact that Japan is trusted by the US in areas that are military related and highly sensitive, demonstrates there are potential opportunities for Japanese companies to explore.

Corporate culture is another challenge that Japanese companies face in investing in the US. Lifetime employment, lack of work-life balance, gender inequality, and lack of awareness of discrimination have been problems that impede the integration of American company acquired by Japanese companies. Nevertheless, based on the learning curve effect and corporate improvements over the last two decades, Japanese companies have set up comprehensive compliance guidelines that minimize conflicts caused by the differences in business culture. Some firms have been taking aggressive methods in order to smoothly integrate the acquisition of foreign companies, while expanding their business in foreign markets. For example, Nissan, Olympus and Sony have hired foreign CEOs.¹¹⁸ Even though there are mixed outcomes regarding the performance of foreign CEOs, these are constructive moves that can promote better integration of foreign business and deeper understanding of diversity. In addition, a term “English-ization” has been widely used to describe the internal reforms made by some Japanese companies. In 2010, Rakuten, the biggest e-commerce company in Japan, decided to make English the official language of its company. Other companies such as Nissan and Fast Retailing have also been working to expand the use of English.¹¹⁹ These examples indicate that Japanese companies are working to solve the challenges they face not only by making compliance guidelines, but also through increasing their language capacity that furthers interpersonal understanding between Japanese and locally hired employees.

Recent Economic Trends Influence FDI in the US

Analysis shows that structural change in the Japanese economy is the decisive factor that has been promoting expansion of Japanese FDI in the US. However, recent economic trends also have had impacts, positive and negative, on flows of Japanese FDI. Therefore, it is vital to

¹¹⁷ Businessweek.com. "Lenovo Targets Mobile as Tech Empire Grows on Castoff Businesses - Businessweek." Accessed May 12, 2014. <http://www.businessweek.com/articles/2014-05-08/lenovo-targets-mobile-as-tech-empire-grows-on-castoff-businesses#p4>.

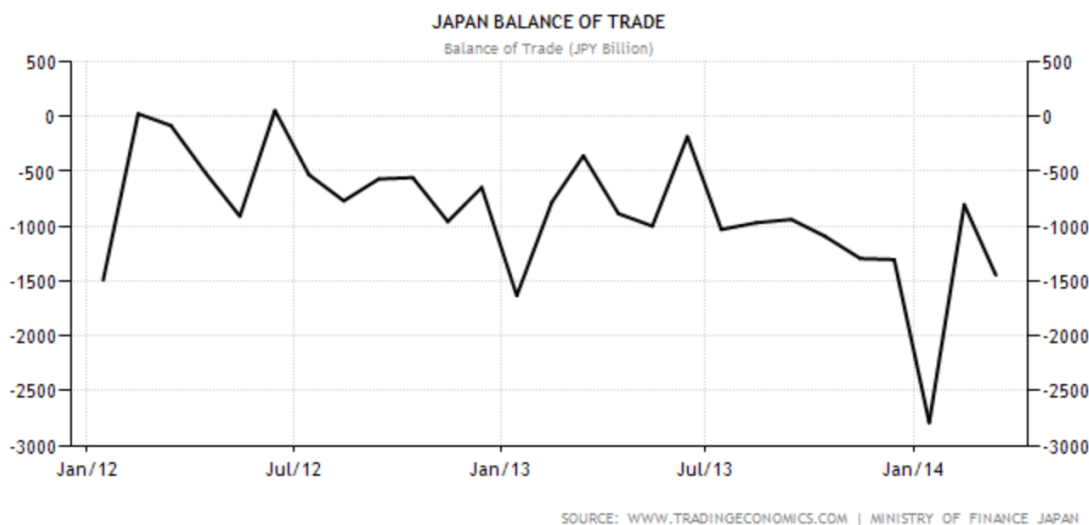
¹¹⁸ The Economist. "Japanese corporate culture: Opening up." Accessed May 12, 2014. http://www.economist.com/blogs/banyan/2010/07/japanese_corporate_culture.

¹¹⁹ The Wall Street Journal. "Trying to Think Globally, Rakuten Imposes English Policy" Accessed May 12, 2014. <http://online.wsj.com/news/articles/SB30001424052748703954804575382011407926080>.

understand how these influences work. One of such trends is “Abenomics” or the comprehensive policy mix that Prime Minister Abe has introduced in order to reboot the economy. In order to end the deflationary spiral that has persisted in Japan for more than ten years, the Bank of Japan has been conducting large-scale quantitative easing that not only lowered the policy interest rate, but also purchased private assets in order to lower the cost of finance for the private sector. This monetary policy has increased the money supply in Japan, resulting in a weakening of the yen from a high of around 80 to the dollar to just over 100 to the dollar over the October 2012 to April 2013 period. Even though a cheaper yen promotes exports by lowering the dollar prices of Japanese goods, the high yen has increased the dollar cost of investing in the US. Still, economists insist that the effect of yen depreciation is in fact minimal. According to a survey conducted by JBIC, only 7.8% of the Japanese companies say they are planning to move their overseas business back to Japan even if the yen depreciation continues to occur.¹²⁰ This indicates that even though the exchange rate is a factor that influences how much Japanese firms would like to invest overseas, Japanese FDI is driven by other fundamental demands. As discussed previously, strengthening domestic business and the size of US markets are factors that trump other considerations.

A weak yen, of course, promotes exports from Japan (and hinders imports). This factor is assumed to downgrade the relative importance of Japanese FDI. However, according to Chart 10, Japan’s trade imbalance has not improved even after yen depreciated since the end of 2012. In fact, the trade deficit worsened in 2014. What this shows is that despite the policies of Abe, the drop in domestic production is permanent. Companies are not moving back to Japan in droves because Japanese business has adopted FDI as a long-term strategy that will enhance its interests.

Chart 10¹²¹



¹²⁰ Japan Bank for International Cooperation. "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies." Last modified November, 2013. https://www.jbic.go.jp/wp-content/uploads/press_en/2013/11/15929/FY2013_Survey2.pdf.

¹²¹ TRADING ECONOMICS. "Japan Balance of Trade | Actual Value | Historical Data | Forecast." Accessed May 12, 2014. <http://www.tradingeconomics.com/japan/balance-of-trade>.

Case Study of Toyota's FDI in the US

Toyota Motors, founded in 1937, is a pioneer auto maker in Japan. It first began to export vehicles to the US in the 1950s. However, because of the so-called Chicken Tax imposed on imported vehicles starting from the 1960s, Toyota decided to invest and manufacture vehicles in the US, with major investments in the 1980s.¹²² Due to the lack of experience in the US market, Toyota first established a joint venture with General Motors in 1983. As a newcomer to manufacturing in the US, Toyota made efforts to learn how to operate in the US business environment. For example, Toyota familiarized itself with the way to manage its relationship with United Automobile Workers (UAW), which differs sharply from the way unions operate in Japan. At the same time, Toyota tried to promote Japanese corporate culture in the US in a way that accommodated the needs of local employees. For instance, the Japanese concept of teamwork was emphasized in Toyota's US operations, and it was well welcomed by American employees. Based on such experience, Toyota switched from a joint venture to establish its own subsidiary in the US in 1985.¹²³ Even though it experienced a few large-scale auto recall incidents, Toyota's sales and manufacturing in the US continued to grow steadily. In 2012 and 2013, Toyota held the spot of being the third largest auto manufacturer in the US and the largest in the world. Toyota not only accounts for a large market share, but also underwent fast growth. Its sales in the US increased by 7% in 2013; this was higher than the global growth average of 5%.¹²⁴¹²⁵

Toyota's investment and manufacturing in the US reflect its principles of local production and on-site decision-making. In 2013, a remarkable 71% of Toyota automobiles sold in the US were manufactured in the US, and this was 16% higher than that in 2008.¹²⁶ As Toyota's business grows even bigger, it is impossible and inefficient for its headquarters in Japan to take charge of all its overseas business. Consequently, in 2011, Toyota announced its "Toyota Global Vision" strategy. According to President Akio Toyoda, "Regional operations will have a bigger say than ever in formulating policy." Specifically, local business strategy will be decided by Regional Chief Officers that are assigned locally.¹²⁷ This indicates Toyota has been providing more freedom to its overseas investment in order to better accommodate to the diverse demands of local markets.

Consequently, in April 2014, Jim Lentz, the CEO of Toyota North America, announced that Toyota would combine its US marketing and sales headquarters, which was located in

¹²² The Wall Street Journal. "To Outfox the Chicken Tax, Ford Strips Its Own Vans" Accessed May 12, 2014. <http://online.wsj.com/news/articles/SB125357990638429655>.

¹²³ 日本経済新聞. "豊田章一郎 (19) 米国生産 GMと提携、現地に工場 経験生かし単独進出決める ." Accessed May 12, 2014. <http://www.nikkei.com/article/DGKDZO70126180Z10C14A4BC8000/>.

¹²⁴ The Wall Street Journal. "Auto Sales - Markets Data Center ." Accessed May 12, 2014. http://online.wsj.com/mdc/public/page/2_3022-autosales.html#autosalesE.

¹²⁵ 日本経済新聞. "トヨタ、2年連続で世界販売首位に 北米など好調." Last modified January 14, 2014. http://www.nikkei.com/article/DGXNASDD140TK_U4A110C1TJ0000/.

¹²⁶ International Business Times. "Toyota To Move Its US Sales And Marketing Headquarters To Dallas from California, Offers Voluntary Exits." Accessed May 12, 2014. <http://www.ibtimes.com/toyota-move-its-us-sales-marketing-headquarters-dallas-california-offers-voluntary-exits-1577001>.

¹²⁷ Toyota Canada Inc. Newsroom / Toyota Canada, Inc. "Toyota Announces New Global Vision, Organizational Changes to Speed Decision-Making / Toyota Canada, Inc." Accessed May 12, 2014. <http://media.toyota.ca/pr/tci/en/toyota-announces-new-global-vision-196280.aspx>.

California, to Texas, where Toyota Engineering and Manufacturing North America operates. This decision is respected by President Toyoda as a way to uphold the on-site decision-making principle. However, a similar idea was in fact practiced in Japan. In 1982, Toyota Motor Company and Toyota Motor Sales merged into Toyota Motor Corporation in order to reduce redundancy and promote information exchange.¹²⁸ This demonstrates Toyota's investment in the US also makes use of the successful experience Toyota had in Japan, and this combination of Japanese and American business models might offer Toyota with a unique advantage in the US market.

There is evidence showing Toyota is adopting the latest business trends in the US, and it will potentially bring this back to Japan in order to improve its domestic operations. In April 2014, Toyota became the first Japanese company to issue green bonds, which are categorized as socially responsible investing (SRI). It raised \$1.75 billion for developing a hybrid vehicle that is considered to be environmentally friendly.¹²⁹ This is a case that demonstrates Japanese companies are able to access the latest market trends and information. Issuing debt with the SRI standard can promote corporate reputation in a global market where environmental concerns are rising.

The automotive industry is a significant economic sector, and it drives a wide range of industries that supply it with components and services. Hence, Toyota's investment in the US has also brought along a wide range of associated companies also investing in the US. Denso is the largest automotive components manufacturer in the world. As a company that is partially owned by Toyota, more than 50% of Denso's revenue came from sales to other car manufactures all over the world.¹³⁰ In fact, Toyota's investment in the US contributed significantly to Denso's success in overseas market because it brought Denso to the US vehicle market. Closely associated with Toyota's successful business in the US, Denso's net profit increased by 56% in 2013. Such an impressive growth is associated with a strong FDI presence in the US. In 2013, Denso announced that it would invest \$1 billion in North America by 2017.¹³¹ In 2014, Denso established its first plant for hybrid vehicle components in Tennessee with a 2.5 billion yen investment.¹³² Due to Japanese FDI's particular focus on automotive industry, investment in the US has a spillover effect on a wide range of industries, and this explains how the Japanese FDI created a large number of job opportunities in the US.

Nonetheless, the US FDI environment is both profitable and risky. In February 2014, a former executive of Denso was found guilty and sentenced by the Department of Justice for price

¹²⁸ 日本経済新聞. "トヨタ、米で「工販合併」 ダラスに本社機能集約." Accessed May 12, 2014. <http://www.nikkei.com/article/DGKDZO70548600Z20C14A4TJ2000/>.

¹²⁹ 日本経済新聞. "トヨタ米子会社、「環境配慮」社債 日系初のグリーンボンド 市場、昨年30倍に拡大." Accessed May 12, 2014. http://www.nikkei.com/article/DGKDASGD1505H_S4A420C1EAF000/.

¹³⁰ 株式会社デンソー. "2014年3月期 第3四半期 決算説明会." Last modified April, 2013. http://www.denso.co.jp/ja/investors/library/settlement/2014/files/presentation-2014_0201_note.pdf.

¹³¹ Automotive Service Professional. "DENSO will invest \$1 billion in North America through 2017 - Automotive Service Professional." Accessed May 12, 2014. <http://www.autoserviceprofessional.com/article/92927/denso-will-invest-1-billion-in-north-america-through-2017>.

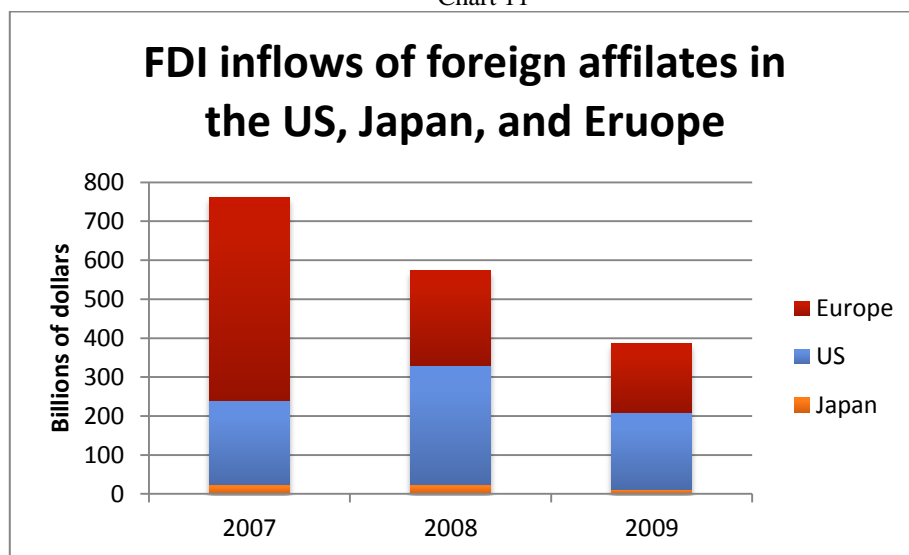
¹³² 日本経済新聞. "環境対応車向け、デンソーが海外初生産 基幹部品." Accessed May 12, 2014. http://www.nikkei.com/article/DGXNASDZ180A2_Y4A310C1TJ0000/.

manipulation and destroying evidence.¹³³ This indicates the legal risk of doing business in the US, and for Japanese companies who do not have extensive knowledge it shows the need to learn quickly how to properly manage such risk.

Overview of US investment in Japan

Analyzing the US's FDI in Japan is also an insightful way to understand the investment relations between the US and Japan. Even though Japan is the second largest FDI investor in the world, the FDI inflows Japan receives is strikingly small. Chart 11 shows FDI inflows to Japan is almost ignorable compared to the levels in the US and Europe. According to Chart 12, within such small volume of FDI inflows in Japan, the US's investment has been decreasing gradually from 2008 to 2012. For American businesses, Japan is not an attractive destination for its investments. This is due to the same domestic factors that motivate Japanese companies to invest overseas, for example, the shortage of a workforce, high-energy costs, and a shrinking consumer market. Also, the Japanese market is culturally distinct from many developed countries, and this makes it difficult for foreign firms that do not understand Japanese consumers to succeed when investing in Japan.

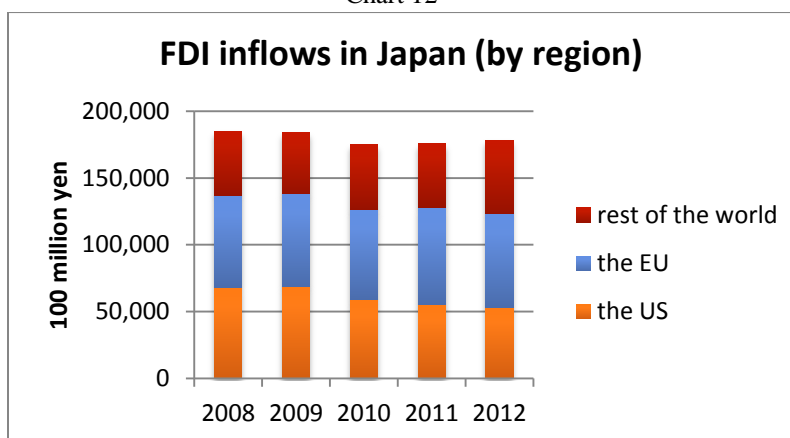
Chart 11



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¹³³ ロイター.co.jp. "デンソー元幹部に禁錮刑、部品カルテルで司法妨害認める＝米当局" Accessed May 12, 2014. <http://jp.reuters.com/article/worldNews/idJPTYEA1J09Q20140220>.

¹³⁴ United Nations Conference on Trade and Development. "World Investment Report 2013." Accessed May 12, 2014. http://unctad.org/en/publicationslibrary/wir2013_en.pdf.

Chart 12¹³⁵

Different patterns of US and Japanese investment activities also explain this discrepancy in FDI inflows. From 1996 to 2012, Japan earned-income gains had a value of 2.1% of GDP, but it lost as much as 0.38% of GDP in capital gains. In comparison, the US earned-income gain was 0.57% of GDP, while it earned-capital gain as 2.0% of GDP. Income gain is earned by FDI that involves business operation overseas, whereas capital gain is earned by investment in overseas financial markets. In other words, the investment pattern of the US only allocates a small amount of money to FDI. At the same time, the US has actually actively invested in the Japanese financial market. A considerable share of stock transactions were made by US institutional investors over the past few years. Even though the US has not been actively investing much in Japan, there is still a strong mutual investment relationship between the US and Japan.

The Japanese government's efforts to attract FDI

Even though there are only limited measures the Japanese government can take to alter the structural changes underway in the Japanese economy, Japan can still leverage its existing strengths and improve its drawbacks in order to attract more FDI from the US to help revitalize the Japanese economy. First, Japan can leverage its comparative advantage in research and development (R&D). Japan's expenditure in R&D has ranked third in the world since 2009. This is because Japan has been investing a high percentage of its GDP into corporate R&D.¹³⁶ For example, Toyota topped the ranking of R&D spending among all private companies.¹³⁷ At the same time, Japan, compared to other developed countries, has an extremely high number of researchers per thousand workers in the labor force.¹³⁸ Based on such an R&D friendly environment, it would make sense for foreign companies to invest in Japan by establishing R&D

¹³⁵ 日本銀行 Bank of Japan. "国際収支統計 (IMF国際収支マニュアル第5版ベース)." Accessed May 12, 2014. <http://www.boj.or.jp/statistics/br/bop/index.htm>.

¹³⁶ OECD iLibrary: Organisation for Economic Co-operation and Development. "OECD iLibrary: Statistics /OECD Factbook /2013 / Expenditure on R&D." Accessed May 12, 2014. <http://www.oecd-ilibrary.org/sites/factbook-2013-en/08/01/01/index.html?itemId=/content/chapter/factbook-2013-60-en>.

¹³⁷ The Economist. "Focus: R&D spending." Last modified October 30, 2012. <http://www.economist.com/blogs/graphicdetail/2012/10/focus-7>.

¹³⁸ "Number-Of-Researchers-Evolu.png (image)." Accessed May 12, 2014. http://4.bp.blogspot.com/_WCxzI7iX4wc/SZi7dAUdAtI/AAAAAAAAAGw/Rj244kgGqOA/s1600-h/Number-Of-Researchers-Evolu.png.

centers. This might happen if the Japanese government would make more efforts to promote R&D.

The second measure the Japanese government can take to attract FDI is by cutting the internationally-high corporate tax. Japan's statutory corporate tax rate is 38% in 2012. This is the second highest among OECD countries, and it is just 1.1% lower than that of the US. However, in terms of effective corporate tax rate in 2012, Japan's 36.7% rate ranked number one among OECD countries. This is substantially higher than the US's 30.9%.¹³⁹ In order to compete with other Asian countries that have low corporate tax rates, for example Hong Kong and South Korea, Japan must lower its corporate tax. In fact, in May 2014, the government announced that it plans to gradually cut the corporate tax rate to below 30%, starting from 2015.¹⁴⁰ In addition, Prime Minister Abe has announced the plan to establish six special economic zones, which is called tokku in Japanese. Tokkus will be given the privilege of having relaxed labor laws.¹⁴¹ The current labor laws protect rights such as life-time employment, which is considered to be too costly for foreign firms. Hence, tokku that allow more flexible employment, combined with lower corporate taxation, is likely to attract more foreign firms to invest in Japan, preferably establishing their Asian headquarters there.

Conclusion

From the macroeconomic perspective, economic structural changes in Japan encourage FDI instead of exports. From the microeconomic perspective, Japan's strength in automotive industry matches the US's huge demand for quality vehicles. In addition to these two factors, the combination of all the macroeconomic and microeconomic factors resulted in the current Japanese FDI boom in the US. As a result, many Japanese companies have been actively promoting Japanese FDI in the US in order to maximize the benefits provided by the current economic conditions. There are traditional Japanese companies such as Toyota that take an incremental approach to enhance both the quality and quantity of its FDI in the US. At the same time, there are companies like Softbank and Rakuten that are investing in the US in a more aggressive and innovative way. These dynamic investment styles indicate the Japanese private sector is able to survive in the changing international economic environment. At the same time, since Japanese FDI and stronger US-Japan investment relations are vital to their national interests, the US has also been better in accommodating Japanese FDI. Nevertheless, further efforts are needed to be made by the public, the government, and the private sector of each country in order to maximize both their economic interests and diplomatic ties through building a stronger and more balanced investment relationship.

¹³⁹ PwC: Audit and assurance, consulting and tax services. Accessed May 12, 2014.

http://www.pwc.com/en_US/us/industrial-products/publications/assets/pwc-industrial-products-tax-rate-benchmarking-report-2013.pdf.

¹⁴⁰ 日本経済新聞. "経財相、法人税下げ幅・時期 骨太の方針に明記へ." Last modified May 6, 2014.

http://www.nikkei.com/paper/article/?b=20140506&ng=DGKDASFS0500B_V00C14A5NN1000.

¹⁴¹ The Economist. "Japan's economy: Out of the zone." Accessed May 12, 2014.

<http://www.economist.com/news/finance-and-economics/21600145-shinzo-abes-fancy-economic-areas-are-big-enough-not-bold-enough-out-zone>.

Overseas Expansion of Japanese Commercial Banks under Abenomics

By Aijia Liu

Introduction

Although the collapse of Lehman Brothers in 2008 did not hit Japanese commercial banking as hard as it did in the U.S., certain commercial banks in Japan were stung badly. In fact, the bankruptcy of Lehman Brothers' Japan unit was the second largest during the postwar period. The stock market reacted quickly as the Nikkei 225 Stock Average fell 5% and closed at 11609,72 on 16 September 2008, the lowest level since July 2005. Luckily, five years after the Lehman crisis, the three Japanese mega-banks: Mitsubishi-UFJ Financial Group, Sumitomo Mitsui Financial Group and Mizuho Financial Group reportedly harvested net profits of \$1.3 trillion in the first half of financial year 2013, the highest in the post-Lehman era. Since the tendency of risk aversion still exists among Japanese commercial banks, the declining price of lending and earnings from operations abroad were the chief contributor to the increased profits.

Compared with commercial banks in other countries, Japanese banks are highly developed and independently supported by a great amount of domestic deposit of \$634,863.5 billion that allows the banks to be financed by sources within the country and to be less subjected to turmoil abroad (Business Monitor, 2013, p.8). However, domestic structural and cyclical factors as well as economic fluctuations and reforms have been playing a decisive role in the fate of commercial banks in Japan. For example, a shrinking and aging population implies declining deposits that might change the way commercial banks are financed in Japan. At the same time, the Financial Service Agency (FSA), the regulatory body of the Japanese banking industry, implemented tighter capital requirements on banks in Japan in order to protect the interest of the investors and depositors. In addition, the prospect of becoming a member of the Trans-Pacific Partnership (TPP) will possibly drag the commercial banks into more intensive competition with foreign competitors that have been keeping an eye on the Japanese financial market for a long time.

Prime Minister Shinzo Abe launched one of the boldest economic reform plans, dubbed Abenomics, in the last decade soon after he was elected in late 2012. Japanese commercial banks as the major component of Japan's financial institutions, are inevitably being influenced by Abenomics' monetary easing, fiscal flexibility and structural reform – the so-called “three arrows” that aim at maintaining sustainable economic growth in the country. One of the possible outcomes of Abenomics, though neglected by most observers, is that Japanese commercial banks are being pressed to expand overseas, which could be seen as an opportunity and a challenge, since some banks are actively seeking to explore foreign markets, while others are not. Unlike the 1980s overseas expansion to U.S., under Abenomics, the destination of the migrating Japanese banks is the emerging Asia, especially Southeast Asia and the focus on the Asian market may distract the attention Japanese commercial banks paid on the American market considering the limited amount of financial resources, limited workforce and the relatively mature financial market in the U.S.

This paper, therefore, focuses on the influence of Abenomics on Japan's commercial banks by analysing the effect of qualitative and quantitative monetary easing (QQME) that caused a lower

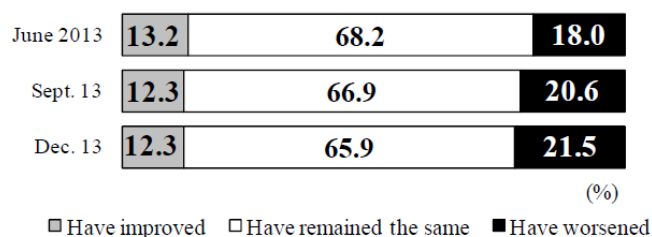
interest rate and a weakening yen as well as the impact of fiscal stimulus on small and medium enterprises (SMEs). After tracing back to the escalating cross-border activity in the U.S. in the mid to late 1980s, the paper provides specific factors under Abenomics that enhance Japanese commercial banks' incentive to tap the emerging market, specifically the Southeast Asian market. By looking into the benefits and the risks of overseas expansion, the paper concludes that although emerging market seems to be a way out for cash-rich Japanese banks, mature market, such as the U.S. market, should never be overlooked in order for Japanese commercial banks to tackle with the most forbidding problem-profitability.

Policy Review of Abenomics

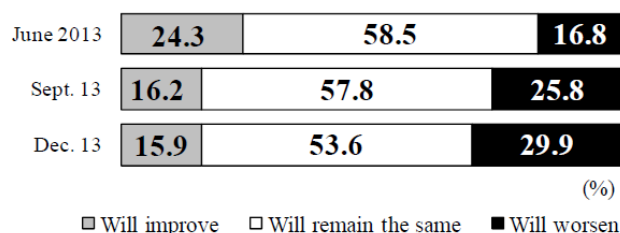
Abenomics is Prime Minister Abe's attempt to blow fresh air into the stagnant Japanese economy. The challenge is formidable. According to the Bank of Japan's (BOJ) mail survey conducted in December 2013 among 4,000 Japanese aged 20 or above, 21.5% of them felt that present economic conditions had worsened compared with one year before, while the 12.3% who had the impression that the economy was been doing better remained the same compared with a September poll. What might have disappointed Prime Minister Abe more is that the number of people who believed that the economy would perform better one year from now has dropped from 24.3% in June 2013 to 15.9% in December 2013. At the same time, the survey shows a pessimistic attitude towards future economic performance which manifests itself as people's doubt about the sustainability of Abenomics, despite the reality that the world's third largest economy had given the best economic performance in three years with economic growth of 1.6% in 2013. The public simply does not feel that their personal economic situation has been improving at all.

Chart-1 Impression of Economic Conditions

(1) Present Compared with One Year Ago



(2) One Year from Now Compared with the Present



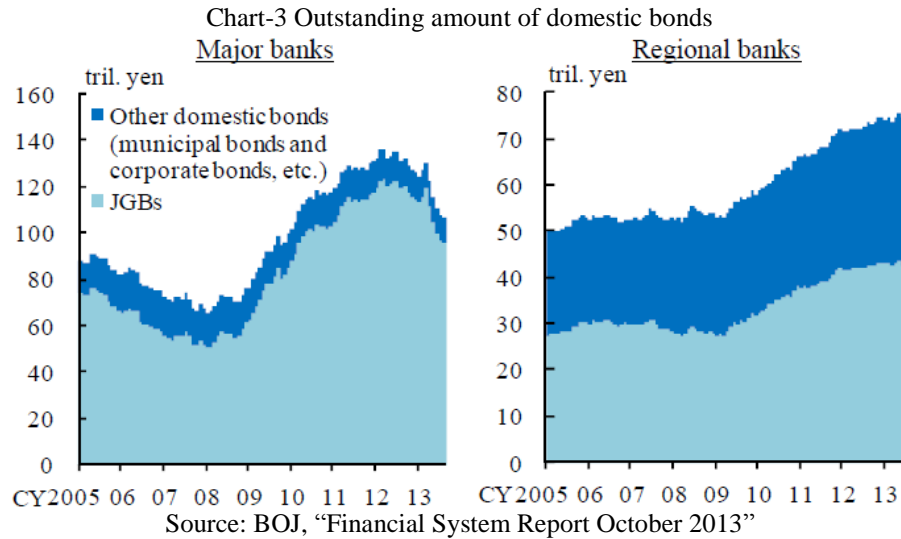
Source: BOJ, "Result of the 56th Opinion Survey on the General Public's View and Behaviour (December 2013 Survey)"

The best performance of the Japanese economy in three years may be attributed in part to the bold action taken by Abe since coming into office. The first move was to nominate former senior finance official Haruhiko Kuroda, who supports monetary easing, as the governor of the BOJ. Kuroda immediately announced plans for large amounts of purchases of Japanese Government Bonds (JGB) from banks to reach his stated 2% inflation goal. According to BOJ, “money market operation will be conducted at an annual pace of 60-70 trillion yen”. Under such a guideline, the monetary base of Japan will reach 270 trillion yen at the end of 2014 (BOJ, 2013). A weakening yen brought by monetary easing is what Abe and the BOJ rely on to increase exports to offset the increasing cost of energy imports after the 2011 Great East Japan Earthquake, as well as to boost capital investment. In May 2013, the yen-dollar exchange rate passed 100, a good start for monetary easing. At the end of February 2014, the exchange rate floated at around 102. In May, it has stayed at around 101.

Abe’s fiscal arrow targets the stimulation of public investment by 100-200 trillion yen over the next 10 years. The first initiative taken in January 2013 had the government spending 10.3 trillion yen to create more jobs in order to drive the economy out of recession. Most of the budget was spent on infrastructure such as disaster prevention and land strengthening. In October 2013, to cushion a 3% increase in the consumption tax, Abe announced a package that injected 5 trillion yen into the economy including handing out cash to financially disabled families. The recently released draft of the FY14 budget also indicates that “public work spending will rise by 680 billion yen to 65.96 trillion yen” (Ujikane, 2013).

The only comment people can make on the first two arrows might be “so far so good” as they indeed triggered the best performance of the country’s economy in recent years. However, people and institutions are waiting anxiously for the implementation of the proposed third arrow: structural reform in terms of improving women’s employment opportunity, revitalising the consolidation and purchases of tracks of land in the agricultural sector, accelerating the development of health care to world-class level and integrating special trade zones into Japan to attract foreign investment. Implementing structural reform has always been difficult in Japan, largely due to powerful vested interests resisting change, but at least Abe has gained additional political strength owing to the decent performance of the first two arrows. He is in good shape to pressure the bureaucrats and challenge the interest groups standing in the way of structural reform. The government needs to provide a strong long-term scenario to convince the public that Japan cannot afford another decade of postponing structural reforms critical to attaining sustainable growth. He must argue that even though it will take time and cause some pain, it will be worth the cost eventually.

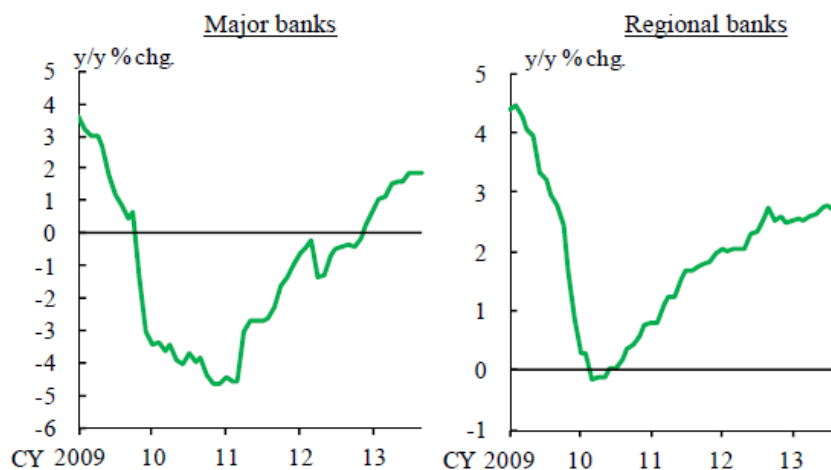
The underlying rationale of the “three arrows” is to create an interlinked virtuous cycle (chart-2) that will lead Japan out of two decades of deflation and headed toward long term growth. Anoop Singh, the director of IMF’s Asia and Pacific Department admits that as Japan has a long history of deflation and low growth rate, the future of Abenomics is unpredictable and there is no absolute benchmark that Abenomics can be assessed against (Singh, 2013). Indeed, Abenomics has a long way to go and it should be noticed that although encouraging signs have been witnessed after Abe released the first two arrows, the two key elements to complete transformation and ultimate success, according to Jeff Schiff, IMF’s Asia and Pacific Department’s deputy director, higher income and investment, have not yet been observed



A declining interest rate could be labelled as the very first phenomenon observed after the introduction of QQME. In that connection, it has far-reaching implications for Japanese commercial banks, the major buyers of JGB, in that it presents opportunities for them to take bold action to pursue higher returns and at the same time, it reflects possible risks considering the recent interest rate volatility. A lower interest rate attracts individuals, households and companies to borrow from banks. Based on the Financial System Report in October 2013, the amount of commercial banks' domestic outstanding loan was 2% higher at the time when the report was released than the same time last year in both major banks and regional banks (Chart-4) due to the convenience of borrowing created by a lower interest and the excessive amount of cash remain after banks' selling JGB to BOJ relents banks' attitude towards money-lending (BOJ, 2013). Although companies are still relying on their own cash flows or issuing corporate bonds with occasionally higher yields than government bonds to support capital spending due to the lack of complete confidence in the recovery of the economy, rapid growth in loans made by large firms -- including the revitalizing of electric companies and real estate companies that eventually saw a rising asset price in almost two decades -- has been observed in FY13 (Chart-5).

On the other hand, when borrowing money is becoming less expensive under a lower interest rate, investors are highly motivated to shift their investment from the relatively safe bond market to riskier stock market, which suits BOJ's purpose of mobilising the Japanese commercial banks' investment to relatively riskier assets. At the same time, the financial expansion will be catalysed to improve stock prices and add eventually to banks' income. While higher amount of loans extended to companies contributes partly to the growing profits of commercial banks, experts, such as the president of Nishi-Nippon City Bank, Isao Kubota, argues that the banks' profit from lending money to private sectors will decline as long as the interest rate is effectively close to zero and the Japanese economy is growing at the cost of the profits of the banks (CNBC, 2014).

Chart-4 Domestic loans outstanding among major banks and regional banks

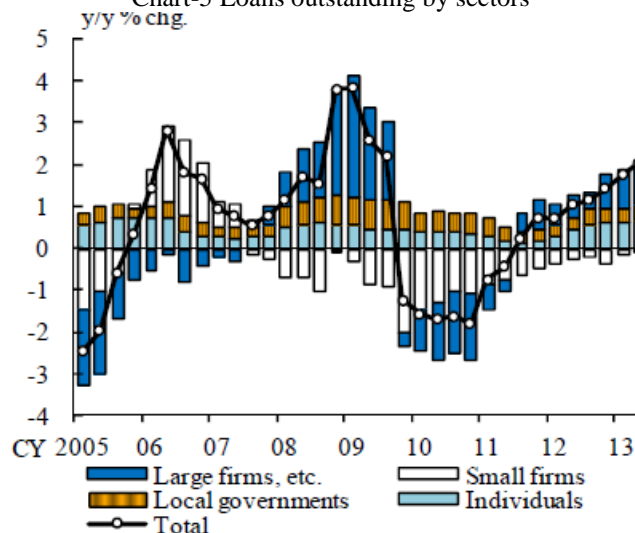


Note: 1. The latest data are as of September 2013.

Source: BOJ, "Principal figures of financial institutions."

Source: BOJ, "Principal Figures of Financial Institutions"

Chart-5 Loans outstanding by sectors



Source: BOJ, "Financial System Report October 2013"

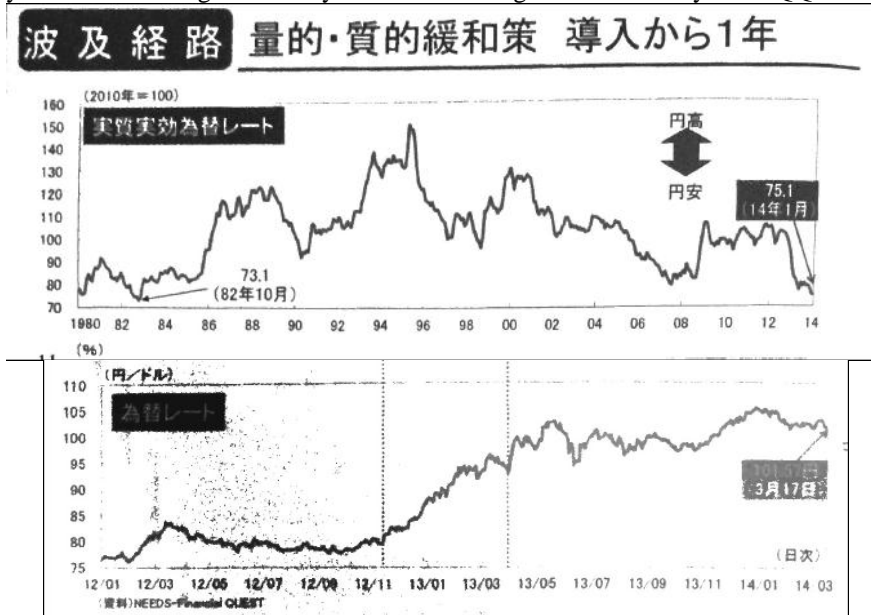
Kubota's argument is somewhat reasonable in that a lower exchange exposes banks to higher interest rate volatility. As people are expecting the promised 2% inflation rate, the interest rate may rise again in the long-run under such pressure, which will cut down the JGB price and increase JGB yields. The *Economist* estimates that mega-banks and regional banks could suffer from a total loss of 6 trillion yen if the interest rate goes up by 1% (Nakamichi, 2013). Besides, it is worth noticing that factors contributing to a low and stable JGB yields in the past few years may change under Abenomics. For example, sustained deflation and low potential of growth might be revised by the prospect of 2% inflation; large private stock of saving will possibly decrease due to a lower interest rate; stable investor base with 90% domestic ownership of JGBs may be shaken under a lower interest rate that deters domestic buyers and the probability that JGB have to gradually depend on foreign investor in the future (Arslanalp & Lam, 2013, p.5). When all the factors above are no longer persisting, it is likely that the JGB yields will grow and

bond price decreases. One of the possible ways to leap out of such dilemma is to increase banks' holding of foreign bonds. HSBC estimates that "the outflows into overseas bonds will be at least \$690 billion over the next two years" benefiting especially the Southeast Asian bond market such as Thailand, Singapore and Hong Kong (HSBC, 2013). Investment on foreign bonds means Japanese banks are still holding the similar secure assets and channel their money out of the country instead of to domestic market in need, which is against Mr Abe's will to diversify banks' portfolio to include more riskier assets.

Another phenomenon appeared after the implementation of QQME is a yen that has fallen the most since 1979. It is estimated that the yen-dollar exchange rate will be around 105 at the end of 2014. According to the report published by Japan Center for Economic Research, in March 2014, one year after the implementation of QQME, yen-dollar exchange rates fell 30% to 101.57; at the same time, the real exchange rate fell to 75.1 in January 2013, approaching 1982 level (chart-6). A depreciating yen is a good sign for the economy, at least as Mr Kuroda believes, that will stimulate export to improve profits of exporting companies who generally are major players in Japan's key industries and thus increase their equity value and strengthen industries' confidence about future economic growth. Reports from Morgan Stanley MUFG also indicates optimism for future exports, expecting that they will increase from -1.2 (YoY%) in the third quarter of fiscal year 2013 to 3.4 (YoY%) at the same time in fiscal year 2014 and will keep growing under the condition of a depreciating yen to 6.4 (YoY%) in the third quarter of fiscal year 2016 (Feldman, 2014, p.7). On the other hand, declining imports are predicted due to higher prices. It is expected that exports will surpass imports in the third quarter of fiscal year 2015 to generate a first ever positive trade balance since the Tohoku earthquake in 2011.

Another aspect worth looking at is the response of Nikkei to the depreciating yen. As seen in chart-7, stock prices are clearly following the path of yen depreciation (Inman et al, 2013). Specifically, according to the study conducted by Citi researcher Benjamin R Mendal, three movements of Nikkei index after the implementation of Abenomics can be spotted "(1) the 75 percent rise between November 1 and May 22; (2) the 22 percent fall between May 22 and June 13; (3) the roughly 15 percent rise since then; the yen accounted for roughly 60 percent of the initial rise in the Nikkei and about 30 to 45 percent for the subsequent movement (Mandel, 2013, p.6). The Citi study also shows that 1 percent decrease in yen tends to improve Nikkei by 1.5% to 2%. Thus, as BOJ governor Kuroda promised to fight for a weakening yen, it is possible that in the foreseeable future, as the yen depreciates, the stock market will show signs of growth even though a cheaper yen is not the only factor that leads to better stock market performance. Investors and consumers who are watching closely on the stock market performance to decide their future investment and consumption, will be convinced by the climbing Nikkei after the interception of Abenomics and such assurance will create a virtuous cycle from which Japanese commercial banks will be benefited.

Chart-6 Real yen-dollar exchange rate and yen-dollar exchange rate after one year of QQME implementation



Source: JCER

Chart-7 Falling yen and rising stock



Source: Economist

What do Japanese commercial banks have to do with a weakening yen? First of all, production will increase after the exporting industry gains profit from a depreciated yen; as a result, firms willing to expend production to increase export volume will apply for loans from commercial banks to improve their production base such as human capital recruitment, equipment and land in order to satisfy the higher export demand from abroad. Besides, even though import declines when yen becomes less expensive, the total value of import is hardly likely to decrease sharply as long as the nuclear power plants are not re-opened. Due to the fact that energy consists of a large proportion of Japan's import and energy demand is less elastic compared with other commodity, Japan has to import most of energy like oil, fuels and gas from foreign countries at a higher price. Considering a continuing declining yen renders import prices even higher, the energy industry and the industry requiring import as input will exhibit the similar trend of a

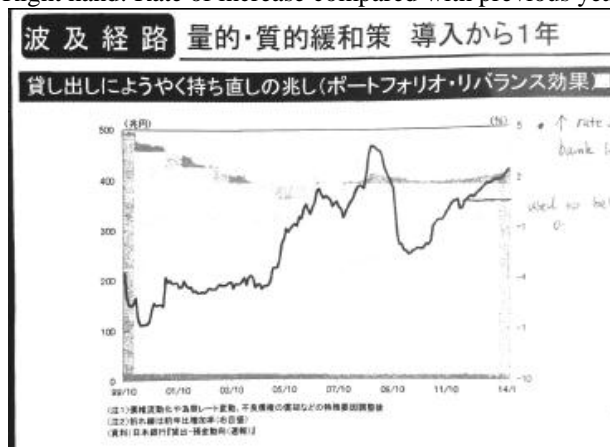
higher demand for capital investment. Thus, importers will turn to banks for loans to offset the shortage of funds from rising import prices. Furthermore, the positive response of Nikkei to yen depreciation enhanced the confidence of banks to lend money to firms with growing capital demand whose confidence to borrow has been strengthened as well. A cheaper yen will ideally create a virtuous cycle in which a higher demand of firms for money borrowing will match with the confidence of commercial banks to make loans and banks' eagerness to increase profitability through money lending. In the short run, a lower interest rate may work against a higher profit prospect. In the long run, however, as the amount of loan increases, provided that BOJ will be able to defend a weak yen, profits will improve even though the interest rate may remain low. Despite the possibility of an improving loan-to-deposit ratio under QQME, a cheap yen has another effect on banks behavior in terms of foreign assets held. It is true that, similar to imports that have to be paid with more yen, foreign assets became more costly under yen depreciation, which, however, does not mean that Japanese commercial banks should reduce their holding of foreign assets. On the contrary, if the tendency of yen depreciation overwhelms yen appreciation in the near future and assuming that no external factor disrupting such tendency, it is reasonable to presume that banks will buy more foreign assets expecting asset prices in terms of yen to increase under the continuance of fully implementation of Abenomics. The growing yen value of foreign assets will in turn expand the profit prospects of Japanese commercial banks.

The prospects are promising, but the reality is that banks are struggling to increase loan-to-deposit ratio under the stimulus of a weakening yen. Chart-8 depicts the tendency of loan amount increase after the implementation of QQME and rate of increase compared with previous year finally showed positive sign. Yet, to reach the peak of lending around 2008, Japan still has a long way to go. In addition to possible lack of responsiveness, there are other risks from external environment that Japanese commercial banks should be wary of. Previous experience shows that political conflicts, for example, the Syria conflicts which caused investors' concern about U.S. government's budget deficit encouraged investors to purchase yen; as a result, yen depreciation stalled and rose sharply in May ((Inman et al, 2013). Another risk Japanese yen will have to bear is the monetary easing policy in U.S. that makes the determination to lower yen value seemingly shaky. "Expectations for an eventual withdrawal of Fed stimulus have pushed the dollar higher against the yen. But if there is no sign of a reduction in stimulus by March, investors could dump the dollar until it becomes clear when the Fed will take action (Inman et al, 2013). Therefore, as no promise has been made by the Fed, a declining yen-dollar exchange rate is not completely avoidable.

Chart-8 Loan amount one year after QQME

Left hand: total loan amount

Right hand: Rate of increase compared with previous year



QQME offers banks opportunity to rebalance their investment portfolio such as increasing domestic money lending for higher profitability; at the same time, QQME requires Japanese commercial banks to better equip themselves with risk management capabilities to tackle with the problems induced by interest rate and exchange rate risk that makes the economy relatively volatile and fragile to external challenges.

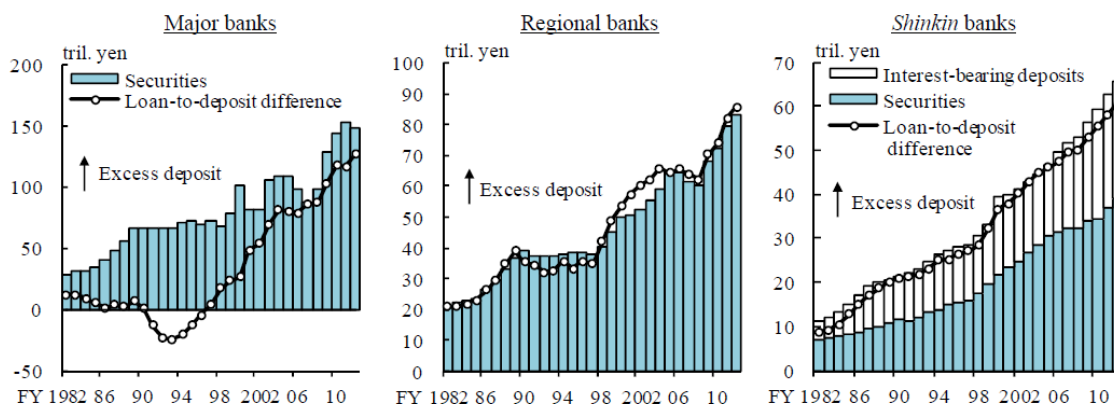
Regional Banks and Small and Medium Enterprises (SMEs) – An Opportunity to Mutual Revitalization

Despite the presence of six city banks, 77 regional banks and their secondary associations play a crucial role in regional economic growth under Abenomics. Before Abenomics was introduced, as Chart-9 shows, the loan-to-deposit difference and securities investment in regional banks grew at higher rate than major banks, meaning that there were excessive deposits that were not effectively used as sources of profitability improvement. Regional banks, though maintaining less total amounts of deposits, share with their mega counterparts the tendency of risk aversion evident by the increasing amount of securities investment. Even after Abenomics was implemented when banks are left with a lower interest rate and a large amount of cash, loans made by regional banks increased by 2.7% from September 2012 to September 2013, while deposits grew by 3.6% compared with mega banks which had a 7.8% increase in loans and 7.0% rise in deposits. Chart-10 shows a decrease in the difference of growth in deposit and loans at the national level, while in regional banks, deposit growth still outperformed loan growth by 0.9%. In addition to the little progress in the amount of money lending, the quality of loans made by regional banks remains problematic. According to BOJ (chart-11), in regional banks, about 15% of loans made were labelled as “need attention” by the end of March 2013 compared with that of 5% in major banks while money lent to borrowers who are “in danger of bankruptcy and below” were twice as many as that in major banks.

Two factors may induce such a phenomenon. On one hand, Japanese mega-banks have the propensity to make loans to “good companies” with lower risks of default and bankruptcy. Moreover, good companies have an advantage in borrowing money at a lower interest rate in megabanks, which renders “bad companies”, generally small or medium firms in lack of credit

and collateral, to either borrow from major banks at higher costs or turn to regional banks since raising capital in the stock market is relatively unachievable. Some people argue that the cost structure and lending procedures of megabanks are not designed for making SMEs loans and thus it should be the regional banks that take the responsibility to be the capital source of SMEs. As a result, the quality of loans in regional banks seems to be less than that in major banks. On the other hand, the quality gap between loans made by regional banks and those by major banks indicates the dismal financial situation of certain small and medium firms (BOJ, 2013, p.40). The sluggish performance of regional banks and SMEs that account for 77% of the enterprises in Japan and are employing 70% Japanese workers requires Abenomics to provide firmer financial stimulus to increase the amount of loans from regional banks to willing and able SMEs and improve the quality of loans considering SMEs and regional banks are both spin offs of the local economy.

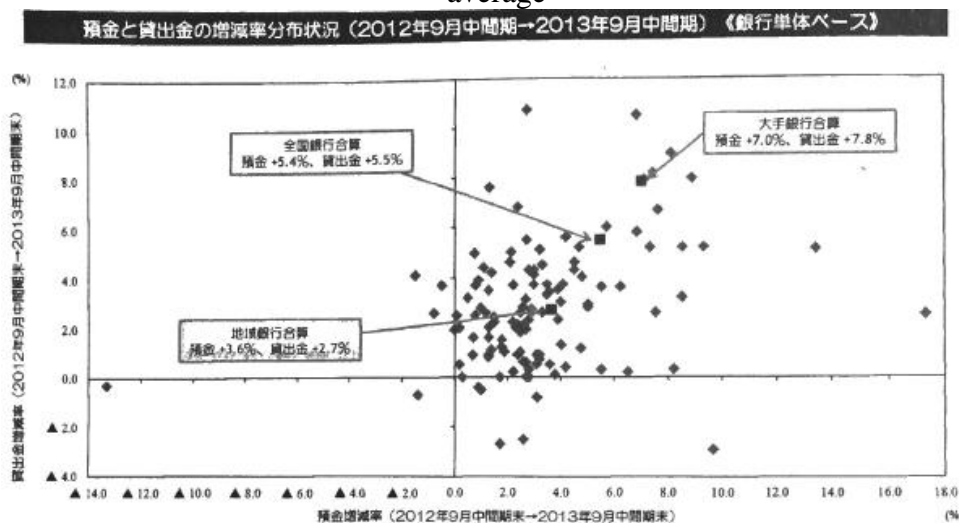
Chart-9 Loan-to-deposit difference and securities investment



Note: I. Domestic business sector. Loan-to-deposit difference = (deposits + CDs + bonds – checks – bills) – loans. "Interest-bearing deposits" of shinkin banks includes deposits with the Shinkin Central Bank. The latest data are as of fiscal 2012.
 Source: BOJ.

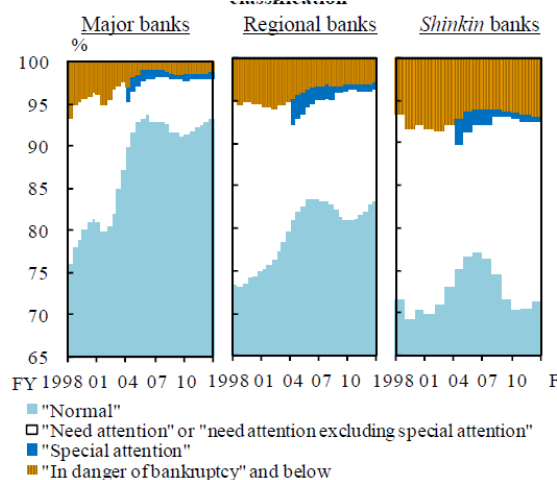
Source: BOJ

Chart-10 Rate of growth in deposit and loans among regional banks, mega banks and national average



Source: JCER

Chart-11 Loans outstanding by borrower classification



Source: BOJ

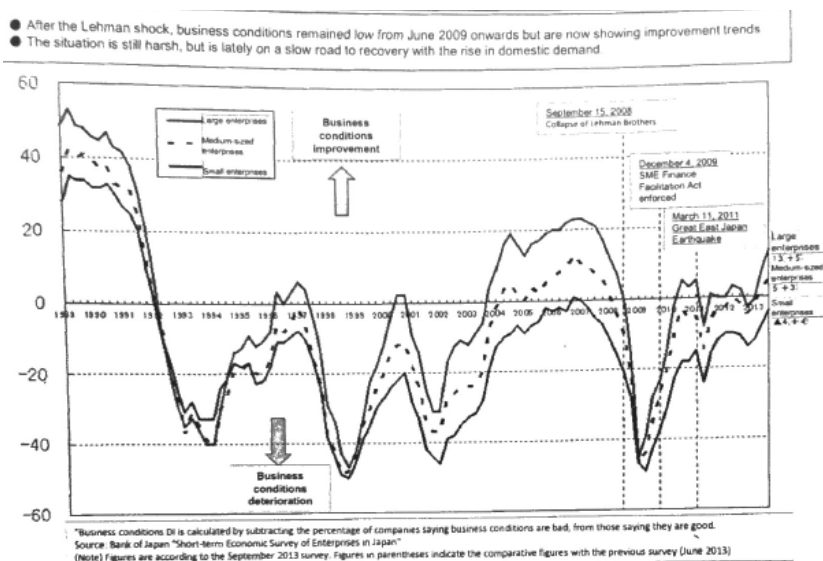
As part of the Abenomics' fiscal policy, quasi-government fund with 5-10% of funding from private sectors have been established to support regional economic growth. Among such funds, REVIC, the Regional Economy Vitalization Corporation of Japan has been playing a critical role in facilitating financial support from regional banks to manufacturers, small business, service entities and educational institutions not only in second or third tier cities but also in metropolitans like Tokyo and Osaka. Financial Service Agency (FSA), as the supervisor of Japanese financial sectors, expects the roles of major banks and regional financial institutions as "full scale support for improvement of SMEs' business profiles, and reinforcement of business structure" as indicated in the "Annual Supervisory Policy for Major Banks and Regional Financial Institutions for Programme Year 2014" published on 6 September, 2013 (FSA, 2013). Under such regulatory direction, the idea of region-based relationship banking as a business model, though set in earlier 2011, exhibit new dynamism under the fiscal stimulus of Abenomics. As the report published by FSA on November 2013 about SMEs finance in Japan states, in order to achieve business expansion and improved business of SMEs and to stimulate local economy, not only will regional financial institutions provides consulting services to SMEs, but also seek an active role in the revitalisation of the local community where the SMEs are based; this in turn, will benefit the regional financial institute as they will be able to expand customer basis and soundness of profitability (FSA, 2013).

The two charts (Chart-12 and Chart-13) below show the improvement in business conditions and financial positions after FSA, under the direction of Abenomics, became increasingly straightforward to direct both major banks and regional banks to assume more financial responsibility in terms of supporting SMEs development and innovation. The overall business conditions and financial positions of Japanese SMEs show a lack of stability during the recent two decades. In 2013 after the implementation of the second arrow of Abenomics where development of SMEs were emphasized by the government, both medium-sized and small enterprises have shown signs of improvement in business conditions and financial positions resulting from the regional banks' greater propensity to lend money and the confidence in the Japanese economic performance. However, as an FSA official points out, regional banks are critical to the development of regional economy and as they are earning increasing yet small profit under Abenomics, they should reconsider their profit front and improve risk management

capabilities to maintain sustainable profit in the long term. Considering that under Abenomics, the increasing risks from a volatile interest rate and exchange rate will have more severe influence on banks in the second or third tier cities, one option for may be merger or acquisition to pursue more solid capital base to defend against the risks brought by Abenomics.

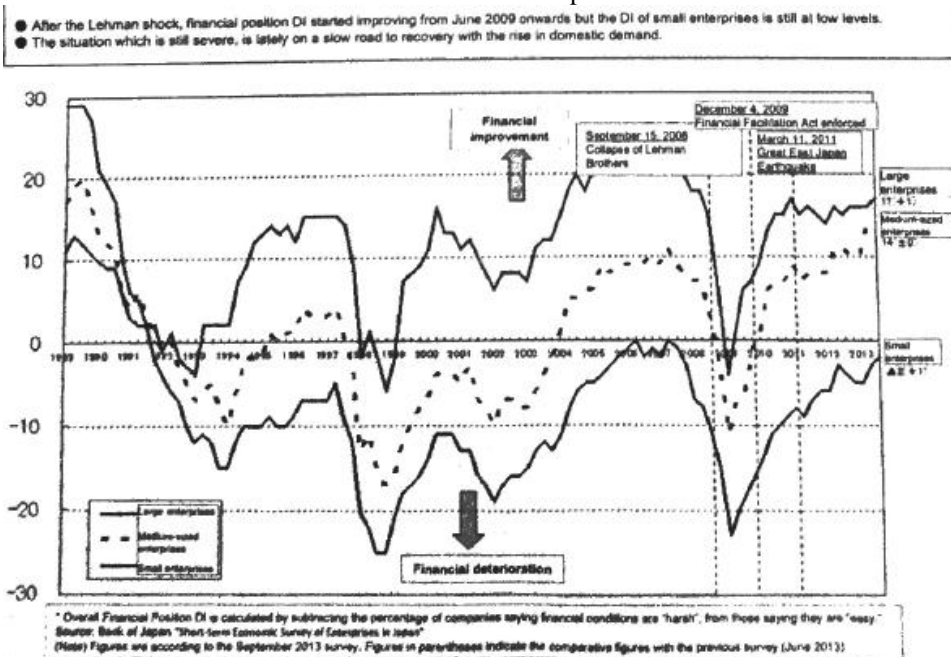
Despite that the Organization of Economic Cooperation and Development (OECD) calls Japan to stop financial stimulus plans and refocus on achieving budget surplus, Japan is determined to inject a 5 trillion yen stimulus package into the economy to offset the negative effect of the recent consumption tax in April (Martin, 2013). To make more effective use of fiscal stimulus, regional banks should re-evaluate their roles in the local economy in terms of supporting the development of willing and able SMEs and seize the opportunity to innovate themselves such as allying with other banks or merging to fully prepare for the ongoing or upcoming risks lurking in the seemingly positive economy.

Chart-12 Changes in business conditions diffusion index (DI)



Source: FSA

Chart-13 Overall financial position DI



Source: FSA

Overseas Expansion- Japanese Banks' Way Out under Abenomics ?

Lessons from the 1980s-Japanese Banks Expansion to U.S.

Japanese banks exhibited a trend of rapid expansion into the U.S. market during the 1980s, 30 years after the first 10 branches of Japanese banks settled in New York. By the end of 1988, the U.S. affiliates of Japanese banks owned 13% of total U.S. domestic banking assets, most of which were in California and the New York area, and Japanese banks accounted for around 40% of all loans made by foreign banks in the U.S. (Rose, 1989, p. 45). As Rose mentions (1989), one of the reasons of the successful expansion of Japanese commercial banks in the U.S. market is their unique management strategies: one strategy is global localization (土着化), a process in which services menu and marketing strategies are adopted gradually in order to meet with local conditions in the overseas market; the other strategy is a conceptual framework called “delegated monitoring”, meaning that banks, on behalf of their depositors and shareholders, keep track of the financial conditions of borrowers and “enforcing the terms of credit contracts in order to maintain the minimum risks and to guarantee reliable information”. It is undeniable that the management strategies, which may still be valued nowadays, is one essential internal element that led to Japanese commercial banks' success in the U.S. market 30 years ago. In this paper, however, external factors in the 1980s that either pushed or pulled Japanese banks across the Pacific Ocean will be the focus in order to compare with the external dynamism brought about by Abenomics in the 21st century that may, again, makes foreign markets more attractive.

The first reason for banking advances may be the huge Japan-U.S. trade surplus that once reached to the peak of 60 billion dollars in 1993. Frequent trade interaction between the U.S. and Japan created need for banking services to deal with more complicated foreign exchange and at the same time, enhanced the advantage of Japanese banks expanding abroad. Empirical evidence from Poulsen's study (1986) indicates that Japanese banks in U.S. increased supply of loans when trade increased. Besides, as a reaction to the restriction put by the U.S. government on

Japanese exports, Japanese manufacturers chose to directly invest in the U.S. market, which increased the demand for banking services. Instead of letting these potential customers served by American banks, Japanese believed that they were capable of providing more accommodative services to their compatriots by opening branches, offices and affiliates in New York, the financial center, or California, where another group of potential customers, Japanese-Americans and Japanese residents in U.S. are living. Poulsen (1986) concludes in his note that cross-border activities in U.S. of Japanese banks increased during the 1980s when supervisory agency imposed tight control on credit issued that rendered Japanese banks limited response to market conditions. Hence, U.S. market became an alternative source of fund raising. A stronger yen in the 1980s also enhanced investors' confidence and capabilities to invest in the U.S. market, followed by Japanese banks that were seizing higher demand for financial services from such investors who might or might not be familiar with the financial situation in the U.S. In the 1970s, as Japanese economy entered the phase of low growth and the domestic economy was not able to absorb the abundant capital from excessive saving, coupled with the fact that a lower domestic interest rates enabled banks to earn profit from raising funds domestically and investing them abroad, the U.S. market seemed to be a way out for Japanese commercial banks when the domestic market was either satiated or less profitable.

During the 1980s, U.S. branches of Japanese banks made great contributions to the stability and development of Japanese and American economy as well as the modernization of the world financial system. Nevertheless, the trend of Japanese banks' expansion in the U.S. market did not survive the Japanese bubble economy's burst in the early 1990s. Mergers and acquisitions among financial institutions re-directed Japanese banks' attention to the domestic market to salvage the disasters caused by the economic crisis. In 1997, the Diet passed an amendment to the Foreign Exchange Act ameliorating the exchange rate risks and the cost of handling foreign change for Japanese multinationals. Hence, profit from foreign exchange business was considerably reduced and affected entire operation of Japanese banks in the U.S.

The lesson from the 1980s expansion to the U.S. implies that though not operating in the home country, U.S. offices of Japanese banks were vulnerable facing domestic economic downturns and influence from Japanese bureaucrats. The profit prospect in the foreign countries and the domestic regulation pressures acted as major incentives in banks' overseas expansion in the 1980s. Today, in the context of Abenomics, the tendency of overseas expansion similar to that in the 1980s has been observed among Japanese commercial banks though the destination is different-Asia.

Japanese Banks' Integration with Asia – A Golden Opportunity?

An IMF working paper categorizes Japanese banks' overseas expansion as three waves: 1) the rapid expansion in the 1980s up until the burst of the asset bubble in the 1990 2) the expansion during the mid-1990 and 3) the expansion abroad beginning from 2006 but temporarily slowed during the global financial crisis (Lam, 2013, p.3). Prime Minister Abe, however, with his new economic growth framework-Abenomics, is likely to accelerate Japanese commercial banks' integration to the emerging Southeast Asian market, which is seen as a golden opportunity for great profitability.

In addition to the fact that Japanese financial institutions survived the Lehmann shock better than their European counterparts with stable deposit bases and adequate capital that enhanced their competence in the global market, the foremost factor pushing Japanese commercial banks abroad is the initiatives taken by the Abe government, though it might seem somehow unintentional. Increasing Japan's presence and involvement in ASEAN, the Association of Southeast Asian Nations, in terms of economic ties, political alliance and military co-operation, is one urgent item on Abe's agenda, and METI has recognized ASEAN as the targeted market for full overseas expansion in the FY2014 Economic and Industrial Policies. When visiting Singapore last July, he mentioned Southeast Asia as "the 21st century's champion in fostering middle class consumer market" (Grant, 2013). Despite the traditional ASEAN countries such as Singapore, Vietnam, Indonesia, Malaysia, Thailand and Philippines to which Japan invested a total of 6.4 billion yen last year, other less developed Southeast Asian markets have become of interest to Japan in recent years.

During a visit to Myanmar last May, Abe forgave \$1.8 billion in old loans and promised another \$500 million in new ones for the establishment of a special economic zone near the capital Yangon (Economist, 2013). Enhanced bilateral governmental integration among Japan and the ASEAN creates a benevolent investment environment for Japanese companies whose foreign direct investment (FDI) to the area increased by around 0.2 trillion yen at the end of 2013. At the same time, Japanese firms are receiving assistance from ASEAN governments in raising funds and borrowing local currencies to expand their production bases and human capital. An interesting phenomenon worth noticing is that under Abenomics, SMEs' overseas expansion is especially being emphasized. The Global Outreach Strategy promoted by METI for FY2014 specifies support for the overseas expansion of small companies even though they have already started their journeys in the early 2005 (METI, 2013). Chart-15 illustrates the number of companies with equity capital less than 1 billion million yen increased from around 1,150 at the end of March 2005 to around 2,510 at the end of March 2010, compared with the number of companies with equity capital greater than 1 billion million yen increasing by less than 300 during the same period. There is no evidence suggesting that these SMEs moved to the ASEAN market; yet providing that the geographical convenience and the historically intimate ties between Southeast Asia and Japan, it is highly possible that ASEAN is or will be one of the most popular settlements for Japanese SMEs.

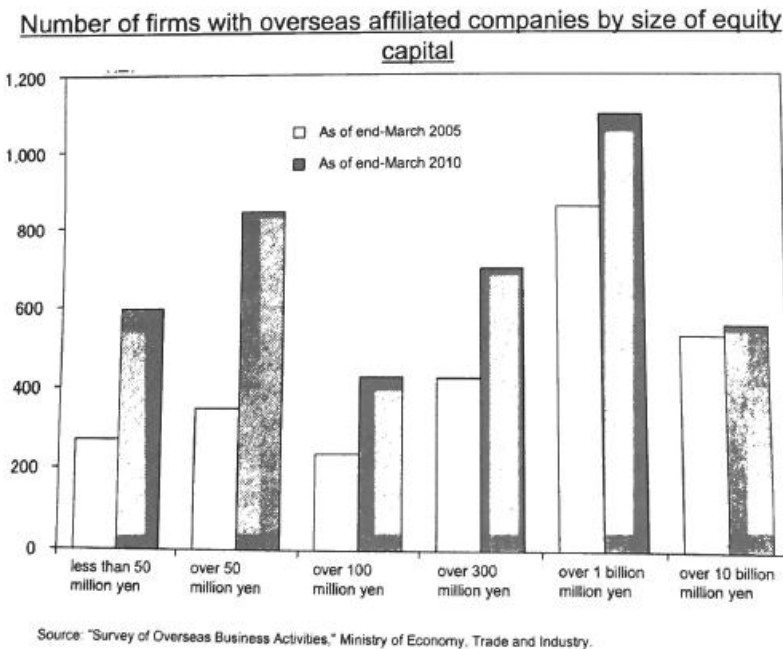
Compared with large companies, SMEs tend to encounter financial problems such as fund raising difficulty as a result of higher default risks and lack of credit, creating incremental loan demand in the Southeast Asian market. Such higher demand for money lending together with the motivation from Japanese government, leads Japanese commercial banks to follow the trend to the ASEAN market, among which are Bank of Tokyo Mitsubishi-UFJ's (BTMU) purchase of 72% interest of Thailand's fifth largest bank, Bank of Ayudhya (BAY) in December 2013 and BTMU's major competitor, Sumitomo Matsui Financial Group's (SMBC) acquisition of 24.26% of share of a midsize Indonesian bank called Bank Tabungan Pensiunan Nasional (Economist, 2013).

Chart-14 Japan's FDI to ASEAN



Source: Economist

Chart-15 Japanese SMEs going overseas



Source : FSA

These two major deals concluded by BTMU and SMBC are compatible with Japanese commercial banks, especially megabanks' confidence in the potential market growth in the Southeast Asian market. Large financing needs compared with lack of opportunity in the domestic market are pulling Japanese commercial banks to Southeast Asia. For Japanese banks that have been struggling with stalled lending activity in domestic market, the 10% increase in year-on-year lending in Thailand and 20% increase in Indonesia as well as the 3.0 and 3.0 to 4.0 percentage points net interest margin respectfully in these two countries present a golden

opportunity, a way out for excessive cash holding of Japanese banks (Tsuchiya, 2014). In Japan, banks' loan to deposit ratio had been shrinking before the implementation of Abenomics and after December 2013, the ratio started to improve slowly while the net interest margin remains at 1.5 points percentage. If the demographical factors are taken into account, the deposit base and loan demand affected by a shrinking and aging population reflects a dull market growth prospect inside Japan. ASEAN, on the other hand, is enjoying a population boom that represents an untapped market with increasing deposit and loan demand evident by the fact that only about 70% of Indonesians have bank accounts (Tsuchiya, 2014). IMF economist Raphael Lam (2013) concludes that "the performance of overseas lending among Japanese major banks has been stronger compared to their domestic lending" in terms of gross profit, net interest margin and credit risks.

Unlike the expansion to the U.S. in the mid-to-late 1980s that were inspired by a relatively stronger yen and higher interest rate, Abenomics, to the contrary, offers monetary incentives in terms of a cheaper yen and lower interest rate that spur Japanese commercial banks to thrust into the Southeast Asian market. Although foreign assets are becoming much more expensive under a weakening yen, future revenues collected will increase. The expectation of yen to continue its devaluing path under the Abe administration motivates Japanese banks that holding an affluent amount of cash from selling JGBs to ponder over the higher return in terms yen from outward investment and inject their money to more profitable ASEAN market. The other monetary incentive comes from a lower interest rate as the target of BOJ's QQME. Japanese banks will be able to absorb funds from domestic market at a lower cost and lend to foreigners in the Southeast Asian market whose demand for loans is ever-increasing. Hence, profitability improves as a result of widening gap in interest rates.

New Hope and New Risks-Hand in Hand

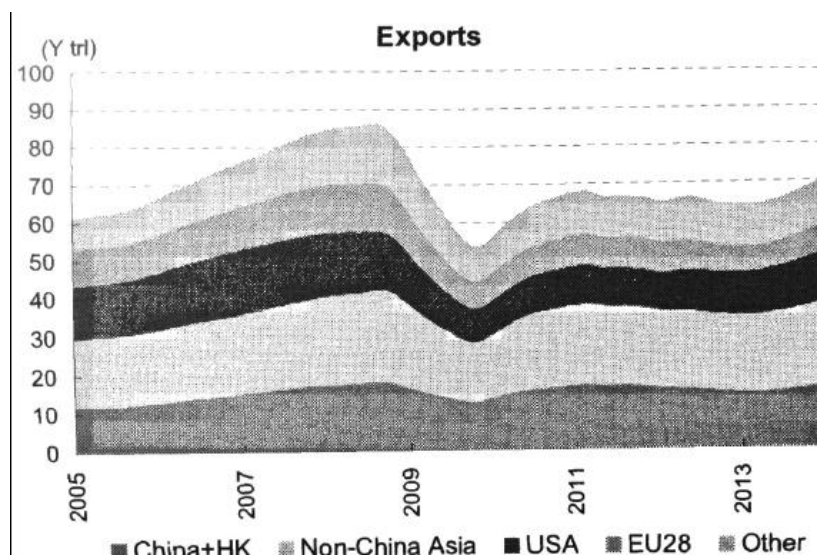
As stated by the Economist, "Crisis always starts with new hope". The new hope of Japanese banking industry- expansion to the Southeast Asian market also brings new risks that banks should be highly aware of. The barriers or risks Japanese commercial banks may encounter in the Southeast Asian market can be categorized as the following. Firstly, although the BOJ has pushed yen-dollar exchange rates to the highest level of 102 in recent years and is determined to retain interest rates at a low level for the next two years, there is no guarantee that these two rates will be sustained in the future. Banks that rush for foreign assets and foreign loans may suffer great losses if BOJ fails to defend a cheap yen and a low interest rate. Another risks comes from the banks itself, that is, how can Japanese commercial banks fit into the business environment in Southeast Asia with different or even contradictory business rules and etiquette, regardless of the socio-cultural and geographical factors? The fact that Japanese banks do have experience in fitting into the local market with the strategy called global localization gained from their expansion to the U.S. market, the situation in Southeast Asia is more complex.

For example, Thailand's central bank, Bank of Thailand dictates that a financial group is allowed to own only one bank in Thailand. Thus, BTMU who purchased a majority of stake in BAY has to merge its Thai branches with BAY that they have to shuffle and restructure the entire management (Tsuchiya, 2014). Externally, Japanese commercial banks are exposed to slow growth risks of the emerging market. The possible economic downturn in the ASEAN countries could induce banks tremendous loss from the large amount of stock they are holding in foreign

banks. Non-China-Asia (NCA) is Japan largest regional trading partner, most of which are ASEAN countries. Therefore, the impact of a tiny slowdown of these countries' economy will have an impact on Japan's export industry which is blessed by a weakening yen. If Japanese firms stumble in overseas expansion, their followers, Japanese commercial banks will have to struggle as well. One important risk that should not be neglected is the intensive competition for shares in the Southeast Asian financial market and by competition, not only rivalry MUFG and SMBC are included, but also other foreign competitors, especially ASEAN's neighboring China. In Vietnam's Tan Son Nhat International Airport, billboards showing the ambition of the Industrial & Commercial Bank of China, the largest bank in the world, can be seen everywhere.

Meanwhile, the Southeast Asian market is becoming increasingly attractive to European banks that retreated from the U.S. market after the Lehman shock and are looking for new investment opportunities to offset the gloomy economic performance in homeland Europe. Consequently, to thrive in this emerging market, Japanese banks have to be strategically and financially capable of dealing with their counterparts from other countries that are placing much of their "pivot" in Southeast Asia. Last but not the least is regulation risks that may prevent Japanese banks from further expansion. Similar to Bank of Thailand's "one presence policy" as mentioned above, Bank Indonesia in 2012 applied a new law limiting foreign ownership of local bank to 40% (Tsuchiya, 2014). AS foreign banks increase their presence and involvement in the local economy, financial regulatory agencies will be tempted to scale up financial protection for the benefits of local financial institutions. Political instability in the emerging market is another risk Japanese banks should be cautious about. Two of Japan's largest banks, SMB and BTMU, have stepped back from the Russia market due to the Ukraine crisis that has scaled back bond issuance and reduced equity price in the Russian market and the fear of being caught in further sanction (Farchy & Arnold, 2014).

Chart-16 Japanese exports to different regions



Source: Morgan Stanley MUFJ Research Japan

The Benefits of Japanese Banks' Overseas Expansion

In terms of the impact on Japanese economy, Japanese commercial banks that follow the lead of Japanese companies exploring foreign markets will in turn benefit the expansion of Japanese enterprises, especially the SMEs facing obstacles in borrowing money from local banks with limited credits. The problem of low profitability of cash-rich Japanese comes from the stagnantly low loan-to-deposit ratio unable to effectively earn profits for Japanese financial institutions that have to deposit the cash in the central bank. To be more open to borrowers and investors abroad allows Japanese banks to expect higher net interest margin and more satisfying return and while they are crucial contributors to the Japanese economy, optimism from improving profitability among commercial banks will brighten the future of the country's economy by strengthening people's confidence. In order to be compatible with global market, restructure or reform that have been delayed for years by numerous excuses, must be initiated among Japanese financial institutions to creatively develop services acceptable and profitable in the foreign market. More importantly, as the forerunners in the battlefield, Japanese banks operating in foreign markets maintaining close ties with foreign enterprises and government are acting as intermediaries passing valuable updated information back to the home country. Such information is effective in that it helps Japanese government draft economic policies and Japanese firms upgrade their business strategy and plan for severe competition in the world. All the roles Japanese commercial banks in foreign countries play, if played well, will benefit Japan to attain an open, effective and sustainable economy.

Mentioned in an article written by Ying Xu (2014), "Asian banker's long-held global aspiration may have positive implications for global financial stability". It is true that banking industry in Japan enjoys a long history and is relatively more mature compared with banks in the emerging market that will be propelled to follow market rules and cultivate good lending behavior to reduce bad loans and sustain profitability for the purpose of competing and cooperating with Japanese banks expanding to the local market. According to the argument of Xu (2014), Japanese banks' overseas expansion to the ASEAN market enhances financial stability and effectiveness in the region by diversifying lending resources as part of risk management capabilities improvement, a lesson learnt from the global financial crisis. The trend also accelerates the global capital flow and thus ascends international financial integration in terms of regulation, structure and technology to another level. Moreover, increasing presence of Japanese banks buoyed by Japanese government in the emerging market strengthens Japan's image as an economic power still exerting great influence on global economic performance. Such economic impact may transform to political influence compatible with the government's goal to refine Japan's political image in the global stage. As for the effect on international development, Japanese banks' involvement in emerging market increases funding opportunities available to developing countries that are in need of capital to facilitate infrastructure projects and economic restructure.

Policy Implication: What Has Been Left Behind?

As one government official reveals, "Low profitability stemming from lack of demand (for loans) has caught Japanese banks in a dismal situation." In the analysis above, the demographical factor is neglected as banking industry is seen as to be subject more to government's monetary and fiscal policy. Yet, similar to other industry, Japanese banks will suffer if the demographical situation in Japan sees no improvement, meaning an aging and

shrinking population that results in lack of demand and a declining labor force. Increasing the labor force participation rate of women and extending the retirement age of seniors could be the key to improving the production rate, raise wage and induce high demand. The third arrow of Abenomics indeed does have an emphasis on encouraging women to participate more fully in the labor market. Indeed, structural reform, the real intent of the third arrow, distinguishes a complete policy package of Abenomics to an incomplete one that has significant influence on the Japanese banks and the Japanese economy. In the long-run, if the third arrow fails to be materialized, banks may have to absorb more JGBs in order to satisfy government's increasing financial needs under sluggish inflation expectations (Arslanalp & Lam, 2013). With higher interest rate risk, profitability and Tier-1 capital will decrease due to the large purchase of JGBs. However, if the structural reform is successfully implemented, the situation depicted above will be reversed.

Another trend that tends to be misunderstood is the situation when Japanese banks accelerate their expansion to emerging markets, their business in the U.S. or other relatively developed market will be dwarfed. According to an interview with a BTMU banker, in terms of market transparency and asset quality, U.S. remains the most attractive investment destination, In fact, after the Lehmann shock, US regulator became tougher on European banks that are currently escaping from the U.S. market, while Japanese banks less affected by the Lehman shock are in better positions than other foreign banks in the U.S. that they are attempting to purchase the American subsidiaries sold by the European banks. Meanwhile, BTMU is merging its business in the West and East Coast to strengthen its competitiveness in the US market. The fact that some Chinese companies and South Korean companies are moving to North America offers Japanese banks in the U.S., which are relatively internationalized compared with Chinese and South Korean financial institutions, a valuable opportunity to expand business in the U.S. market. The slow-growth risk in the emerging market requires Japanese banks to keep an eye on the U.S. economy that is recently picking up.

Conclusion

Abenomics has garnered the confidence and increased the momentum of Japanese commercial banks as they strive to become key players in international financial markets. For Japanese financial institutions to be able to survive the risks and compete with other foreign players, the success of Abenomics will be a key factor: deciding whether Japanese economy can provide sustainable support for commercial banks. Although emerging markets seem to be a way out for cash-rich Japanese commercial banks, a mature market, such as the U.S. market, should never be overlooked in order for Japanese commercial banks to improve profitability. Time will tell, if Japanese banks could eventually become household words like Toyota. Time will prove whether Abenomics could bring new hopes to a pessimistic nation struggling with demographic crisis and economic stagnation or whether it is just a fairy tale from Yamaguchi prefecture that has been haunting Prime Minister Abe since childhood.

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Competition or Cooperation? China and Japan's Economic Presences in Africa

By Hanning Bi

Introduction

Africa, the fastest-growing continent in economic terms, has been receiving increased attention from the international community, but in recent years, the economic presences of two distant Asian countries—China and Japan – have had a significant impact on African development. China and Japan both recognize Africa's potential both as a destination of investment, including needed infrastructure, and as a market for their goods and services. With average of 5% of GDP growth in the last decade and conflicts ending in most countries, Africa seems finally to be on its way to peace and stability, and ultimately prosperity. In addition, while China and Japan are experience low population growth and ironically face the challenge of an aging population and shrinking working force, Africa's population will double over the next 40 years. With Africa experiencing a demographic window and faster economic growth, China and Japan are racing to find business opportunities in promising nations.

Actually, China has a long history of engaging Africa, but its African policy has changed substantially since the early years after the Communist revolution. It has long ago shifted from an ideology-based approach toward the continent to a mutually beneficial policy based on market forces. Japan, for a time Africa's the largest foreign aid (ODA) donor, has also become more significantly engaged with the countries of Africa. In addition to its development efforts, Japan is treating Africa as a "business partner". While there is attention drawn to the potential rivalry of China and Japan in Africa, there is little evidence suggesting that they are competing against each other. In terms of development aid, both China and Japan share many traits, which can be categorized as the East Asian Development Aid Model. Both countries believe in a synergy of aid, trade, and investment. Regarding trade and investment, China is a much bigger partner with Africa than Japan is at this time, but they have different comparative advantages in industries. There is an overlooked potential for real cooperation between China and Japan, both in development and economic activities, if the political will is there.

Background

In early 2014 Prime Minister Shinzo Abe visited three Africa countries—Ethiopia, Cote d'Ivoire, and Mozambique – where he pledged aid and development projects worth billions of dollars. It was the first trip to sub-Saharan Africa by a Japanese leader since then-Prime Minister Junichiro Koizumi visited in 2006. Prime Minister Abe, as is his style, went to Africa as Japan's business broker, aiming to promote increased Japanese investments. He brought more than 50 business executives from Japan, hoping to convince them that Africa is a land of economic potential. Some would also argue that Africa is a geographic centerpiece of Abenomics¹⁴². Prime Minister Abe also pledged \$320 million to promote peace and security on the continent, including

¹⁴² Martin Fackler, "Japan's Leaders Pledges Aid on Africa Tour", *New York Times*, Jan 13, 2014.

assistance to South Sudan and Central African Republic. Coincidentally, Chinese Minister of Foreign Affairs, Wang Yi, was also on a four-nation tour in Africa as Prime Minister Abe was visiting.

The interesting timing created speculation that Africa might become the next battlefield for the Asian rivals. China has been engaging with African countries since the 1950s. Today, it is Africa's largest trading partner and its aid to the continent also has been increasing for the last decade. Even Prime Minister Abe's spokesman compared China with Japan and commented that Japan "cannot provide African leaders with beautiful houses or beautiful ministerial buildings"¹⁴³, but it was to "aid the human capital of Africa". His remark created a backlash from China and a spokesman from China's Ministry of Foreign Affairs (MOFA) called it "unprofessional and ridiculous"¹⁴⁴. Despite media speculation to the opposite, Japanese officials say they welcome China's economic assistance activities in Africa. There is recognition of the value of Chinese infrastructure projects that are helping African economic growth.

Why are China and Japan interested in Africa?

Although this paper is focused on the economic activities of China and Japan in Africa, the political interests of both countries cannot be ignored, given that economic engagement is an important foreign-policy tool. Both China and Japan have set as a primary goal the gathering of Africa's support in the international community, particularly the United Nations and its agencies. There are 54 countries in Africa and each has a vote in the UN. Indeed, during the 1970s, African nations helped China become a member of the UN and obtain the permanent seat in the UN Security Council formerly held by Taiwan. Japan, which is seeking a permanent UNSC seat, is also counting on its African friends in the next round of UN Security Council reform. In addition, China has sought the help of African countries in recognizing the "One-China" principle. Africa was one of the stages for Taiwan-China dollar diplomacy¹⁴⁵. Second, both China and Japan have their eyes on Africa's abundant natural resources. Already, 54% of China's imports from Africa consist of such raw resources as crude oil, iron, and copper, as of 2013¹⁴⁶. Japan is the largest importer of platinum, a catalyst in cleaning vehicle emissions, from South Africa. The fast growth of African economy also provides a large potential destination for Chinese and Japanese direct investments.

China's Africa Policy

China's relations with Africa go back to the founding of the People's Republic of China (PRC). Relations for the early decades were highly ideology-oriented. As China was seeking friends in the international stage as a new country and promoting communism along with the Soviet Union, it actively supported independence movement in Africa in both political and financial terms. China, representing Third World countries, offered generous aid to African states. From 1956 to 1977, China contributed \$2.47 billion to 35 African countries, accounting for 58% of total Chinese aid¹⁴⁷. Sino-Africa relationship was then characterized as a "brotherhood". In return,

¹⁴³ Duncan Bartlett, "Japan and China criticise each other's Africa policies", BBC, Jan 10, 2014

¹⁴⁴ "China rejects Japanese criticism of its Africa policy", Global Times, Jan 16, 2014.

¹⁴⁵ China and Taiwan reached an unofficial diplomatic truce in 2008.

¹⁴⁶ Global Trade Atlas

¹⁴⁷ Carvalho, Pedro, Kim, Hyo-sook, and Potter, David M. "Aid to Africa from Japan, Korea and China: Ideology, Economic Interests, and Poverty Reduction," in Hyo-sook Kim and David M. Potter, *Foreign Aid Competition in Northeast Asia* (Sterling, VA: Kumarian Press, 2012), Chapter 6.

African states supported China's causes in the international community. In 1971, UN Resolution 2758, initiated by Algeria and other 22 countries, helped China replace Taiwan as the "sole legitimate government of all China" and win a seat in the UN Security Council. A total of 26 African countries supported China and the motion prompted Chairman Mao Zedong to state that it was the African people who "carried China into the UN". Today, China's Africa policy is still based on the Five Principles of Peaceful Coexistence (see Annex I), which was first introduced to African states during Premier Zhou Enlai's trip to Africa in December 1963 and January 1964. Premier Zhou also laid out the following eight principles for Chinese foreign assistance:

- Aid should not be considered as a unilateral grant, but as mutual help.
- Neither conditions nor privileges should be attached to the aid.
- To reduce the burden of the recipient countries, the repayment period could be extended for no-interest or low-interest loans.
- The purpose of aid is to help recipient countries develop independently.
- To increase the income of recipient countries, Chinese programs should produce faster results with less investment.
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These principles serve as "a framework and self-restraint" regarding to assistance. But today, sincerity, equality, mutual benefit, solidarity, and common development have been the main themes guiding Sino-Africa relations (see Annex II).

After Deng Xiaoping introduced sweeping market reforms in 1978, Africa's strategic importance declined for awhile as China concentrated more on domestic economic development. During Deng's visit to Africa in 1982, Sino-Africa relations focused on promoting mutually beneficial economic ties and common development themes. China's fast economic growth pushed up energy consumption and resource demands, making Africa into a major supplier of oil and minerals. In 2012, China became Africa's largest oil importer, replacing the United States. It has been diversifying its sources of crude oil imports. Parts of Western Africa have become leading oil exporters to China. For instance, Angola is the second-largest oil supplier after Saudi Arabia. In the first quarter of 2014, Angola shipped about 10.7 million metric tons to China¹⁴⁸. In general, Africa has become an important trading partner for raw materials, which made up 54% of China-Africa trade in 2013. China, in addition to its economic transactions, always asks any African states wanting to establish diplomatic relations with it to recognize the "One China" principle. This reflects the long standing rivalry between China and Taiwan (dollar diplomacy) to win over African support. During the 1990s, China and Taiwan actively provided generous aid and assistance to African countries in order to maintain their respective diplomatic relationships or to win over nations which had formal relationships with the other. Several countries switched

¹⁴⁸ Colin McClelland and Manuel Soque, "Chinese Premier to Sign Trade Agreements in Oil Supplier Angola", Bloomberg, May 8, 2014

recognition back and forth to take advantage of the offers from both sides, such as Chad and Senegal. Now there are 50 out of 54 countries in Africa that have formal relations with China. Taiwan's formal allies are Burkina Faso, Swaziland, and Sao Tome and Principe¹⁴⁹.

Currently, China and Africa are collaborating in all areas including political, economic, and cultural, forming a "new type of strategic partnership" (concept adopted in 2006 FOCAC). Existing policies are laid out in the *China's Africa Policy*. Bilateral economic cooperation includes trade, investment, and economic assistance. Among these, infrastructure, agriculture, resource, and tourism are top priorities¹⁵⁰. Africa is an important part of China's broader Going Out policy. In addition, China has been coping with multinational organizations, supporting African development and helping them with realizing Millennium Development Goals (MDGs).

China has long been a target of criticisms from the West about its economic strategy toward Africa. Western media and scholars accuse China of practicing "neo-colonialism" in Africa. They also argue that China's no-strings-attached aid and non-intervention foreign-policy principle support corrupt authoritarian regimes in Africa. Zimbabwe and Darfur are two important cases cited. Beijing has countered, stressing that China's involvement in Africa has significantly contributed to African development, and added 5 percent of Africa's growth over the past 12 years¹⁵¹. Chinese scholars also argue that each case in Africa is complicated and foreign interference is not always the best solution.

Japan's Africa policy

Japan in the early postwar decades regarded Africa as geographically and politically distant and had little interest in the continent. Japan-Africa economic relations were reflective of Japan's own stage in economic development. During Japan's high-growth period of the 1960s and 1970s, Africa's share of Japan's exports only averaged 9%, while Africa's share of Japan's imports was on average a mere 5%. Since then, Japan-Africa relations have been largely driven by official development assistance (ODA). After the Cold War, in order to take a more active part in Africa's development and prevent the marginalization of Africa, the Tokyo Declaration on African Development (TICAD) was launched in 1993, which became the guiding body for Japan's involvement in Africa. Early TICAD meetings did not generate much interest from Japanese business community and the media. During the 21st century, Japan's interest changed for the better. After the adoption of Millennium Development Goals (MDGs), TICAD lined itself up with other international organizations to promote poverty reduction and peace in Africa. At TICAD III, such goals became a pillar of Japan's policy toward Africa. It could be argued that through TICAD, Japan has moved one step closer to becoming a "normal" state by actively participating in the UN Peacekeeping operations on the continent.

In 2001, Prime Minister Yoshiro Mori made a five-day trip to three African countries, the first Japanese leader to ever visit Africa. Mori was the first of many prime ministers to promote a proactive policy toward Africa, moving Africa's priority higher in Japan's diplomacy. In 2006,

¹⁴⁹ Gambia stopped recognizing Taiwan in November 2013, and intended to establish diplomatic relations with China. However, China has not accepted the offer.

¹⁵⁰ China's African Policy, Jan 12, 2006 (retrieved from <http://www.focac.org/eng/zt/zgdfzccwj/t230479.htm>)

¹⁵¹ Li Anshan, "China's New Policy toward Africa", in Robert Rotberg, *China into Africa: Trade, Aid, and Influence* (Brookings Institution Press: Washington, DC, 2008), Ch.2

Prime Minister Koizumi made a second visit to Africa to follow up his earlier commitment of \$1 billion in aid to Africa pledged at TICAD III. It is likely that the increase of aid to Africa was triggered by Japan's sense of heightened responsibility in the post-9/11 world. Koizumi also wanted the support of African nations for UN Reform that might lead to a permanent seat on the UNSC for Japan.

Japan also was drawn to Africa by the economic progress its nations had made in the early 21st century. This was reflected in TICAD IV, which placed more emphasis on economic growth and poverty reduction. The latest conference, TICAD V, in Yokohama in 2013, coined a new type of relationship, with Japan now calling Africa its "business partner." Japan supports African growth by promoting trade and investment through public-private partnership.

Japan's Africa policy is laid out in MOFA's diplomatic bluebook for 2013. It explicitly lays out Japan's three-fold approach to Africa. First, it is Japan's duty as a responsible member of the international community to earnestly work toward a solution to development problems facing Africa. Second, it is strategically important for Japan to strengthen its economic relations with Africa, which is endowed with abundant natural resources and a growing population and therefore a potentially huge market with sustained high rates of economic growth. Third, the cooperation of African countries is essential to further address global issues such as UN Security Council Reform and climate change.¹⁵² The TICAD V agenda sets out goals over the next five years: boosting economic growth; accelerating infrastructure and capacity development; empowering farmers as mainstream economic actors; promoting sustainable and resilient growth; creating an inclusive society for growth; and consolidating peace, stability, democracy and good governance.

East Asian Foreign Aid model

Differences in China and Japan's economic assistance

As donors, China and Japan differ in status in the international community. Japan is a founding member country of the OECD's Development Assistance Committee (DAC) and was the world's top donor in the 1990s. Japan complies with DAC rules and publishes reports on its aid activities. On the other hand, China is categorized as an emerging donor or a "South" donor, despite its long history of foreign aid. It neither follows DAC regulations nor provides official data on its aid programs. However, a DAC-China study group established in 2009 has been working on facilitating mutual understanding between China and DAC members. Japanese experts are also part of this group. Although China's aid in practice does not qualify for DAC recognition, some studies show that the concessionality level of Chinese aid is not necessarily higher than other donors. For instance, Chinese loans to Africa have an average 45% grant element.¹⁵³ This could be categorized as ODA, which requires loans to have grant elements larger than 25%. Second, linked to the first difference, China does not have a professional aid implementation agency while the Japan International Cooperation Agency (JICA), established in 1974, is an independent administrative agency that manages Japanese grants, loans, and technical assistance to the recipient countries. It is also in charge of the Japanese Overseas Volunteer Program (Japan's

¹⁵²Ministry of Foreign Affairs of Japan, "Japan's Foreign Policy by Region", *Diplomatic Bluebook 2013*, Ch. 2.

¹⁵³ Shino Watanabe, "China's Foreign Aid", in Hyo-sook Kim and David M. Potter, *Foreign Aid Competition in Northeast Asia* (Sterling, VA: Kumarian Press, 2012), Ch. 3.

Peace Corps). Currently, there are 34 JICA offices in Africa, including 133 JICA employees, 1,353 volunteers, and 5,381 consultants¹⁵⁴. Third, the level of untied aid is significantly different between China and Japan. In 2007, 95.1% of Japan's ODA was untied¹⁵⁵. In China's case, concessional loans are tied to Chinese companies and goods. China Exim Bank requires that no less than 50% of materials, technology, or services come from China¹⁵⁶. As a result, China's loans have become a tool for Chinese companies to expand into overseas markets. China's aid program is highly connected to its own economic interests. Fourth, Japan has increasingly put emphasis on democratization, human rights, and peace consolidation, while China follows a non-intervention principle. Japan first introduced the concept of human security in 1999, linking security to development, as well as taking a more humanitarian aspect in the aid programs. For instance, in the latest "Yokohama Action Plan 2013-2017", Japan established programs that support reconstruction and stabilization in fragile African states, help with elections, and enhance efficiency of government. China has not incorporated the issue of security until the recent FOCAC meeting.

Similarities between China and Japan's foreign aid

Despite the differences, China and Japan share many similarities in aid principles, priorities, and practices. First, China and Japan share a fundamental principle in aid policy, that of self-help efforts. Both China and Japan have the historical experience of being an aid recipient and later an aid donor. They understand that self-reliance is the key to successful development path. China's aid respects the sovereignty of recipient countries, stressing that the purpose of aid is to make recipient countries become economically independent. Japan's ODA Charter also emphasizes the importance of sovereign equality and nonintervention in the domestic affairs.

Second, compare to Western donors, China and Japan focus on using concessional loans to facilitate economic growth for developing countries through aid for economic infrastructure and services. Until the 1980s, China's aid projects were mostly labor-intensive, concentrating in light industry, agriculture, infrastructure, and training. Priorities include medical aid and technical assistance. Since 1990s, China's aid objective shifted to more commercial cooperation, covering all production sectors. Through the 1980s, Japan provided large yen-loans to help fund infrastructure projects in Africa for development of transportation, energy and agriculture. After Japan's ODA Charter was revised in 2003, Japan has been increasing assistance for basic human needs through grants and technical cooperation. Following on the development principle of "self-help", both China and Japan's aid program are request-based. Officially, the Japanese government does not consider a project until the prospective recipient government makes a formal request for assistance. It places responsibility for development project formulation on recipients and thereby avoids political repercussions. In China's case, a loan scheme called "Angola Model" is a method of resource-backed finance by China's Exim Bank originally made to Angola -- although it is arguable whether this type of loan is concessional.

¹⁵⁴ Africa Department, JICA, "JICA in Vibrant Africa", March 19, 2014.

¹⁵⁵ Carvalho, Pedro, Kim, Hyo-sook, and Potter, David M. "Aid to Africa from Japan, Korea and China: Ideology, Economic Interests, and Poverty Reduction," in Hyo-sook Kim and David M. Potter, *Foreign Aid Competition in Northeast Asia* (Sterling, VA: Kumarian Press, 2012), Chapter 6.

¹⁵⁶ Ibid.

Third, despite the fact that Japan has a formal aid agency and China does not, both countries' aid programs are decentralized and fragmented. Chinese Ministry of Commerce (MOFCOM) oversees aid activities as well as other forms of economic cooperation. It makes proposals to the Ministry of Finance (MOF) and often coordinates aid policies with Ministry of Foreign Affairs (MOFA). On the ground, Economic and Commercial Counselor's Office of Chinese embassies manages aid projects along with other investments projects in the recipient countries. China Exim Bank, established in 1994, provides concessional loans. In the case of Japan, bilateral aid budget is managed by MOFA. However, loan aid is determined by consultation among MOFA, MOF, and Ministry of Economy, Trade, and Industry (METI) under coordination by MOFA. Japan's aid implementation body is JICA, which runs projects on the grassroots level.

Fourth, both China and Japan issue many loans to the recipient countries. Japan's yen-loan aid as a share of total aid is larger than any other major DAC donor. China Exim Bank also provides concessional loans with low interest rate denominated in yuan. Regional-wise, both China and Japan have an extensive program, reaching 161 countries and 190 countries respectively. Both of them prioritize in Asian countries, however, African countries were composed the most of Chinese foreign aid, 45.7% as of 2009¹⁵⁷. Although Africa does not take a large share of Japan's ODA now, its role is becoming more prominent. Both China and Japan have established a regional framework guiding their cooperation with Africa. They share two main objectives in Africa—poverty reduction and their own economic interests including market expansion and natural resources.

Did China learn from Japan aid model?

A senior researcher from Japan's prestigious Institute of Developing Economies (IDE-JETRO) argues that China's current approach toward Africa is similar to Japanese economic cooperation to East Asian and Southeast Asian countries (including China) in the 1970s and 1980s, when there was a synergy of trade, investment and aid, or Trinity Development Cooperation. At that time, the Ministry of International Trade and Industry (MITI, now METI) was mainly in charge of aid loans, trade and foreign direct investment (FDI). MITI understood aid to be a part of broader economic interactions intended to support Japanese firms overseas. The yen-loan program heavily emphasized infrastructure development, which promoted Japanese FDI to the region. Japanese factories helped local areas form industrial conglomerates, which contributed to the economic transformation.

China was the largest beneficiary of Japanese ODA during the 1970s and 1980s. It received an average of more than \$1 billion of loans and aid from Japan each year. In addition, Japan trained nearly 21,800 Chinese from 1978 to 2011¹⁵⁸. Japan's yen-loan program showed China a new way of raising capital. Since China lost assistance from Soviet Union, it had been a policy not to receive loans from any foreign country. Later, concessional loans helped China finance many infrastructure projects with transportation having the largest share, and production projects. Japan also contributed to China's reforms by offering direct advice on policies to top Chinese leaders. From a recipient point of view, it was recognized that Japan's aid effectively contributed to China's development. Furthermore, Chinese experts learned that Japan nurtured its own industries through aid giving. Japan has developed natural resources and increased Japan's

¹⁵⁷ Information Office of the State Council, People's Republic of China, "China's Foreign Aid", April 2011.

¹⁵⁸ Naohiro Kitano, "Asian donors: Japan, South Korea and China", March 19, 2014

export through its economic cooperation. In other words, Japan's aid program was mutually beneficial.

Japan seems to have influenced the change in China's foreign aid policy in the early 1980s. First, China started to offer more concessional loans than grants and zero-interest loans. Second, Premier Zhao Ziyang released the "Four Principles of Economic and Technological Cooperation" (see Annex III), highlighting equity and mutual benefit, effectiveness, flexibility, and mutual development in China's economic cooperation with African countries. Deng Xiaoping also stressed mutual benefit through foreign aid in 1984. These developments imply that Chinese leaders believed foreign aid to be an effective way for China to increase its exports and to expand overseas markets, which echoes the key concept of the Trinity Development Cooperation. In addition, Japan has brought many innovative development ideas to China. For instance, in the early 1980s, former President of National Institute for Research Advancement of Japan, Dr. Atsushi Shimokobe presented the concept of the Shanghai Economic Zone to the then Shanghai Mayor Wang Daohai. Based on the success of Shanghai and other special economic zones in China, China is importing its development experience to other developing countries, forming 19 special economic zones (SEZs) in 15 nations.

Is an East Asian Economic Assistance model possible?

Based on the case of China and Japan (as well as South Korea), it seems that they are both pursuing an "East Asian model of aid" as an alternative to the mainstream aid model of the Western donors and the World Bank. In terms of donor-recipient relationships, both China and Japan emphasize "self-help". China follows the non-interference principle while Japan is cautious regard to political conditionality. The East Asian model believes in the synergy between aid, investment, and trade. It emphasizes on the long-term aid commitment to the construction of "infrastructure networks", which would later attract foreign investments. The investment could create jobs, increase production, and most importantly, it could increase exports. By transforming into an export-oriented country first, the country could acquire foreign capital and finance its own development path, thus achieving self-reliance. This development path is exactly China's path to success as well as many other Asian countries. The East Asian model is fundamentally different from the model of traditional donors in which aid is an instrument for poverty reduction. Therefore, aid is distributed to develop sound macroeconomic policy, expand social sectors such as education and health, improve governance, etc. Fighting against poverty is crucial, but it is not the ultimate goal of development. Recipient countries easily become aid-dependent under the traditional model of aid.

China and Japan in Africa

At a glance: FOCAC vs. TICAD

China and Japan have each formed its own regional framework with Africa, Forum on China-Africa Cooperation (FOCAC) and Tokyo International Conference on African Development (TICAD). Each meeting of the separate entities is similar in that China and Japan identify new policy objectives and develop action plans. FOCAC was officially established in 2000, which aim to provide a platform for Chinese and African leaders to communicate and foster mutual understanding, strengthen relationship and promote cooperation. Members include China, 50 African states that have diplomatic relations with China, and the Commission of the African

Union. The FOCAC dialogue and consultation mechanism is three-leveled: the Ministerial Conference held every three years by China or an African nation, the Senior Official follow-up meetings and senior official preparatory meetings for the ministerial conference, as well as meetings of African diplomats in China with the Chinese Follow-up Committee held at least twice a year. Since the 2006 FOCAC, regular political consultation mechanism has been set up between the Chinese MOFA and African nation's MOFA to be held during the UN General Assembly the year after each Ministerial Conference.

After each ministerial conference of FOCAC, African nations always walk away with a large package of aid and investments. In the Fifth Ministerial Conference held in 2012, China promised a \$20 billion credit line for development projects and launched the "African Talents Program" for human resources training¹⁵⁹. In addition, as the first of its kind, China established the "Initiative on China-Africa Cooperative Partnership for Peace and Security", providing financial assistance for African Union peacekeeping missions. In addition to the Ministerial Conference, in the same year, China-Africa People's Forum and China-Africa Business Conference were also held.

The Tokyo International Conference on African Development (TICAD) was launched in 1993 to promote high-level dialogues between African leaders and development partners. It is more than a conference of Japan and Africa, but a global framework for promoting African development. It stresses the importance of Africa's ownership of its development and its partnership with the international community. To date, Japan has hosted five TICAD conferences. The so-called "TICAD process" marks Japan's efforts to engage Africa's development issues regionally. TICAD combines trade, aid, and security based on a three-pillar of human-centered development, poverty reduction through economic growth, and peace consolidation. It is not officially an aid-pledging conference, but Japan usually promises large amount of assistance to the region. In addition, TICAD is not exclusive, with prominent international organizations as co-host and active participation of other donors and NGOs. Japan has incorporated conditions of human rights, democracy and political freedom since TICAD IV when making aid allocation.

The latest one, TICAD V held in 2013, which also marked its 20th anniversary, had more than 4,500 participants. Prime Minister Shinzo Abe held bilateral meetings with 56 participants including 39 heads of States. Japan pledged \$32 billion of aid and investments for the next five years, emphasizing on infrastructure and human resource development¹⁶⁰. For the first time, Africa is regarded as a "business partner" instead of a recipient. Japan will help Africa states boost economic growth through trade and investment of private sector. Japan will continue to promote "human security".

China's Economic Assistance to Africa

Since China issues no official data on its foreign aid to Africa, analysts have had to estimate what it is. According to a Chinese scholar¹⁶¹, the average disbursements were estimated at \$2 billion in 2006 and \$4.5 billion annually from 2009 to 2011. As reported by the China's Aid

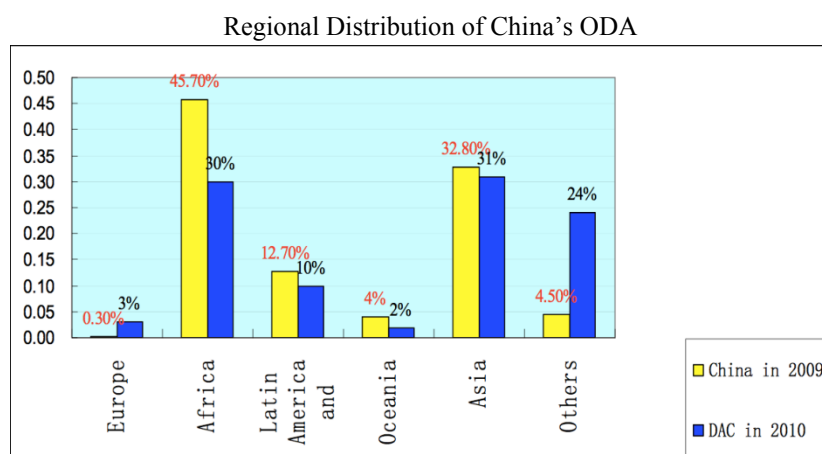
¹⁵⁹ "Beijing Action Plan (2013-2015), The Fifth Ministerial Conference of FOCAC, July 2012.

¹⁶⁰ Ministry of Foreign Affairs, TICAD V, July, 2013

¹⁶¹ Li Xiaoyun, "China's Development Cooperation: overview", Seminar on East and Northeast Asian Development Cooperation in post 2015, June 2013.

Whitepaper, Africa accounts for 45.7% of China's total aid distribution. We can estimate that China increased its aid to Africa from \$0.91 billion in 2006 to \$2.06 billion in 2011. More than half its projects are infrastructure. However, it is important not to confuse infrastructure aid projects with commercial projects done by the Chinese firms. A World Bank survey of Chinese infrastructure projects in Sub-Saharan Africa from 2001 to 2007 suggests that 33 percent of these projects were hydropower plants¹⁶². Although most of them were noncontroversial, some were criticized for possible environmental damages. The next 33 percent of projects from 2001 to 2007 were composed of transportation projects. In countries such as Botswana, Ethiopia, and Sudan, China nearly has a monopoly on road construction. The information and communication sector also received 17 percent of Chinese financing. China Exim Bank and CDB usually tie Chinese equipment to their financed projects.

Two oldest programs are medical and agricultural assistance. China sent its first medical team to Algeria in 1963. By 2009, China has sent more than 20,000 medical specialists to 44 African countries¹⁶³. They normally remain for two years and are replaced by a new group. Different from economic aid which is managed by the MOFCOM, provincial governments are usually paired with one or more Africa states and are in charge of sending teams overseas. China's agricultural assistance also has a long history in Africa. From 1959 to 2006, China had undertaken 200 projects and sent about 10,000 technicians¹⁶⁴. Most of the aid projects have consisted of paddy-rice plantations and experimental farms. Until recently, China encouraged large Chinese agribusiness to invest in Africa. Similar to JICA, China also has started to send volunteers to Africa since 2005. However, the Chinese Young Volunteers Serving Africa remains small. By 2009, there were only 312 youth volunteers in Africa¹⁶⁵. They offered assistance in the fields of medicine, agriculture, sports, computer technology, and Chinese language learning. The volunteer program, similar to the case of medical teams, is often organized by Chinese provincial governments.



Source: Li Xiaoyun, China Agricultural University

¹⁶² David Shinn and Joshua Eisenman, Ch. 3 "Investment and Assistance", *China and Africa: A Century of Engagement*. University of Pennsylvania Press: Philadelphia, 2012.

¹⁶³ Information Office of the State Council, People's Republic of China, "China's Foreign Aid", April 2011

¹⁶⁴ Shinn and Eisenman, 151

¹⁶⁵ Shinn and Eisenman, 152

While Chinese aid does not have any conditionality, most projects are tied to purchases of Chinese goods and services. African governments welcome projects done by Chinese firms because they are usually cheaper than others. China offers low labor costs and profit margins. Most Western and Japanese firms expect a 15-20 percent of profit return, while Chinese companies are willing to accept less than 10 percent and many accept 3 to 5 percent¹⁶⁶

It is estimated that as much as 95 percent of China's assistance is through bilateral channels. China is now also actively engaged in the multilateral organizations. Still a receipt from the IMF and the World Bank, China's voting shares in these two organizations are scheduled to be increase, becoming the third largest shareholders in both IMF and the World Bank. China has also sought cooperation with multilaterals. For instance, China Exim Bank signed an agreement with the World Bank to fund joint projects in Africa in 2007¹⁶⁷. The private arm of the Bank, IFC agreed to make \$10 million loan to a joint venture between China Railway Jianchang Engineering Company and a Tanzanian NGO. China joined the African Development Bank (AfDB) and African Development Fund in 1985¹⁶⁸. It only made modest contributions in the early years. By 2009, China had contributed \$486 million to eight replenishments¹⁶⁹. China is also an active supporter for NEPAD which launched in 2001. When collaborating with other donors, China prefers to do so within the UN system rather than the OECD DAC as it believes that there is more room for influencing UN agencies.

China's nontransparent aid system leads to many suspicions that China is actually hiding a large amount of aid to Africa. It is estimated that China is providing more loans to Africa than the World Bank. In reality, Chinese aid to Africa is much smaller compare to the Western donors and Japan. There are misunderstandings of the actual figures and the definition of aid because China intentionally does not want to disclose its economic assistance. Scholar Li Anshan provides the following two explanations¹⁷⁰. First, with more than 20 million Chinese people living below the poverty line, it would not be wise for the Chinese government to publish the assistance amounts. The Chinese people may not understand the motives of providing aid to other developing countries while domestic problems remain severe. Second, China believes it is inappropriate to reveal one's assistance to others. According to Chinese tradition, one shall not talk about how much he or she offers to help others. However, these two arguments are weak in terms of justifying Chinese government's behavior.

It can also be argued that Chinese government's lack of transparency of its aid details leads to more skepticism of its intention as well as the quality of its actual projects on the ground. It is true that it may be political sensitive to reveal the data. However, with proper explanations, Beijing should realize that the Chinese people would understand why their government is helping poor countries. Regarding to Chinese tradition as modest, other East Asian countries, such as Japan and Korea, share similarities in culture and they still publish their aid data. Furthermore, Chinese media sometimes even publish high-profile articles on the generous packages provide to African countries with catchy headlines such as "China committing another

¹⁶⁶ Shinn and Eisenman, 156

¹⁶⁷ Shinn and Eisenman, 158

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

¹⁷⁰ Li Anshan, 39

XX billion to X country”. Another more possible reason of no official data is linked to the weak capacity of Chinese aid department. First, China does not have a consistent definition of aid and thus it is difficult to separate economic assistance from economic cooperation. Second, less coordination among different ministries, and between Beijing and local embassies, makes difficult to track projects in African countries. Clearly internal reforms are needed in order to enhance international recognition of China’s aid contributions.

China’s Special Economic Zones (SEZs) in Africa

One of the China’s economic cooperation objectives is to share its development experience with other countries. SEZs have played an extremely important role since the beginning of China’s reform. Deng Xiaoping famously said that Chinese people “cross the river by touching the stones”. SEZs were used to experiment market-oriented economy without interrupting the economic order of the whole nation. They are not just zones attracting foreign investment, processing manufacturing goods, and creating jobs, but also a test lab for new policies related to FDI, legal, land, labor, and pricing. After the successful pilots in the SEZs, those policies were then promoted to the national level.

As part of the 11th Five-Year Plan, China launched its ambiguous agenda of establishment of 50 overseas economic and trade cooperation zones. So far, there are 19 overseas zones approved by MOFCOM: seven zones are located in Africa¹⁷¹, seven in Asia, three in Russia, and two in Latin America. Although these zones are all set up by China and are intended to help those countries learn from the Chinese experience, there is no single model for Chinese overseas zones. They vary in size, sectoral focus, as well as targeted market. In general, Chinese government is taking a “hands-off” position towards partner countries’ policies on these zones. As the general principal of China’s overseas investment, Chinese government does not impose any conditionality or expect any return investment from the partner countries. Instead, negotiations with the partner countries on specific incentives are lead by Chinese firms, among them many are private companies. The selection of zone’s location, planning and operation are more a business decision than a political decision.

Most of SEZs have started to operate or are completing their construction. Despite all the processes and achievements, the SEZs in Africa are slow in construction, attracting business, generating profits for Chinese developers and benefits for the local community. Both Chinese and local partners have concerns over the future of the SEZs. In general, communication has been ineffective and the process of how contracts are signed is not transparent. For the Chinese firms, the local government is not actively participating in the construction of the SEZ and thus fails to deliver many services such as delay of issuing necessary licenses and work permits. In addition, local governments have not handled the land transfers appropriately, causing delays for the construction and friction with the local community. On the other hand, the African governments are worried that these SEZs are used by Chinese firms to re-export goods with African labels to markets with preferential agreements with Africa. Local communities are also concerned about Chinese firms not using local material and hiring local labor. Although all the zones are open to any foreign and (with the exception of the Mauritius Zone) domestic investors and no explicit preferential treatment is given to Chinese investors, the reality to date in most of the Chinese SEZs in Africa zones is that investor interest has primarily come from Chinese

¹⁷¹ Africa includes North Africa and Sub-Saharan Africa.

companies. Thus, in the absence of proactive efforts to promote integration, formulation of Chinese enclave zones is a real risk.

Japan's ODA to Africa

Japan's ODA started as a form of war reparations to Asian countries. Thus, aid to Africa was restricted until the 1960s. Some aid was provided for infrastructure projects to facilitate primary products exports. Following the oil crisis in 1973, Japan also tried to diversify its energy portfolio as well as to seek out new trading partner. It then started to expand its aid programs to Africa. However, during the Cold War era, Japan's aid policy in Africa mostly followed the lead of other leading donors such as the US and Britain. After the Cold War, there was a decline of international interest in Africa and a growing aid fatigue. The exception was Japan, which assumed its international responsibility and established the Tokyo International Conference of Africa Development (TICAD) in 1993, as its own initiative to address African development problems.

The absence of historical or colonial ties with Africa gave Japan an advantage in disbursing development assistance according to each country's specific development needs. Although Africa was not a target region for Japan, it has gradually increased aid there over the last decade. Following its commitment at TICAD IV, it more than doubled its ODA to Africa, from an annual average of \$0.9 billion (2003-2007) to \$1.8 billion in 2011. In addition, Japan's ODA loan commitment reached US\$4 billion during the TICAD V period¹⁷².

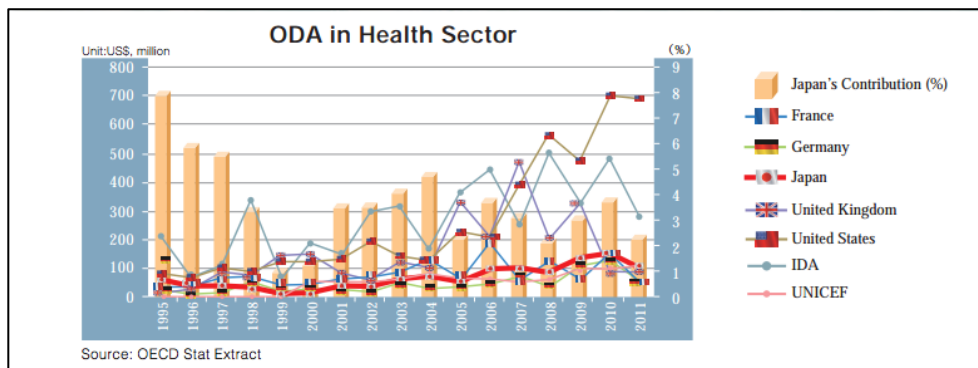
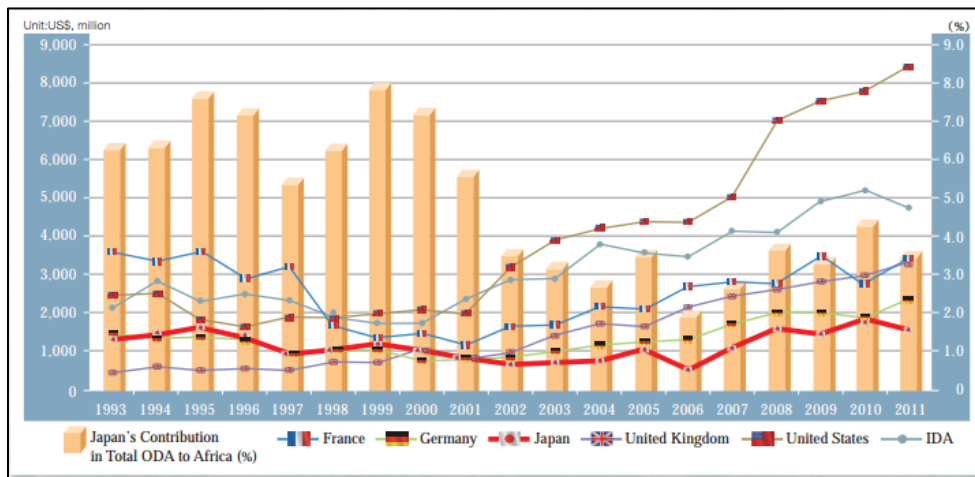
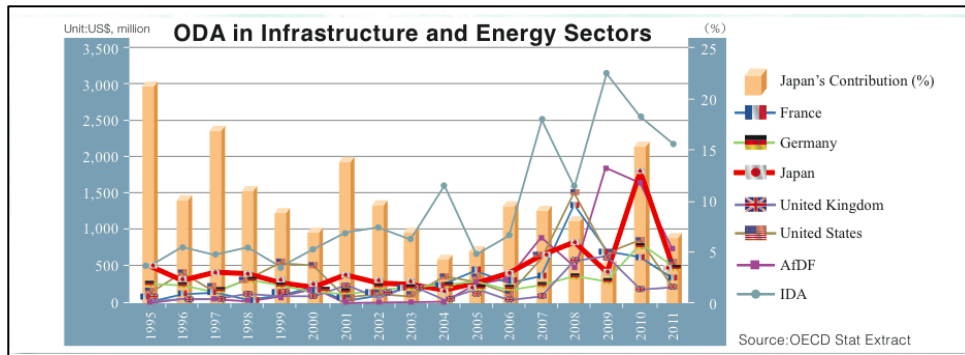
Infrastructure and energy have been the most important sectors for Japan's ODA in Africa, accounting for a quarter of Japan's total ODA to Africa. Based on the development experience of postwar Japan and other Asian countries, Japan believes infrastructure development is crucial for economic growth. In particular, Japan has been supporting regional transportation infrastructure. Based on commitments made at TICAD V, Japan will provide financial assistance of approximately \$6.5 billion, including both ODA and JBIC loan for infrastructure development¹⁷³. Similar to China, the agriculture sector is a priority for Japan's assistance to Africa. Japan has been supporting the Comprehensive Africa Agriculture Development Programme (CAADP) by promoting rice plantation including New Rice for Africa (NERICA) since TICAD II. Coalition for African Rice Development (CARD) was founded at TICAD IV, aiming to double rice production in Sub-Saharan Africa in 10 years (from 14 million tons in 2008 to 28 million tons in 2018). As of 2010, it has increased to about 18.4 million tons¹⁷⁴. Water and sanitation/climate change is a comparative sector for Japan's assistance. Since TICAD IV, Japan has provided safe water to about 10 million people. Regarding climate change, Japan has implemented more than \$1.55 billion of Fast-Start Finance (FSF) to Africa from 2009 to 2012¹⁷⁵.

¹⁷² Ministry of Foreign Affairs of Japan, "20 Years of the TICAD Process and Japan's ODA to Africa", July 2013.

¹⁷³ Ministry of Foreign Affairs, TICAD V, July, 2013

¹⁷⁴ Ministry of Foreign Affairs of Japan, "20 Years of the TICAD Process and Japan's ODA to Africa", July 2013.

¹⁷⁵ Ibid



Following commitments made at TICAD IV, there are also special initiatives launched by Japan. In 2012, Japan established the Public-Private Council for Promotion of TICAD V. The Council is made of prominent Japanese business leaders and key officials from relevant ministries. Both Japan and Africa agree to promote more Japanese firms in the form of Public-Private Partnership (PPP). JICA's PPP program tries to combine social-economic development of African countries with business operations of Japanese private sector. JICA provides preparatory survey for PPP infrastructure projects, as well as assist Japanese SMEs' business using ODA. In addition, Japan will also offer support for political and regulatory reform, and capacity building. One successful example of Japanese PPP with Africa is a project developed by Ajinomoto Co., Inc in Ghana to

reduce infant malnutrition. Ajinomoto cooperated with a local university and developed “KOKO Plus”, which is an amino acid nutrition supplement for infants¹⁷⁶.

JICA is supporting the market research towards the commercialization and development of a business model for this product. In addition, Japan is willing to cooperate with IFC’s PPP Advisory on expanding PPP projects in infrastructure¹⁷⁷. Japan’s peace consolidation and stability programs also are more advanced than China’s. For instance, Japan pledged \$120 million to provide assistance for refugees in Mali¹⁷⁸. In particular, Japan provided food and tents and supported the Peacekeeping Operation Training Center. In addition, at TICAD V, Japan pledged \$1 billion in development and humanitarian assistance to improve capacities against terrorism in the Sahel region. It will also train 2,000 people and provide equipment¹⁷⁹.

However, there are also rising concerns about Japan’s ODA in Africa, especially the new directive to disburse more aid loans. Japan has preferred to expend its ODA through projects and is hesitant to provide debt relief and direct budget support. It is largely due to Japan’s understanding of ownership differs from other Western donors. The World Bank and other DAC members have now moved toward sector-wide approaches, common pools and aid coordination as ways to give recipients more control over use of the aid funds and to alleviate them from burden of project-aid. At the beginning of the 21st Century, Japan announced that loan aid for Highly Indebted Poor Countries (HIPC) should be minimized in order to avoid the moral hazardous problem of the borrower countries. Japan’s ODA to Africa had been consistent with its stance by having grant making up a large part. However, Japan’s loan commitments dramatically increased since the TICAD IV. There are four possible reasons that Japan is again providing ODA loans. First, it has faced pressure from the G8 and the international community. Since 2001, there was growing momentum for increase in the aid amount, especially to Africa to help achieve the MDGs. Japan, along with other countries, promised to double its effort. Meanwhile, Japan’s ODA budget is constrained in providing grant aid and technical assistance. Thus, loan aid, which is separate from the government budget and is ample because of the high repayment ratio from Asian countries, is perfect to fill the increase of the ODA. Second, recovery of African economy increases Japan’s economic interest in Africa, which creates room for Japanese financed projects, particularly for infrastructure development and resource extraction. Many loan projects are scheduled to be implemented together with other partners such as World Bank, AfDB, and South Korea in order to reduce the risks of failure¹⁸⁰.

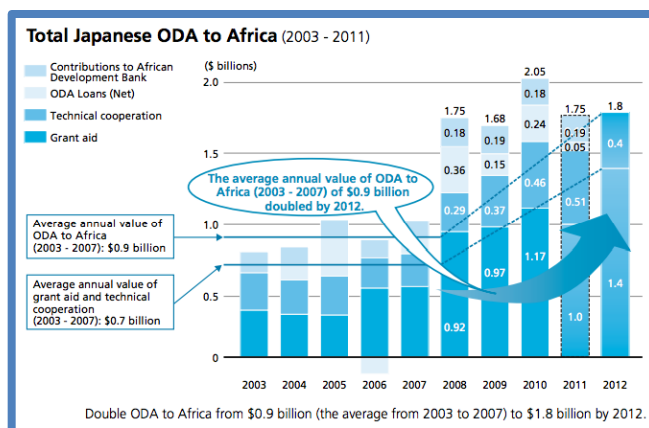
¹⁷⁶ MOFA Japan, “ODA Topics 3: Advancing Public-Private Partnership in Africa”, Japan’s Official Development Assistance White Paper 2013

¹⁷⁷ IFC, “Increasing Japanese Private Sector Participation in Sub-Saharan Africa”.

¹⁷⁸ MOFA Japan, “ODA Topics 3: Advancing Public-Private Partnership in Africa”, Japan’s Official Development Assistance White Paper 2013

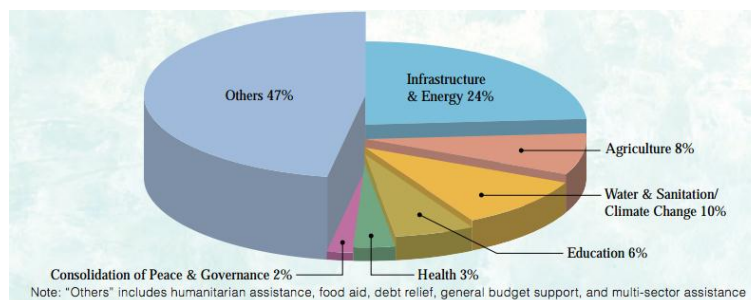
¹⁷⁹ Ibid

¹⁸⁰ Motoki Takahashi and Masumi Owa, “Last frontier of Japan’s ODA?—Peculiarity, potentials and pitfalls”, Kobe University. (Retrieved from http://www.jica.go.jp/uk/english/office/topics/pdf/topics101007_01.pdf)



Source: MOFA

Composition of Japan's ODA by Sector



Source: OECD-DAC Stat

Japan's Trilateral Cooperation¹⁸¹

As China and other emerging donors have actively providing assistance to other developing countries, so-called the South-South Cooperation (SSC), Japan is also assisting the SSC and contributing widely to the Trilateral Cooperation (TC). Japan considers SSC/TC are effective because it disseminate successful efforts including those achieved through Japan's cooperation; it contributes to the regional and global cooperation; it is also complementary to bilateral cooperation. Japan's TC programs are global, and there are particularly successful projects in Africa. Japan-Brazil-Mozambique is a typical trilateral cooperation. Since the 1970s, JICA has provided technical and financial assistance for agricultural development in Brazil's savannah called "Cerrado". JICA helped Brazil transform Cerrado into a farming bonanza with high production of soybeans, corn, and beans. After a joint study by JICA, Brazilian Cooperation Agency, and Ministry of Agriculture of Mozambique, they concluded that Brazil's experience could be transferred to Mozambique because Cerrado shares many similarities with Mozambican tropical savannah. Another example is the "Strengthening of Mathematics and Science Education in Western, Eastern, Central and Southern Africa" Network (SMASE-WESCA). Kenya, with the help of JICA, established institutionalized in-service training for teachers in math and science. After training 20,000 teachers, the classroom environment has changed substantially. Following Kenya's success, SMASE-WESCA was developed in 2001 to share Kenya's experience.

¹⁸¹ JICA, "JICA's Support for South-South and Triangular Cooperation: For Inclusive and Dynamic Development"

Currently, there are 34 countries in the Network and more than 1,300 teachers from the region have received training in Kenya. In addition, with JICA's support, 14 countries initiated projects similar to Kenya's, helping train 90,000 teachers.

Trade & Investment

In summary, China and Japan's trade and investment patterns differ greatly both in terms of size and content. China is the largest trading partner of Africa, with more than \$200 billion trade volume. China is also an active investor in Africa, and its state-operated enterprises (SOEs), private firms as well as individual investors has heavy footprints in almost every African country. On the other hand, Japan remains a modest player. Its trade volume is only \$24 billion in 2010. Its largest Africa trading partner is South Africa. Because of the large gap between China and Japan in Africa, Japan does not plan to catch up with China soon. Instead, Japan uses Germany as a benchmark for its investment and trade policy. Both Japan and Germany share a colonial-free history with Africa, and they have comparative advantages in similar industries.



China's trade and investment in Africa

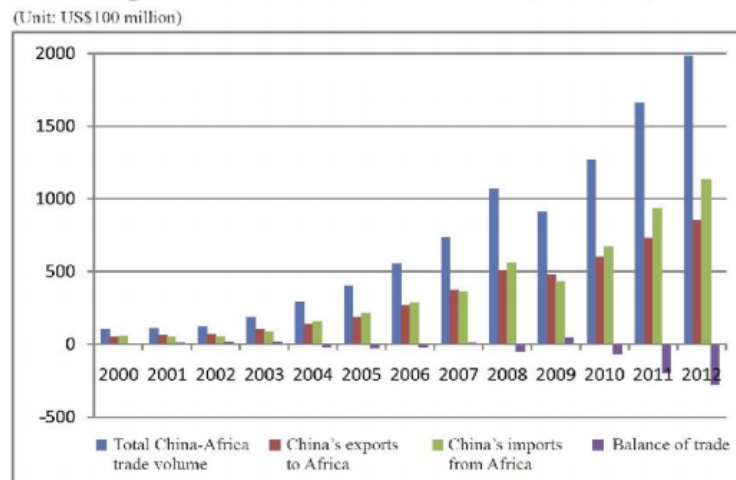
Sino-Africa trade had been modest prior to 2000. After the establishment of FOCAC in 2000 and China's joining of WTO in 2001, Sino-Africa trade has increased remarkably. Since 2009, China has become the largest trading partner. In 2013, the total volume of China-Africa trade surpassed \$200 billion. Sino-Africa trade has increased thirty-five fold since the 21st Century, from \$6.3 billion in 1999 to \$210 billion to date. As the volume of China-Africa trade continues to grow, its proportion to China's and Africa's respective total world trade has also increased. From 2000 to 2012, Africa as share of China's trade volume increased from 2.23% to 5.13%, and China as share of Africa's total increased from 3.82% to 16.13%¹⁸². In addition, China accounts for 40 percent of Africa's total exports to Asia today¹⁸³. China has replaced Japan to be the largest supplier of products for Africa, accounting for more than one-third of Asia's imports to Africa. The sharp rise of China-Africa trade has two implications: first, China's economy has been growing at a fast pace since 2000 and demand for raw materials has been increasing; and second, China has found Africa a potential market for Chinese products. Thus, China and Africa form a complementary trade pattern. Chinese imports from Africa mostly are commodities such as crude oil, minerals such as iron ore, platinum, and copper, and agricultural products. Since 2000, crude oil has been over two-thirds of African's total export value to China. Oil producers Angola, Nigeria, and Sudan were three of China's top five African trading partners from 2008 to 2010. However, Sino-Africa trade relations go beyond oil and minerals. Logs and cotton are two leading agricultural raw materials for China and are exported by a range of Western African countries. On the other hand, China's exports to Africa are diversified. 45.9% of Chinese exports

¹⁸² Information Office of the State Council, People's Republic of China, "China-Africa Economic and Trade Cooperation (2013)", August 2013.

¹⁸³ Shinn and Eisenman, 96

to Africa are mechanical and electrical products¹⁸⁴. China also supplies Africa with textiles and apparel, and other manufacturing goods. In order to help African exports to access Chinese market, China enacted tariff exemptions and exhibition centers for African products. Since 2012, 30 least developed African countries that have formal relations with China have been granted zero-tariffs for 60% for their exports¹⁸⁵. In 2011, an African Products Exhibition Center opened in Yiwu, Zhejiang. Now, it has attracted over 2,000 commodity goods from more than 20 African countries¹⁸⁶.

Figure 1: China-Africa Trade Volume (2000-2012)



Source: China-Africa Economic and Trade Cooperation White Paper, 2013, p. 4

Although China's overseas investment is relatively a new phenomenon, starting with big SOEs in the late 70s, China identified Africa as one of the key markets in the early 90s. The following are four reasons that China is interested in investing in Africa¹⁸⁷. First, Africa has abundant natural resources which are crucial for China's economic development. Second, Africa's large population suggests a potential market. Third, Africa countries are attractive to China for mineral extraction and construction projects. Fourth, several African countries are suitable for long-term investments. In addition, Chinese government also encourages companies to use foreign countries to circumvent trade barriers. For instance, many Chinese textile factories are set up in Africa to take advantage of Africa Growth and Opportunity Act (AGOA) to enter the US market. Although denied by the Chinese government, there are speculations of China using investments to secure resources.

In 2000, China formalized its investments in Africa in the first FOCAC in 2000. China's investment remained modest until 2004 and has been increasing significantly since. It peaked in 2008 with appropriately \$5.5 billion and declined after the global financial crisis. From 2009 to 2012, China's direct investment increased from \$1.44 billion to \$2.52 billion¹⁸⁸ annually. There

¹⁸⁴ Information Office of the State Council, PRC, "China-Africa Economic and Trade Cooperation (2013)", August 2013

¹⁸⁵ Ibid

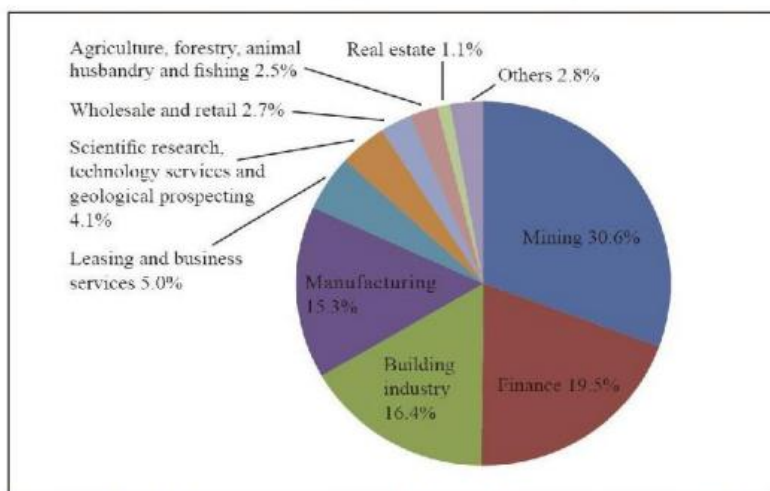
¹⁸⁶ Ibid

¹⁸⁷ Shinn and Eisenman, 128

¹⁸⁸ UNCTAD statistics

are more than 2,000 Chinese firms investing in 50 Africa countries¹⁸⁹. About 85 percent of firms are privately owned, with head offices concentrated in the coastal provinces of Zhejiang, Guangdong, Fujian, Jiangsu, and Shandong. Most of private companies are small and medium enterprises (SMEs). Traditionally, Chinese companies are more willing to take risks than Western and Japanese companies by operating business in conflict zones. Their bidding usually benefits from lower costs for labor and capital requirement, fewer managerial expenses, and smaller profit margins than Western and Japanese firms. China has signed 32 bilateral investment treaties by now.

Figure 2: Distribution of China's Direct Investment in Africa (by the end of 2011)



Source: China-Africa Economic and Trade Cooperation White Paper, 2013, p. 6

Mining and finance are the two biggest sectors, containing 30.6% and 19.5% of the total investments respectively. The World Bank estimated Chinese investment in the oil sector for Sub-Saharan Africa reached \$7.5 billion and an additional \$3.1 billion in mineral sector during the same period, mainly for chromium, copper, bauxite, cobalt, iron, diamonds, coal, and nickel¹⁹⁰. As Chinese corporate clients prefer Chinese banks in Africa or African banks that have partnered with Chinese banks, Chinese involvement in Banking has been increasing to

meet the demand. In 2007, the Industrial and Commercial Bank of China purchased 20 percent of South Africa's Standard Bank for \$5.5 billion, making China an important player in African banking¹⁹¹. The China Construction Bank (CCB) and the Bank of China (BOC) both have branches in South Africa. Furthermore, China is also a great place for African investments. They have invested in China \$9.9 billion by the end of 2009. Mauritius has traditionally been a large investor in China, exceeding \$1.3 billion as of 2007¹⁹². South African investors are also important players. While official figures of South Africa's investment reached \$700 million in 2007, specialists suggested the actual number was close to \$2 billion¹⁹³.

China has several promotion institutions to encourage investments in Africa. CADF established in 2007 is China's first equity fund focusing on investment in Africa. It is operated in a market-oriented manner and assumes sole responsibility for its profits and loss. It began with investment equity of \$1 billion and is expected to rise to \$5 billion¹⁹⁴. CADF can only invest in Chinese

¹⁸⁹ MOFCOM Data

¹⁹⁰ Shinn and Eisenman, 132

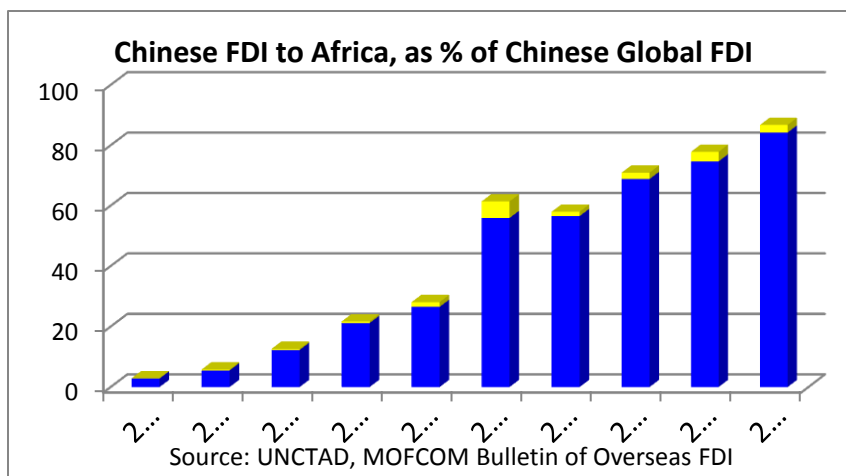
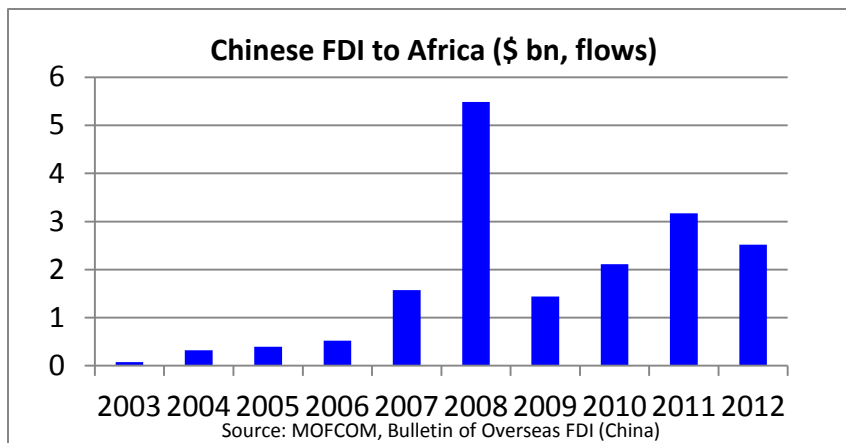
¹⁹¹ Ibid

¹⁹² Ibid

¹⁹³ Shinn and Eisenman, 143

¹⁹⁴ Ibid

companies and African joint venture partners for the first 50 years. CADF also provides management, consulting, and financial advisory services for Chinese firms. It targets sectors include agriculture, manufacturing, infrastructure, natural resources, and industrial parks. Most of the investments have been small, in the range of \$5 to \$25 million. So far, CADF has pledged to invest \$2.83 billion, and had already invested \$1.8 billion, all from the China Development Bank (CDB). CADF has also leveraged \$15 billion from Chinese companies to Africa¹⁹⁵. CADF currently, has offices in South Africa, Ethiopia, Zambia and Ghana, and CADF is expecting to open more. In comparative term, CADF serves as a one-stop station as Japan Bank for International Cooperation (JBIC), Japan Oil, Gas, and Metals National Corporation (JOGMEC), and Nippon Export and Investment Insurance (NEXI)¹⁹⁶ combined. China Export and Credit Insurance Corporation (SINOSURE) supports Chinese exports and overseas investments by providing insurance against buyer and country risks. Africa accounted for 29 percent of its medium- and long-term business¹⁹⁷. China-Africa Business Council, supported by the United Nations Development Programme and MOFCOM, has more than 16,500 member private companies. It organizes business missions to Africa and receives Africa commercial delegations. In 2010, MOFCOM launched the China-Africa Research Center, a think tank helps with increasing trade and investment with Africa.



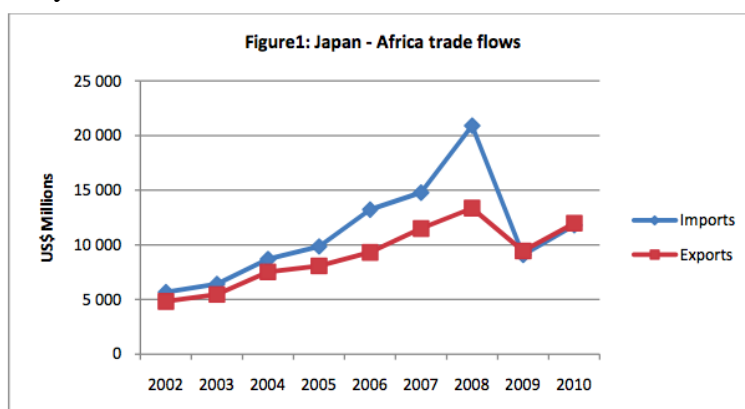
¹⁹⁵ Hu Tao, “PE funds boosts China-Africa cooperation”, People’s Daily, May 10, 2014.

¹⁹⁶ METI, “Perspectives on African Business”, TICAD V and Japan’s Africa Strategy

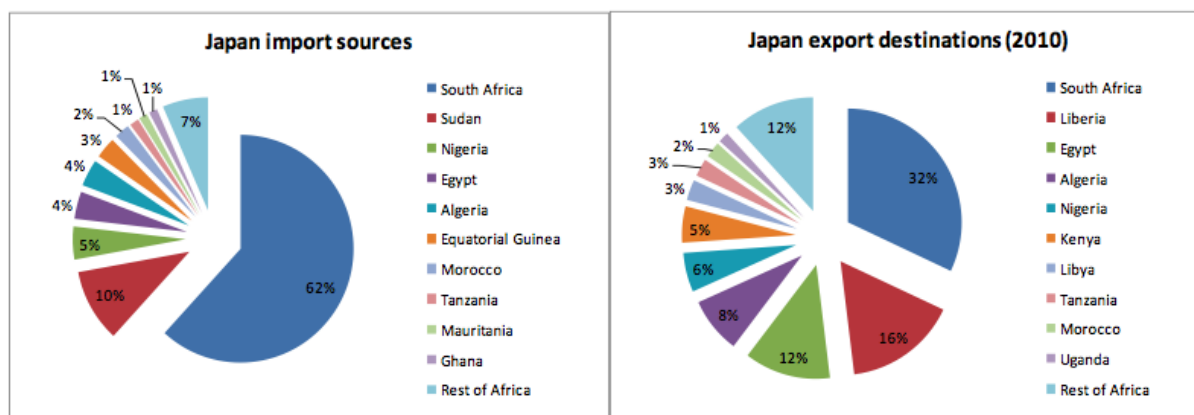
¹⁹⁷ Shinn & Eisenman, 135

Japan's trade and investment in Africa

Africa developed into a market and business partner to Japan in the 1960s and 1970s when the Japanese economy was expanding. Japanese trading companies sold textile products and automobiles in the region. However, in the 1980s and 1990s, Africa became a target for development both due to the rising cost of Japanese products and stagnation of the African economy. Most Japanese companies withdrew except in a few areas. Japanese investment was limited to development aid. In recent years, Africa has regained the interest of Japanese business after conflict on the continent subsided and the African economy started to grow. Japan has been progress on resource development, infrastructure, and expansion into new sectors. But compare to China, Japan has a much smaller trading volume and investment in Africa. The total amount of trade and investment is only one fourth of China's. In 2010, the total trade was \$24 billion concentrating in only a few African countries¹⁹⁸. South Africa is the largest African trading partner. Top three products accounted for 78% of imports from Africa and there were rare metals, oil, and ores. Slightly different from China's mineral demand in Africa, Japan is mainly importing chrome, cobalt, manganese, and vanadium. Japanese exports to Africa are mostly vehicles and machinery.



Source: World Trade Atlas



Source: World Trade Atlas

¹⁹⁸ Taku Fundira, "Japan-Africa trade at glance", Economic and Trade Policy Review, Trade Law Centre for Southern Africa.

Japanese investments in Africa reached \$460 million in 2012¹⁹⁹. As of 2009, there were 484 Japanese private firms operating business in Africa, providing 200,000 jobs²⁰⁰. Important firms include Toyota, the Ambatovy Madagascar project which Sumitomo Corporation owns a 27.5% share, the Mozal in Mozambique which Mitsubishi Corporation has a share of 25%. Investments have mainly been directed towards infrastructure and mining. Investment in mineral and resources concentrate in Southern Africa, with development of platinum, manganese, chrome mine in South Africa, and natural gas exploration in Mozambique and Namibia. Recently, more attention is paid to oil development in South Sudan and Kenya. Besides resources and infrastructure, Japanese business is limited to automobiles, heavy equipment, home appliances, and audiovisual electronics. Furthermore, these sectors face competition from German, American, and South Korean firms. For example, Japanese firms had been strong in the home appliance industry, but lost that market to Korea. Now there is only one company remaining steadfastly. In recent years, there is a trend of expansion of firms into new sectors such as B2B business, consumer products, and society-related businesses. There are also cases that local Japanese people started their own business, such as used car retail and nuts production.

There are several initiatives by METI to promote trade and investment between Japan and Africa. Prior to TICAD V, the first Japan-Africa Ministerial Meeting for Resource Development was held in 2013, to explore resource development in a win-win perspective. The conference led to commitment of financing assistance worth 200 billion yen provided by JOGMEC and training of 1,000 personnel in the field of resource development. Following the pledges made in TICAD V, JETRO offices in Africa will be doubled from the current five over the next five years. NEXI will also relax its terms for coverage for transactions involving trade with 19 African countries. In addition, Japan Sustainable Mining, Investment and Technology Business Forum 2013 and African Fair 2013 were held to help match business opportunities. METI aims to triple total amount of Japanese exports to Africa and sales by African subsidiaries of Japanese companies by 2020 compared with 2011.

Because China's trade and investment is way ahead of Japan's, Japan is not setting itself as a competitor. Instead, Japan is looking to Germany as a benchmark for its policies in Africa. Both Japan and Germany are not former colonial powers in Africa and they share industrial expertise. Currently, Japan's export volume to South Africa is only half that of Germany's. The main exports items from Germany to South Africa are mostly products that Japan also has comparative advantage, such as automobile parts, precision equipment, machine tools, and heavy electrical equipment. In addition, in many existing sectors, Japan is competition against other major industrial countries such as the U.S., and South Korea.

¹⁹⁹ UNCTAD

²⁰⁰ MOFA Japan, "Trade, Investment and Tourism", TICAD IV Report.

Source: UNCTAD

Table C. Cross-border M&As by region/country, 2011–2012
(Millions of dollars)

Region/country	Sales		Purchases	
	2011	2012	2011	2012
World	8 592	- 1 195	4 378	611
Developed economies	4 397	- 3 412	4 288	634
European Union	2 400	- 1 619	1 986	1 261
United States	1 634	- 144	41	-
Japan	649	-	-	-
Developing economies	4 163	2 049	90	- 23
Africa	409	114	409	114
East and South-East Asia	2 986	1 843	- 94	- 386
China	2 441	1 580	- 16	-
South Asia	318	22	- 337	426
West Asia	464	73	87	100
Latin America and the Caribbean	- 14	- 3	24	- 277
Transition economies	-	-	-	-

Table E. Greenfield FDI projects by region/country, 2011–2012
(Millions of dollars)

Partner region/economy	Africa as destination		Africa as investors	
	2011	2012	2011	2012
World	82 939	46 985	35 428	7 447
Developed economies	39 181	17 314	18 983	1 683
European Union	23 861	7 882	178	251
United States	6 638	4 831	18 759	1 362
Japan	1 302	726	-	39
Developing economies	43 033	29 604	16 445	5 764
Africa	10 749	3 821	10 749	3 821
East and South-East Asia	12 360	4 616	400	166
China	1 953	1 764	334	102
South Asia	11 113	9 315	980	149
West Asia	7 038	11 610	150	1 160
Latin America and the Caribbean	1 774	242	1 167	469
Transition economies	725	67	-	-

Why Japan is lagging so much in trade and investment?

According to the survey of Japanese businessmen as well as interviews with Japanese officials, there are several reasons that Japanese hesitate to invest in Africa. First of all, security remains a major obstacle. There are more fragile states in Africa than any other continent. Japanese businessmen are usually risk-averse and not comfortable in a place where their investments could be destroyed or plundered. In Jan 2013, terrorist's attack in Algeria killed nine Japanese workers of Toyota, which rang another alarm bell for Japanese firms as their personal security is also at stake²⁰¹. Indeed, many Chinese firms operating in these countries have to employ expensive security firms to protect their business and staff members. A senior scholar from IDE-JETRO pointed out that the Japanese government should

also do more to protect its overseas citizens. For example, it could deploy more military attachés to African countries in order to obtain security information. The Japanese embassy could also cooperate with the American embassy which can send warnings to it. Second, the low level of infrastructure also prevents Japanese firms from going to Africa. Third, human resources are also a problem. On one hand, there are not many skilled workers because of the low literacy.

Japanese firms need to spend time and money on training. On the other hand, wages in African countries are often higher than that in Southeast Asian countries. It is not efficient for Japanese firms to move their factories to Africa. Fourth, one factor often overlooked is whether Japanese industries match the demands of the African economy. A senior METI official noted that he noticed that there were three levels of Chinese investments which fit the African market. At the first level, there are big SOEs or private firms which have business in construction, natural resources and telecommunication. The second level contains small to medium-sized enterprises (SMEs) which concentrate on agriculture, manufacturing, or even services. The third level comes from individual Chinese entrepreneurs, who run supermarkets or small shops. However, in Japan, it is very difficult for the level 2 and level 3 investments to flow into Africa. At level 1, several large trading and investment companies such as Mitsubishi have a long presence in Africa. For Japanese SMEs, which usually participate in a small part of supply chain, it is hard to expand their business if the supply chain does not exist in Africa. There were many active Japanese firms in the 70s and 80s in Africa. However, they often conducted business through big trading and investment companies. As a result, they never developed the expertise of local environment

²⁰¹ "Algerian hostage toll rises as nine Japanese killed", *Guardian*, Jan 21, 2013.

or overseas operations. In addition, there are many B2B specialized Japanese firms could have a comparative advantage in Africa. But for now, the market is occupied by European companies. Japanese firms need to find a way to break through. For level 3 Japanese investors, they barely know the market.

There are many actions Japanese government can take or is already taking to help boost Japanese investments. At TICAD V, Prime Minister Abe called upon African leaders to create a safe and free investment environment. In addition, Japanese ambassadors are directly communicating the requests of local companies. ODA Task Forces in each recipient country also has expanded to its members to include Japanese companies. Outlined in the TICAD V, JETRO offices will expand from 5 to 10 in the next 5 years. JETRO offices help with identification of business opportunities, feasibility studies, and market testing so that Japanese firms are more comfortable with investment in Africa. Regarding human resources, as part of PM Abe's initiative, there are programs and scholarships available for Africans to study in Japan. In addition, the METI Global Internship Program sends young Japanese overseas (mostly developing countries) to be familiar with local economies.

Cooperation between China and Japan

While Japan expresses interests in cooperating with China on aid or even investment projects, there are some barriers ahead. First, China is not an OECD-DAC member and does not have to comply with DAC regulations. Chinese ODA's objectives may be different from Japan's. Often, China is not present at the donor coordination meetings, which makes it hard to come up with joint projects. Second, because of current political tensions between China and Japan, the public would not be pleased to see a collaborative project between the two countries. Ultimately, Japanese ODA is Japanese taxpayers' money and thus has to take the public opinion into consideration. In addition, any political dialogue between the two countries seems to come to a deadlock. Third, because China does not have a JICA-like organization, aid, trade and investments all fall into the work of the commercial sector of the Chinese embassy. Usually, there are only 8 to 10 people per African country. As a result, they are too busy to attend these donor coordination meetings. There is also no incentive for them to attend.

Despite all the difficulties, slowly, there is cooperation at both the policy level and the grassroots level. Cooperation also takes different forms. At the policy level, there is annual meeting between China Exim Bank and JICA-RI, which helps with country analysis. At the ground level, JICA staff frequently meet with people in charge of the commercial section from the Chinese embassy. There are direct cooperation projects²⁰². For example, the Olkaria Geothermal Power Project in Kenya was co-financed by JICA ODA loan and China Exim Bank concessional loan. There are also examples of Japanese subsidiaries in China investing in Africa. For instance, Chinese Exim Bank financed the Grand Poubara Dam in Gabon. Toshiba Hydro Power (Hangzhou) Co., Ltd has provided the turbines as a sub-contractor for the project. Xinxiang Kuroda Mingliang Leather Co. Ltd, which is a Japan-China joint venture established by Kuroda Corporation, a glove producer in Kagawa Prefecture, has set up the China-Africa Overseas Leather Products S.C. in Ethiopia with the help of China Africa Development Fund. A modern leather processing factory built Oromia State was inaugurated in 2010, costing \$27 million. It is the largest leather factory in the country. Although Kuroda withdrew the capital from the JV later,

²⁰² Naohiro Kitano, "Asian donors: Japan, South Korea and China", March 19, 2014

we can still draw the logic that Japan helped China with establishing a leather factory and now China is expanding its business to Africa.

China and Japan also work in the same sector in the same country. For instance, China has established 15 agricultural technology demonstration centers across Africa. At the same time, under the Coalition for African Rice Development, JICA also has 10 technical cooperation sites. In some countries, such as Tanzania and Madagascar, both Chinese and Japanese centers are present. According to a JICA researcher, JICA staff members visited the Chinese center and learned about their experience. In the future, there will be more opportunities, especially in the business side. China and Japan could be complementary in many sectors. For example, Chinese construction companies can purchase Japanese machineries which are already well-known for good quality in China.

Implications for the US

The US has had a mixed response to China's recent activism in Africa. In general, the US believes that China and US have different policy objectives and approaches towards Africa. However, it is often shaped by the overall US-China relationship. When US-China relations are stable, the American public and US government are more likely to view China's engagement in Africa in a positive way, but they are more likely to see China as a "strategic" threat when Sino-US relations are not going well. For instance, China is often accused by the US that Chinese investments in countries lack good governance and would undermine democratic institution building, and thus diminishing US development initiatives. Some suggest the China is a competitor for both political and economic influence in Africa. China has more diplomatic offices in Africa than does the US, and it has consistently supported Africa in the international arena. It is important for the US to recognize Africa as a promising place for investment as China and Japan do. It only recently returned to infrastructure projects under the Millennium Challenge Corporation, after three decades of absence. Currently, American investment is still heavily concentrated in the natural resource sector. Despite China's growing investment in Africa, it remains minor compare to the US. The US FDI in Africa totals nearly two to three times more than Chinese stock investment²⁰³. Competition from the US may also drive Chinese firms to offer better financial terms, improve working conditions, provide social services, and thus benefit Africa in long run. In addition, there is a call for US-China cooperation in Africa especially in the area of peacekeeping and knowledge transferring. At senior level, there is already a US-China Sub-dialogue on Africa launched in 2005. However, the Sub-dialogue has generated few examples of concrete cooperation.

Japan and the US have been allies for many decades and have been collaborating in many areas. Regarding Africa, Japan and the US work closely in development challenges, reducing poverty, and increasing economic opportunities. The US recognizes the importance of the TICAD process and Japan welcomes the first US-Africa Leaders Summit in August 2014. The two sides acknowledge that both of them can learn from each other. JICA could learn from the large-scale, quick disbursement, and flexibility of USAID's humanitarian assistance, while USAID could draw lessons from JICA's long-term capacity-building assistance to communities and

²⁰³ Yun Sun and Jane Olin-Ammentorp, "The US and China in Africa: Competition or Cooperation?", April 28, 2014, Brookings Institutes.

governments²⁰⁴. Historically, Japan and the US have been collaborating on health and population issues. Previously mentioned, Japan's PPP project of developing nutrition supplement in Ghana is also an example of US-Japan joint development²⁰⁵. But there are also new cooperation initiatives on human resource training. The US took part in a Japanese-led program for African entrepreneurs and government officials in Japan in February in 2014, and Japan is supporting the US International Visitor Leadership Program for African female entrepreneurs in summer 2014. In addition, USAID and JICA coordinate on global food security assistance in Tanzania, Ghana, Rwanda, Senegal, and Mozambique.

Conclusion: Looking Ahead

In summary, China and Japan are not major competitors in Africa despite their shared political and economic interest in the region. As an emerging donor, China's presence in development practice is much smaller than Japan. In addition, both Chinese and Japanese aid models have similar characteristics and are different from that of Western donors. More importantly, a large number of African leaders are interested in China's development path. China's socio-economic conditions and historical experience are similar to those in many African countries. In particular, China was a large aid recipient country for a long time. It is worthwhile to notice that the important role of Japan has played in China's economic advancement. Having both China and Japan working on African development, they could work together to help African countries better utilize aid as well as foreign investment. There has already been collaborating between China and Japan on African development projects, however, due to current political tensions, there is little incentive now to hold a high-level policy dialogue. In addition, mistrust between the Chinese and Japanese governments also leads to suspicion of each other's intentions in Africa. Regarding economic relations with Africa, China's trade and investment are much more prominent than Japan. Although both of them are interested in resources, China is seeking crude oil and minerals while Japan is searching for natural gas and rare metals. China and Japan also have different comparative advantages. There is room for cooperation if Chinese and Japanese business complementary to each other.

There is no doubt that China will become more involved in Africa. Recent visit by Premier Li Keqiang in May 2014 reflected China's ambition of expanding economic ties. China pledged another \$12 billion, including \$10 billion in loans and \$2 billion for CADF²⁰⁶. China's commitment to infrastructure development is also increased through a \$3.6 billion, 380-mile railway line linking Nairobi to Kenya's port of Mombasa²⁰⁷. The railway eventually will be a part of a regional railway system of East Africa. Furthermore, China plans to build an 860-mile high-speed railway in Nigeria, worth \$13.1 billion²⁰⁸. Chinese infrastructure projects will not only benefit Chinese business, but also create a better investment environment for all foreign investors including Japan. However, it is important for China to increase programs train African workers to maintain the infrastructure. Japan's TICAD V agenda can certainly fulfill this role as well. In general, African nations can benefit the most from a variety of players in the region,

²⁰⁴ http://www.jica.go.jp/usa/english/office/others/newsletter/2012/1201_02_01.html

²⁰⁵ http://www.ajinomoto.com/en/presscenter/press/detail/g2012_05_31.html

²⁰⁶ "China to extend over \$12 bln in aid to Africa", Reuters, May 09, 2014.

²⁰⁷ Amy Copley and Amadou Sy, "Chinese Premier Li Keqiang's visit to Africa: A (Rail)road to success in Sino-African relations?", Brookings Institutes, May 14, 2014.

²⁰⁸ Kathleen Caulderwood, "Chinese Premier Li Keqiang Vows to Help Build a Railway Through Africa 'With No Strings Attached'", *International Business Times*, May 08, 2014

including Japan, China, and the US. They are able to take advantages of each country's expertise. Healthy competition among them can also lead to lower price and better quality of goods and services.

It is also important learn about African's perspectives towards China and Japan. Africans usually hold positive views of Japan because of its widespread aid programs. However, perceptions of China are mixed in Africa. Historically, China has been a "friend" and "brother" to African nations. But there is a growing resentment towards Chinese firms and Chinese workers. There were violent riots at China's Chambishi copper mine in Zambia over working conditions and pay. Africans also complain about an increasing number of Chinese traders and small shops owners, which have forced Africans out of work. On the other hand, both Chinese and Japanese perceptions of Africa are still limited to images of poverty and conflict. It is especially problematic when more and more Africans are coming to China seeking business opportunities. Clashes between local Chinese and Africans are common in large cities like Guangzhou. Thus, along with closer economic cooperation, both China and Japan need to enhance domestic understanding of Africa, and thus truly embrace the idea of Africa as a "partner".

Annex I

Five Principles of Peaceful Coexistence

- Mutual respect for sovereignty and territorial integrity;
- Mutual non-aggression;
- Non-interference;
- Equality and mutual benefit;
- Peaceful coexistence

Annex II

The general principles and objectives of China's African policy

- Sincerity, friendship and equality. China adheres to the Five Principles of Peaceful Coexistence, respects African countries' independent choice of the road of development and supports African countries' efforts to grow stronger through unity.
- Mutual benefit, reciprocity and common prosperity. China supports African countries' endeavor for economic development and nation building, carries out cooperation in various forms in the economic and social development, and promotes common prosperity of China and Africa.
- Mutual support and close coordination. China will strengthen cooperation with Africa in the UN and other multilateral systems by supporting each other's just demand and reasonable propositions and continue to appeal to the international community to give more attention to questions concerning peace and development in Africa.
- Learning from each other and seeking common development. China and Africa will learn from and draw upon each other's experience in governance and development, strengthen exchange and cooperation in education, science, culture and health. Supporting African countries' efforts to enhance capacity building, China will work together with Africa in the exploration of the road of sustainable development.

Annex III

Four Principles on Sino-African Economic and Technical Cooperation

- In carrying out economic and technological cooperation with African countries, China abides by the principles of unity and friendship, equality and mutual benefit, respects their sovereignty, does not interfere in their internal affairs, attaches no political conditions and asks for no privileges whatsoever.
- In China's economic and technological cooperation with African countries, full play will be given to the strong points and potentials of both sides on the basis of their actual needs and possibilities, and efforts will be made to achieve good economic results with less investment, shorter construction cycle and quicker returns.
- China's economic and technological cooperation with African countries takes a variety of forms suited to the specific conditions, such as offering technical services, training technical and management personnel, engaging in scientific and technological exchanges, undertaking construction projects, entering into cooperative production and joint ventures.
- The purpose of China's economic and technological cooperation with African countries is to contribute to the enhancement of the self-reliant capabilities of both sides and promote the growth of the respective national economies by complementing and helping each other.

Recovery: Civil Sector after the Great East Japan Earthquake

By Yun-Chin Chiu

Introduction: the Great East Japan Earthquake

On March 11, 2011, a massive magnitude-9.0 earthquake struck the northeast region of Japan. The powerful earthquake was followed by a devastating tsunami, affecting a widespread area. Three prefectures, bordering the Pacific Ocean—Iwate, Miyagi, and Fukushima—were seriously damaged. The earthquake inflicted heavy casualties on the local population: there were more than 15,000 deaths and over 6,000 injured. About 21,480 hectares of farmland were flooded due to the tsunami, which followed after the earthquake, and 819 fishery operation factories were destroyed. As of 2014, three years after the earthquake, some 267,000 victims are still staying in temporary housing. Nearly 63 percent of the flooded farmland has not yet been rehabilitated, and more than 163 fishery operation factories have not yet been reconstructed (Reconstruction Agency, 2014). Indeed, the Great East Japan earthquake brought enormous damage to the once self-sustaining area.

In response to this severe disaster, international rescue teams from 24 countries were quickly dispatched to Japan. However, they left the country at an early stage, not staying on to physical participate in the subsequent massive recovery efforts (Taga, 2012; MOFA, 2011). For instance, about 24,500 soldiers from the U.S. military contributed to search, rescue and recovery efforts, providing and sending materials, crisis-management in the nuclear accident that destroyed the Daiichi Fukushima Power Plant, and restoring infrastructure in affected areas such as the Sendai International Airport and JR Sendai Line. Yet, the humanitarian rescue teams from the U.S. operating in Ofunato City in Iwate Prefecture finished their work merely one week after the disaster had occurred. All of these staff members left Japan before November 2011 (Taga, 2012). Although their rescue efforts were appreciated, the recovery efforts required a much higher level of sustained operations.

Nevertheless, monetary donations from overseas continued to be sent to Japan. The International Development Center of Japan conducted a survey within a year after the Great East Japan earthquake (hereafter, the Tohoku earthquake), which showed the estimated amount of monetary donations at \$1.63 billion, spread over 1,393 projects (IDCJ, 2013). In a different report, Japan Center for International Exchange indicated individuals in the U.S. have contributed \$730 million to the recovery in the three years since the disaster (JCIE, 2014). No other disaster in a developed country has received such a large amount of contributions from the U.S. like the Tohoku Earthquake. Over 90 percent of the donations went to projects initiated by citizens rather than by the Japanese government. As a result, it is imperative to examine how the international donations affected individuals and civil groups in Japan.

The Evolution of the Civil Sector in Japan

The Tohoku earthquake revealed inherent weaknesses in the existing civil structure. The civil sector is supposed to be an independent and autonomous, composed of individuals and organizations that collectively strive to realize their values and beliefs. These actors are

voluntary, and are not motivated by profits or political power (Schwartz et al., 2003). Civil groups are supposed to be autonomous, independent from the public or business sector, and self-supporting (Diamond, 1999). However, most civil groups are struggling to achieve those qualities, and not all of them can completely reach the goals of autonomy and self-reliance.

In the past, studies on the civil sector in Japan focused on charities, research institutions, and foundations, but the topics should be more diversified and inclusive (Schwartz et al., 2003). This paper expands both sides of the spectrum of analysis, to take in overseas foundations and their local partners in Japan into research. International cooperation can assist local civic organizations in Japan to gain trust, capacity, and autonomy through recovery activities on the community level. It is critical to examine various routes to overseas funding for practitioners and researchers.

Problems: regulatory framework and low trust

The dominance of Japan's Iron Triangle, the interlocking relationships between the bureaucrats, politicians from the Liberal Democratic Party, and business groups, has suppressed Japan's civil sector (Hirata, 2002; Kawashima, 2000). The triangle aligned Japan's developmental policies as well as available resources, and created miraculous economic growth in the 1960s to 1980s (Johnson, 1992). However, Japan's economic development was at the expense of development of its civil sector (Hirata, 2002). The civil sector was considered by the triangle to be a possible threat to the government and was excluded from "development" in Japan. Thus, the civil sector remained inactive during the economic boom.

The civil sector in Japan has been regarded as government-centric, and many groups in the sector have been deemed as quasi-governmental, despite easing regulations (Kawashima, 2000). Japan did not have a proper legal framework for civil organizations until its Nonprofit Organization Law was launched in 1998. The law, known as the NPO law, simplified the lengthy application process of incorporation for agencies wishing to obtain legal status. With legal status, a civil organization can deal with contractual and financial work as an entity. Although the NPO law was established, the historically restrictive regulatory framework still has profound influence on the civil sector in Japan. Consequently, the institutional framework has created the unique landscape of the Japanese civil sector, namely "a plethora of small, local groups and a dearth of large, professionalized, independent organizations" (Pekkanen, 2006, p. 2)."

Arguably, civil groups have been decentralizing from the government and establishing their autonomy. Research showed the Iron Triangle has been eroded by the economic recession and political corruption scandals in recent years (Hirata, 2002; Kawashima, 2000). Additionally, globalization exposed Japan to diversified methods of governing their public affairs (Kawashima, 2000). Further, the Hanshin Awaji Earthquake uncovered the Japanese government's incapability to respond and brought to light the need for the civil sector and projects initiated by volunteers in response to a disaster (Hirata, 2002). Japanese media and citizens started to notice civil groups and their achievements. Consequently, civil groups have developed and connected to bridge the gap between what society needs and what the government provides in other social spaces including education and environmental protection.

Turning point: the Hanshin Awaji Earthquake

The incapability of the Japanese government

After the Hanshin Awaji Earthquake (hereafter, the Kobe earthquake) of 1995, the Japanese government was so indecisive that international rescue teams were delayed in offering their assistance. Japanese citizens were disappointed in the government because it could not coordinate domestic resources to provide timely help. In contrast, an estimated 1.3 million volunteers flowed into affected areas to prepare hot meals, provide medical service, and other support ad hoc logistics projects (Hirata, 2002).

Nearly two decades later, the Tohoku earthquake of 2011 created another tough challenge for the Japanese government. Tohoku includes a large coastal area, sparsely populated, but heavily devastated by the Tohoku earthquake and the subsequent tsunami. According to Taga (2012), emergency reaction plans prepared by the Japanese government chiefly relied on local governing units. However, most, if not all, offices were damaged during the disaster. As a result, communication inside of the government system was impeded and the government-centric rescue plans were hindered. Further, the size and scale of the Tohoku earthquake were unprecedented. Although the Japanese government mobilized 100,000 people to engage in the rescue operations, the sheer number of victims – over 500,000 – presented too great of a challenge for the government's resources.

In the U.S., natural disasters also uncovered incompetence of traditional bureaucracy and governing systems. Hurricane Katrina illustrated that bureaucratic organizations couldn't manage the dynamic conditions of a disaster because the system seldom paid proper attention to potential problems. For instance, the government of Louisiana prepared for the hurricane, but not the following flood. Consequently, shelters could only keep out wind and rain but could not supply enough food and water for victims stuck in flooded shelters (Bier, 2005).

Civil participation

Tatsuki (2000) found that the Kobe earthquake refreshed civil participation in Japan, and connected the Japanese with the rest of the world through a shared language of civil society. A survey that targeted victims of the Kobe earthquake found they have increasingly appreciated self-governance and solidarity within their communities, rather than conformity and individualism (Tatsuki and Hayashi, 1999).

Further, active participation of communities has proved to be an ingredient for successful recovery. Among victims in the Kobe earthquake, those with higher levels of autonomy and community solidarity recovered better from the damage of the earthquake and were more satisfied with the outcome of recovery work (Shaw and Goda., 2004; Tatsuki, 2000). While rehabilitation plans approved by local governments seldom met victims' needs, communities with more social capital would have more effective negotiation to align local needs and recovery plans (Nakagawa and Shaw, 2004). Collective opinions from engaging communities presented strong bargaining power during the decision-making process for recovery plans.

The process of recovery following the Kobe earthquake empowered Japanese individuals and motivated them to organize themselves as civil groups to pursue their common goals. The Kobe

Action Plan (2001) is a document formulated by stakeholders in the recovery process, including victims, volunteers, researchers, and journalists. Produced from the residents' point of view, the plan aimed to refine civil society at the local level. It emphasized on making communities in affected areas capable of solving their own problems, instead of being dependent on the administration. In other words, civil groups should grow roots in local communities. This provides an assortment of advantages when executing recovery plans, such as local knowledge, local connections, and leadership within communities (Shaw and Goda. 2004).

The success of recovery work may be attributed to the social capital accumulated in the process of grassroots participation. According to Yamauchi (2014), the existing local network made the circulation of information efficient in both local communities and rescue teams. This is extremely important during the emergency period because it helps rescue teams to better understand the devastated areas and efficiently manage rescue operations.

Conversely, civil participation facilitates introducing external assistance, as it did in response to the Tohoku earthquake. Local communities with higher levels of civil participation, such as thriving nonprofits and volunteer activities, tend not to be isolated. Thus, these well-connected communities received more external support. For example, as a member of Social Welfare Committee in Yamamoto Town has been acquaintance with staff in a civil group since the Kobe earthquake, they quickly got connected after the Tohoku earthquake. The rapid reaction became the key of success because the civil group could mobilize and secure resources from donors at very early stage (Yamamoto and Nagai, personal interview).

Individual donation as an indicator of the development of the civil sector

Laws and regulations may provide legitimacy for civil groups, but the recognition of the Japanese public is more difficult to obtain, and cannot be achieved merely through the launch or modification of law. For instance, the tax reform in 2011 that increased the deductible quota for donations to civil groups did not encourage Japanese donors.

The number of individual donations to civil groups is likely to be an indicator to evaluate the robustness of a civil sector or a civil group because it presents not only grassroots support to civil groups but also their ability to be self-sustaining. Various research and surveys indicate that Japanese donors may have concerns beyond the tax deductions from charitable donations. Indeed, Japanese donors worry whether the groups can actually be effective and whether they will appropriately allocate their resources. The reactions of Japanese donors also reveal that citizens' recognition, trust, and exposure to civil groups may be more critical to a robust, self-sustaining civil sector in Japan.

Tax reform in 2011

In 2011, the system of tax deduction in Japan was modified. Japanese donors can enjoy up to a 50 percent tax deduction from their donation. The tax reform had been drafted since 2010 and was launched within three months after the Tohoku earthquake, presumably to encourage donations. The Japanese government temporarily enlarged the percentage of tax deductions for donations to further encourage donations, though the results were somewhat ambiguous.

The tax reform includes donations made by individuals and by legal entities. When an individual donates to a NPO legal entity or Specific Non-Profit Legal Person, they receive tax deductions in income tax and residence tax. Generally, the amount of applicable donations is the actual donation to qualified recipient organizations minus ¥2,000. In terms of income tax, Japanese taxpayers can choose from deducting the amount of applicable donations from their income or deducting 40 percent from their income tax. The later method, added in the tax reform of 2011, is particularly meaningful for donors with lower or moderate income as it brings more tax benefits than the original one (Morita, personal interview).

In terms of residence tax, the deductible percentage depends on the qualification of the recipient organization. Donors can have four percent of applicable donations deducted from residence tax for donations to organizations recognized by regional governments. Another six percent of applicable donations can be deducted if the recipient organization is recognized by municipal government. As a result, with a donation to an organization recognized by both regional and municipal governments, the donor can deduct 40 percent of the amount of applicable donations in income tax and ten percent in residence tax.

For legal entities, the tax deduction is calculated into their loss. Generally, the profit of Japanese corporations is calculated as income minus loss. While corporations donate to qualified organizations, the donations will be regarded as a loss and deducted from their profit; thus their taxes will be lower. The exact deduction is confirmed at the end of the financial year when the company pays their taxes.

Different impacts of tax reform

The tax reform has had different effects on the donors and the nonprofits. Many interviewees pointed out that the tax deduction has not yet encouraged Japanese citizens to donate as expected. Only 9.4 percent of Japanese donors applied for a tax rebate for their donation in 2012. The troublesome procedure of applying for the tax rebate might partly explain the low percentage (Sakaguchi and Tsuchiya, personal interview). For Japanese professionals, payable tax is withheld by employers from their salary before they receive their monthly paycheck. If donors are eligible for a tax deduction, they have to apply for the tax rebate separately during the Year End Adjustment. In fact, some interviewees referred the application system as user-“unfriendly” (Kida and Higuchi, personal interview; Sakaguchi and Tsuchiya, personal interview). As a result, Japanese donors with a small amount of contribution tend to not claim the tax rebate. More than one-fourth of the donors who did not apply for the rebate in 2012 said that they gave it up probably because of the amount or the percentage of their tax rebate was too small to warrant the complicated process (Japan Fundraising Association, 2013).

For corporations, the consideration might be more complicated. Interviewees from large organizations thought the tax reform in 2011 has motivated corporations to donate more. Large companies usually have a team dedicated to accounting and tax, which helps them better exploit the tax benefits. Yet to which fields and for how much Japanese corporations donated should be scrutinized. In 2011, more than 42 percent of the donations from Japanese corporates went to social services, including the responses to the Tohoku earthquake. An interviewee indicated there were some companies that only offered one-time donation, mainly because they wanted to

improve their image by showing they had support and collaborated with the reputable organization following the national disaster.

However, after three years, some interviewees expressed their worry about the fading attention from the media and the public to the victims and the affected areas of the Tohoku earthquake. Their worry might come from decreasing levels of donations. Additionally, the amount of Japanese corporate donations has obviously been affected by their profits in the previous year (Japan Fundraising Association 2013). In short, while the tax deduction has positively affected corporate donations in Japan, the long-term impact on donation trends should be tracked.

Similar to the Japanese donors' perspective, various nonprofits also experienced different impacts from the tax reform. Overall, the organizations collaborated with corporate donors reported more positive effects. However, because the tax reform only applies to qualified nonprofits, other organizations were hampered after the reform. For instance, an interviewee from a non-recognized organization described how potential donors directly called and asked if they could enjoy tax deductions from donations to the organization. The answer, being negative, likely caused the potential donors to decline to make the donation.

The acquisition of recognition status is not extremely demanding, as indicated by Mr. Matsubara at C's, an organization that helps nonprofits to acquire sundry legal statuses and promotes nonprofits law reform. A frequent reason why an organization fails to obtain a legal status is their accounting procedures. Small organizations tend to be unprofessional; thus they commonly adopt simple bookkeeping measures, which do not qualify for the legal status (Matsubara, personal interview). This suggests the tax reform may limit certain non-recognized nonprofits, usually small ones, from accessing potential donations, while facilitating recognized nonprofits' fundraising capability and promotion of corporate social responsibility.

To sum up, practitioners from Japanese nonprofits reported sundry situations after the tax reform was launched. Qualified nonprofits, which mainly receive donations and grants from corporations, have better chance to benefit from the reform. On the other hand, organizations without the proper legal status to be included in the regulation or those humbly supported by individuals have not yet been able to gain from the policy.

Why Japanese do not donate?

In general, Japan is still not engaged in financially supporting its civil sector, compared with the U.S. and the UK. According to Giving Japan 2013 (2013), on average, every Japanese individual donated ¥14,273 (about \$140) in 2011, while every American individual donated \$2,183 in 2012 and every British individual donated £324 (about \$545). Only 29.4 percent of Japanese donate, compared to 57.9 percent in the U.S. and 55.0 percent in the UK. Individual donations account for less than 45 percent of total contributions in Japan. Conversely, individual donations are the major resource for civil groups in the U.S. and the UK, where individual donors contributed more than 70 percent of total contributions in 2012 and 2011, respectively (Japan Fundraising Association, 2013).

According to the Cabinet Office, the Japanese are reluctant to donate to civil groups for two major reasons: lack of trust in the groups and lack of information about projects that need

monetary support. Relatively, for Japanese donors, they are willingly to contribute chiefly because they believe civil groups play a critical role in society (Yamauchi, 2014).

Most individual donors in Japan considered how their contribution would change the society, instead of the tax rebate, when making donations. Japan Fundraising Association (2013) shows that almost half of the donors did not apply for the tax rebate in 2012. For the donors who did not apply for the rebate in 2012, nearly 20 percent of them declared that they did not know about the tax deduction policy, which was launched in the mid of 2011. Another 12 percent donated to the organizations that were not included in the tax deduction regulation (Japan Fundraising Association, 2013).

Trust and recognition are the keys

Despite Japanese donor's low perception of tax deduction, the amount of individual donation in Japan in 2012 still grew. From 2011 to 2012, the amount of individual donations in Japan increased by ¥175 billion (about \$1.7 billion), or 33.75 percent; earthquake-related donations excluded (Japan Fundraising Association, 2013). On account of the major reasons why Japanese citizens donate, it can be inferred that recovery operations conducted by civil groups were appreciated by Japanese donors and gave the civil sector a nudge in the right direction. With more resources and higher level of self-sustaining, civil groups in Japan are expected to accomplish more tasks and give the Japanese public greater exposures to the civil sector. The Japanese public may thus recognize, trust, and donate to the civil groups. This leads to a virtuous cycle.

Top-down policy can barely encourage Japanese to donate, if citizens hardly perceive the role civil groups play in Japanese society. To obtain grassroots support, civil groups in Japan are supposed to build trust and increase their exposure among the public. In that way, the public would be convinced that civil groups function as competently, if not more so, as the government and profit-oriented institutions.

International Cooperation

The Japan Center for International Exchange (2004) indicated that Japan's civil sector must diversify its funding base because over-dependence on government subsidy is not sustainable. The report suggests civil groups to build their network at the grassroots level and approach community-based funding.

A report of International Development Center Japan (2012) shows various routes of international contributions for the recovery. The report investigates three forms of overseas contributions: monetary donations, supporting teams, and material contributions. Among them, IDCJ regarded monetary donations the most important not only because the data of monetary donations was easier to be documented than others, but also because they could be better utilized by the recipients than other contributions. However, the report failed to provide the grand picture of donations in the subsequent years after 2012.

Long-term commitment to civil groups

In consideration of long-term development in affected areas, Yamauchi (2014) presents three issues: the mismatching of long-term needs and short-term funds; low donations to NPOs suffered from limited information and fragile trust; the importance of repair social relations in affected areas. Although the Japanese Red Cross and Central Collective Donation received a considerable number of donations, most of the donations were used for short-term relief, such as compensation and living expenses of victims (Yamauchi 2014; IDCJ 2012). The enthusiasm of providing short-term relief donations did not entirely translate into that of contributing long-term donations to local groups. Long-term recovery work needs steady and extended funds, and the needs are mismatched by the short-term donations out of pity. For example, it usually takes several years to complete a proper mental treatment for post-trauma illness, but the financial sustainability is worrisome. The possible shortage of funding is partly because the media coverage for recovery efforts decreased through time, and partly because intangible needs, compared with requests for materials, are more difficult to be appreciated and supported by potential donors (Takeyari, personal interview).

Further, it is noteworthy that the Japanese government's scheduled progress of recovery has considerable gaps with the real condition. The recovery plan set three phases: rescue, within six months after the earthquake; reconstruction, within two years; recovery, within five years. Hopefully, as of 2014, it should enter the phase of recovery, in which all victims move to permanent houses. However, in fact, there are still more than a half of the victims, namely over 260,000 people, staying in temporary housings. The difference between facts and plans may interfere with the mobilization of necessary resources during recovery, as those relief activities become ineligible for special treatment once authorized by the emergency law. Additionally, the trend of moving out from affected areas is a warning that it is likely to reduce the possibility of rebuilding social ties in earthquake-devastated communities (Higuchi, personal interview).

International donors may be more familiar with the operations of civil groups and thus contribute to address the difficulties of financial sustainability. According to the report issued by the Japan Center for International Exchange (2014), the amount of donation from the U. S. to Japan was more than \$760 million within three years after the disaster. More than 90 percent of the donations from the U.S went to civil groups, rather than governmental units. It is also remarkable that most of the donations were contributed by individuals in the U.S, especially those who have strong personal ties to Japan.

More than half of the donations were assigned to support long-term projects, such as reestablishing community relationships, enhancing the capacity of civil groups, and mental health. To better coordinate contributions, a fund was established for Japanese projects that dedicated to long-term community-rebuilding. The fund raised more than \$1.7 million dollars and support 12 organizations.

In relief and recovery phases, Japan Center For International Exchange (2014) summarized four approaches of international cooperation in response to the Tohoku earthquake. First, overseas grants to Japanese groups engaged in relief; second, overseas funding through affiliates and intermediaries; third, joint programs by overseas and Japanese partners; fourth, technical assistance such as radiation protection and mental health counseling.

The following analysis will emphasize the first and the second approaches because they are probably more popular and replicable than the other. They are supposed to involve more organizational and cultural interactions than technical assistance but easier to be operated than joint programs. Thus, it may provide more support to the development of the civil sector in Japan. During my interviews, I also found grants as well as funding through affiliates and intermediaries are more common in practice.

Grants

Grants are different from normal donations, which are usually at recipients' disposal. Grant donors usually have their preferred operation fields or geographical areas, and thus grants were designated for particular purposes. Recipients are supposed to prepare business plan in advance and regularly compile accounting and progress reports during execution. Hence, grants projects build solid relationships between donors and recipients through various interactions.

This approach takes thorough information and connections about local civil groups in Japan, which international donors usually lack in the early stage of the recovery (JCIE, 2013). Accordingly, intermediary organizations play a critical role in matching grants donors and projects. For example, Giving2Asia, an international nonprofit based in San Francisco and supported by a number of active donors, has been eager to contribute to the relief and recovery of Tohoku. However, it was demanding for Give2Asia to gather information and identify their target projects shortly after the disaster from overseas. Thus, they worked with partner organizations in Japan (The Asia Foundation, 2011). Give2Asia sought consultancy, for instance, from the Japan NPO Center, with which they had collaborated before the Tohoku earthquake. Give2Asia requested the Japan NPO Center to recommend appropriate local projects operating in the fields or geographical areas that Give2Asia preferred. The Japan NPO Center also assisted perform due diligence for Give2Asia. Yet Give2Asia decided the recipient projects and directly gave the grants or donations, usually in one-year term, to the groups (Sakaguchi and Tsuchiya, personal interview).

The cooperation with international donors introduced innovative business norms into Japanese civil groups, but the different norms were overwhelming for the groups at first. Mr. Higuchi, from Disaster Relief Team at the Nippon Foundation, illustrated that most local nonprofits in affected areas lack of past experiences, contact persons, know-how, and general capacity working with overseas foundations. For example, before the collaboration, where to get information of funding and how to draft proposals was challenging. The communication, documentation, and evaluation are all demanding for the local groups during and after the collaboration (Higuchi, personal interview).

Hence, intermediary organizations are important also because they helped local groups to meet external donors' requirement. For instance, the Japan NGO Center for International Cooperation (JANIC) guided its civil group members to prepare proposals, process the fund, and submit various reports to donor organizations. Indeed, JANIC also served as a matchmaker, on which an alliance of overseas relief teams relied to connect with matching projects and civil groups in affected areas of Japan (Matsuo, personal interview). In sum, intermediary organizations in

Japan served as matchmakers and facilitators between overseas donors and local civil groups in the earthquake-affected areas.

Foreign-affiliated groups

Sundry international organizations set up their branches in Japan in 1990s. They are regarded as Non-Governmental Organizations, a subcategory of Japanese civil groups in contrast to Non-Profit Organizations. In Japan, NGOs generally refers to civil groups that provide overseas assistance, while NPOs deal with domestic issues of Japan (Hirata, 2002). Before the Tohoku earthquake, most of these foreign-affiliated groups fundraised in Japan and provided development aid in developing countries (JCIE, 2014). However, in consideration of the enormous disaster, a number of foreign-affiliated groups arranged projects in the earthquake-affected areas of Japan.

Adventist Development and Relief Agency (ADRA) Japan is an example for this approach. ADRA Japan is one of the one hundred twenty branches of ADRA network, which headquarter based in the U.S. ADRA Japan is one of the Nongovernmental organizations (NGOs) in Japan, which generally conduct overseas projects in developing countries. After the Tohoku earthquake, the staff of ADRA Japan proposed a relief project of the earthquake-affected areas in their global networks and accordingly received fund. ADRA Japan is accountable for the fund to its network. Various branches of ADRA network send staff to Japan a few times in a year to check the progress of the project (Yamamoto and Nagai, personal interview).

Foreign affiliated groups may, but not necessarily, obtain the funding more easily through internal channels of their international network. Some headquarters of international NPOs did not cooperated with their Japanese branches. Instead, they worked with other civil groups in affected areas because they considered the latter approach was more effective (JCIE, 2013). However, foreign-affiliated groups tend to be familiar with business norms in international donors' community, and thus probably had advantage in acquiring funding (Ito, personal interview).

Civil groups also learned from their overseas projects and engaged the experiences in the relief and recovery of the Tohoku earthquake. For example, project management experiences in developing countries helped the groups properly set areas of support and make full use of their resources. The Tohoku earthquake was tremendous, and its affected areas ranging along the long coastal line. With operational experience in developing countries, the staff from ADRA Japan could quickly and properly organize their tasks in affected areas. Although their resources were limited, ADRA Japan focused on southern area in Tohoku and effectively served the needs for the victims in Yamamoto Town (Yamamoto and Nagai, personal interview). Additionally, while overseas developmental projects primarily focused on vulnerable groups such as children, women, and elder citizens, foreign-affiliated groups was experienced in attending underprivileged groups in the disaster (Takeyari, personal interview).

To facilitate their work in relatively closed communities, civil groups connected with existing organizations organized by local residents in earthquake-affected areas. In rural Japan such as some serious-damaged areas in the disaster, local governments are likely to be considered as the only solution-providers. Residents tend to find local governments for solutions when

encountering any problem. Consequently, many victims in the earthquake-affected area did not believe the staff from civil groups was professional enough to meet their needs when the Tohoku earthquake just happened (Matsuo, personal interview). The rescue work after the Tohoku earthquake was still considered to be relatively government-centric, comparing to similar activities in other countries (Yamamoto and Nagai, personal interview). Many recovery projects turned to existing networks within communities in affected areas. Practitioners mentioned that they worked with the Social Welfare Committees or the Education Committees in different affected areas (Yamamoto and Nagai, personal interview; Takeyari, personal interview). These semi-governmental groups were formed by local residents in each town, as required by the government. Afterwards, residents gradually understood and recognized the efforts devoted by civil groups. Practitioners were also aware that residents eventually opened their arms to these once-outsiders.

In sum, foreign-affiliated groups could leverage their international network to fund their projects and provide necessary assistance in affected areas on the community level. Grassroots activities were helpful in connecting civil groups in remote and urban areas.

Joint programs and technical cooperation

Few international organizations chose to dispatch or rotate their staff to Japan, and worked with local Japanese groups. The donor side was expected to have better control over their recovery efforts with joint programs. However, JCIE suggested that joint programs were not as popular as other forms of international cooperation because of the operational gap between Japanese and international teams. Different working styles and frameworks make international donors refrain from launching many joint programs. The system also restricted long-term activities held by foreigners in affected areas (IDCJ, 2013). For foreign organizations without legal status in Japan, their staff members were difficult to stay in Japan to provide recovery support due to inability of acquiring visas.

Technical cooperation provides more ad hoc supports to Japanese civil groups in fields of radiation control, mental health, and children's education. While technical cooperation sounded simple as it mainly dealt with technical issues, the cooperation was not smooth as expect. Japanese recipient groups reflected that civil sector in Japan was different from other countries and required many operations behind the scene. These operations were hard to be understood by foreigners, and thus led to misunderstandings and differences of agreement.

Challenges

Overall, the communication problem, including the language barrier and operation gaps, is a visible issue when civil groups in Japan cooperated with overseas organizations. Cultural contexts in the Tohoku area increased the difficulties. Further, grants and foreign-affiliated groups both have particular challenges in keeping collaboration with international donors.

Communication barrier

There are different levels of communication barriers during recovery. Initially, it was only the problem of the language barrier. In other countries, such as India and Indonesia, which also received recovery aid, local leaders and elites often try to communicate with foreign officers in English. However, that was not the case in Japan. After the Tohoku earthquake, Mr. Ito, a

lecturer at Keio University, who has extensive network in nonprofit field of Japan and other countries, personally received many emails asking for translation help from his international friends because their letters written in English were scarcely responded to by the Japanese (Ito, personal interview). Non-Japanese speakers can barely provide assistance in the affected areas without the help of a translator.

It is notable that communication between official rescue teams and local Japanese citizens was not considered as a major problem during the phase of rescue, indicated the evaluation of IDCJ's report. The report implies a couple of reasons. First, the Japanese government asked all emergency rescue teams to be self-contained, which means these teams were supposed to coordinate their own translators, meals and accommodations. Japan International Cooperation Agency and Ministry of Foreign affairs of Japan also sent Japanese doctors and nurses with international experience to assist operations of the foreign rescue teams. Second, rescue activities normally required quick responses rather than interactive negotiating. That lessened the burden of communicating in different languages.

However, communication problem still emerged when recovery work became complicated. The combination of language barrier and operational gaps was troublesome. Foreign donors usually asked to sign contracts at the beginning, which was not a common donating practice for local nonprofits. Further, civil groups were often required to submit progress reports, monitoring reports, and accounting reports every one or two months. All documents were supposed to be written in English, but few Japanese staff members in local, non-professional groups, whose major responsibilities were dealing with domestic issues, could write and translate the reports in a timely fashion. As a result, the language barrier and resulting lack of communication created significant problems when managing foreign donations.

Different cultural contexts

Cultural context should be taken into consideration. The standard of living in Japan may be quite different from that in other countries. Victims of the Tohoku earthquake live in Japan, a developed country, for a long time and suddenly encounter the overwhelming disaster. Their needs and expectation might not be the same with the international standard, adapted by the supporting teams in other countries (Matsuo, personal interview). For instance, it was quite surprised to know volunteers installed essential appliances right after the building of all temporary housings, including washing machines, refrigerators, televisions, rice-cookers, microwaves, and hot pots for hot water (Yamamoto and Nagai, personal interview).

The aligning goals for donations' use was difficult because of foreign donors' limited understanding of social norms and cultural background in Japan. For example, one foreign donor aimed to provide backpacks, known as "randoseru" in Japanese, for schoolchildren in an affected area. However, the backpacks used by Japanese schoolchildren are, in fact, made of luxurious materials. The backpacks' cost was prohibitive, and the donation was deemed inappropriate as emergency support (IDCJ, 2013). Similar situations occurred when Japanese practices and norms, such as consumer price levels and the general living standard, were dissimilar from traditional recipients of aid, namely developing countries with low costs of living. It took time for foreigners to understand and adapt to culture and habits of Japanese

citizens. Organizations with experiences in other countries might not necessarily know the best methods to operate in Japan.

Other challenges

With respect to grant-approaches, intermediary organizations substantially reduced the problem of communication between international organizations and civil groups in Japan. They were matchmakers that helped foreign donors identify adequate Japanese projects and simultaneously assisted local groups to adjust to international business norms. However, intermediary organizations could not deliver services for every civil group or international donor, as the organizations were also in charge of managing funds consist of corporate donations from Japanese companies. Many Japanese intermediary organizations indicated they would like to carry out more international cooperation projects, but it was extremely hard to put extra attention on coordinating them.

Technically, foreign donations were associated with exchange rate risks. Compared to Japanese donors, foreign donors tended to separate the donations into several transactions at various scheduled times (IDCJ, 2014). This gave rise to large exposure to exchange rate risk. The actual money received in Japan from overseas donors might be less than the nominal figures on the business plan. For instance, the exchange rate was one US Dollar to 80.98 Japanese Yen after the Tohoku earthquake, but it became as low as 75.98, or 6.2 percent lower, at the end of October in 2011. Under the circumstances, local nonprofits had to change their activities because of their shrinking budgets.

In consideration of foreign-affiliated civil groups, they could relatively easily fund their projects, but most of their operations still focused on assistance projects in developing countries. Thus, it is uncertain how much financial and personnel resources these groups can devote to the recovery work of the Tohoku earthquake.

International Cooperation and Domestic Networking

Although international cooperation is not an easy task to achieve, all the efforts were meaningful and influential. First, international cooperation in fact build “infrastructure” of the Japanese civil sector. For example, the Japan NGO Earthquake Relief and Recovery Fund sponsored multi-year projects initiated by 12 organizations in Japan. Most of them worked on rebuild social network and generate social capital in affected communities. Additionally, two of the projects, the Sanaburi Foundation and World in Asia, served as intermediary organizations. These two civil groups not only distributed the fund they received to local civil groups on the community level, but also actively sought more funds from other corporations and foundations to nurture more civil groups.

Second, the complexity of international cooperation mobilized assorted civil groups in Japan. To properly utilize the large amount of overseas donations, civil groups with different roles and scales worked together to accomplish overseas projects. This made use of existing networks and expanded the connections in the civil sector.

On the level of intermediary organizations, they constructed strong networks while matching the donors and local groups. Intermediary organizations in Japan not only provided assistance for

overseas partners, but also connected the civil sector in Japan with its counterparts in other countries. Further, intermediary organizations fortified their relationship with local groups when calling up for recipients. Local civil groups that they collaborated with before, introduced by other partners, and trusted in, would be early contacted. Moreover, intermediary organizations and civil groups work together to produce proposals and plans. It was not one-time monetary transactions, but a series of events that accumulated social capital within the civil sector. This may contribute to further cooperation on other issues, and pave the way for a thriving civil sector in Japan.

Local civil groups diversified their funding bases, and simultaneously learned how to process overseas donations. This is a process of capacity building and autonomy developing. One of the founder of civil groups indicated that several civil groups that were connected with international donors eventually received funds for sequent activities in affected areas. Remarkably, as most international recovery funds were selected on project-base, the relatively low threshold allowed grassroots civil groups without any legal status to partner with international donors. The recovery gave rise in a broader and more inclusive civil sector in Japan.

The collaboration between residents' committees and civil groups let the groups operate in communities that were once self-contained and relatively closed. Civil groups had opportunities to present their capacity in recovery. With financial and technical support from overseas donors, local civil groups could better deliver their services to meet victims' needs. Hence, civil groups gradually, from bottom-up, won the trust of the local residents in Japan. At the same time, recovery activities also brought civil groups' resources and working framework in communities. This may by and large change the operation and value of communities to become more autonomous, as it did in the Kobe earthquake.

Conclusion

International donations from the overseas countries were assigned to help the victims of the tragic Great East Japan Earthquake in 2011. However, the donations also encouraged the Japanese civil groups to exercise as well as expand their networks, and collaborated with organizations playing various roles in the civil sector. This mobilized the social capital in the sector despite difficulties in cooperation. Further, through more grassroots recovery activities sponsored by international donors, civil groups in Japan increased their capacity of satisfying local needs and managing international cooperation. This earned civil groups' trust from the public in Japan. Hence, more Japanese citizens may recognize and support the civil sector. The civil sector in Japan, with diversified funding resources, is expected to gain its autonomy and independence through the recovery work.

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The Alliance as a Regional Public Good: Engaging China in Security

By Naoya Araki

Introduction

The US-led hub and spoke security network in Asia has upheld regional stability during the postwar era. Currently, the re-arrangement of this security network has been prompted by two factors: the rise of China and Japan's awareness that it must expand its security role in the Alliance. US security cooperation with its allies, including Japan, has been strengthened to balance the military rise of China, particularly in the South and East China seas. But the US also has a diplomatic goal of engaging China in ways that will make it more internationally responsible and cooperative in managing global issues. As part of its engagement policy, the US has built a network of relatively deep strategic communications with China, but Japan and China lack such channels in their bilateral relations. That gap may be the root cause of the current spiral of regional insecurity, and it may reflect a deficiency of the current US-led security network in Asia.

To alleviate this deficiency, Japan and China need to enhance their efforts to manage security issues over the long run, such as by a high-level security dialogue between the two nations. This dialogue presumably could be established based on an improved mutual understanding of each other's military and confidence-building measures. It probably could be achieved through military-military cooperation in non-traditional security fields such as Counter-Piracy, Humanitarian Assistance/Disaster Relief, and Maritime Search and Rescue.

1. Review of Previous Policy Suggestions

Most past policy suggestions for enhancing the Japan-US alliance can be roughly categorized into two types: measures to expand Japan's security role, and efforts to deepen bilateral cooperation. The former includes increasing Japan's defense expenditures, improving Japan's capability for remote island defense, and boosting maritime surveillance in the South China Sea. The latter includes sharing the Air-Sea Battle concept at senior officer levels, ensuring that the U.S.' nuclear deterrence extended fully over its allies, and establishing a research center for cyber security. In addition to these two areas of security arrangement enhancements, the U.S. has proposed that Japan should proactively establish or strengthen security cooperation with such potentially strategic partners as Australia, South Korea, the Philippines, Taiwan and India -- all of which have alliance or quasi-alliance relationships with the U.S. The thrust of these efforts aims at balancing China's rising influence in the region ([CSIS2012], [IIPS2009]). However, there are few proposals for concrete measures or mechanisms for the alliance to engage China, which is outside of the U.S.' alliance structure but enormously important to the stability and prosperity of the East Asia region. To date suggestions that Japan and the US should create a "confidence-building mechanism" to deal with China ([IIPS2009]) have lacked sufficient detail to be taken seriously. This paper therefore will suggest areas where the Alliance can engage China, focusing on how Japan in particular can induce China to become involved with a regional security network.

2. Overview of Security Network in Asia

“The postwar hub and spokes system of bilateral alliances created by the United States in East Asia was, for some five decades, the only true ‘architecture’ in the region that was successful. It provided private goods to alliance partners, and the aggregation of these individual alliances provided public goods to the region.”(Inoguchi, Ikenberry and Sato2011p165)

But from another perspective, Asia has lacked a region-wide security framework like NATO in Europe. It was considered at one time, though. The notion of establishing a NATO equivalent in northeast Asia -- “PATO” – was discussed in the 1960s. Although sub-regional security frameworks (e.g., SEATO [1954], ANZUS [1951], and FPDA [1971]) have existed, they either disappeared or never developed their true potential.

Differences in Threat Perception

One of the fundamental reasons for this lack of region-wide security frameworks during the postwar era is that the respective actors had different threat assumptions. Some viewed the Soviet Union as a main threat (e.g., Japan). Others predominantly considered China as a threat (e.g., Taiwan). Still, others thought of Japan as a potential threat (e.g., South Korea!). Such differences in threat perception among the various nations in East Asia made the U.S.’ well-defined hub-and-spoke security system the best option for the region throughout the Cold War era.

In the current regional security environment, threats or concerns perceived by the various actors differ as well. Some regard China as a source concern or even a threat (e.g., Taiwan, the Philippines and Viet Nam). Japan may be moving into that camp. Others think North Korea as a threat and yes, South Korea still insists that Japan is a potential threat. Besides, there are considerable gaps in the perception of China as a threat or a concern between Taiwan, Philippines, Japan, Australia, India and South Korea. In this sense, the current security environment has similarities with that during the Cold War era.

Some emerging features, however, distinguish this current regional security environment from that of before. One major difference is the rise of China as a regional and even global power, and, partially inspired by that, Japan’s efforts to expand its security role in the Alliance and international community.

Rise of China

China’s emergence on the world stage has both economic and military dimensions. It has been steadily modernizing its armed forces, including establishing a blue-water navy, and its defense budget has experienced annual double-digit increases since the mid-1990s. During the last two decades, the People’s Liberation Army (PLA) has continued to develop a sophisticated scientific-technological infrastructure and to enhance its holdings of advanced weapons. The PLA’s military build-up includes increased capabilities of the Navy, including air-sea-denial and long-range force-projection (Qiang[2012]p603-604). Such increasing capabilities have heightened concerns among China’s neighbors, resulting in their accelerated attempts to match and balance China’s military rise.

The US also has become concerned about the impact of China's growing military presence in the region on its regional influence. It is worried about the possibility that China's military advancement into neighboring seas could trigger regional instability. The US's concern about a military clash in the Taiwan Strait of the 1990s has been replaced with worries about other disputes with US allies in the South and East China seas. Japan feels increasingly uneasy about the growing maritime standoff with China's set off by its claim to the Senkaku isles, as well as by the possibility of freedom of navigation in international waters being challenged by China's modern naval fleet

Growing Security Role of Japan

Partially responding to China's increasing assertiveness, Japan is trying to expand its role in the security field, as a result, growing as an actor which, of Asian countries, most widely shared common security interests with the US. Japan and the US share threats from North Korea, concerns about China's behavior in both the South China Sea and East China Sea, interests in protection of sea lanes and efforts in coping with natural disaster like tsunamis. Now, it seems that, compared to the cold war era, the US enjoys an opportunity to take much more advantage of Japan or the alliance with it to supplement the current regional security network.

Indeed, the United States has recently catalyzed the evolution of the Japan-Australia defense and security cooperation as well as trilateral strategic dialogues among Japan, Australia and the United States (Inoguchi, Ikenberry and Sato 2011 p217-232). Japan also has a plan to provide ten coast guard patrol ships to the Philippines, which is involved in a territorial dispute with China over the Spratly Islands and the Scarborough Shoal. Japan also is considering the same assistance to Viet Nam, which is involved in a dispute with China over boundaries and territories in South China Sea²⁰⁹. These developments in Japan-US alliance strengthen the regional security network.

3. Problem of Current Security Network in Asia

Competitive policies toward China

Strengthening the security network among the US and its allies is a competitive policy toward China (Medeiros[2005]p150). This competitive policy aims at discouraging China from challenging the current security order in Asia and intends to deter China from taking coercive measures to pursue its current or future interests in the region (Medeiros[2005]p146-147). Although reinforcing the security network among the US and the US allies, excluding China, is designed to influence the rise of China in that positive way, it might raise the problem of the security dilemma.

In theory, although strengthening alliances brings in "goods" such as deterring or prevailing over an adversary, it also brings down "bads" such as provoking an adversary, increasing tensions and eliciting an insecurity spiral (Snyder[1984]p469). This insecurity spiral seems to be occurring in the relations between the Japan-US alliance and China. Alliance planning for a Taiwan conflict or an attack on the Senkaku islands—such as shifting deployments of the US military and the

²⁰⁹ <http://japandailynews.com/japan-to-fast-track-coast-guard-vessels-donation-to-the-philippines-2129252/>

Japan Self Defense Force or reaffirming US commitment to Japan's security—are regarded by a majority of Chinese as directed at restraining China's rise in the region. Few Chinese distinguish between the two. Similarly, for the alliance, the rapid building-up of China's military capability is seen as reflecting its long-term regional ambitions even if the built-up military capability might target a limited objective such as Taiwan (Medeiros[2005]p158). Both the alliance and China might overestimate other side's strategic intention. Based on these overestimations, each side could accelerate their security dilemma.

Cooperative Policies

In order to moderate this security dilemma, cooperative policies are also necessary. These policies seek to bind China with the existing international norms, rules and institutions, and to modify its interests and values through bilateral and multilateral engagement (Medeiros[2005]p146-148). A theorist of classic realism, based on the reality of the power of China and the limitations of the US's, also underlines the importance of cooperative policies by concluding “engaging rather than confronting China is the wisest strategy” (Kirshner[2010]p65, 70).

Although many institutions have developed as multilateral frameworks to engage China in the post cold war era in Asia (e.g., ARF, APEC, CSCAP, NEACD, ASEM, the East Asia Summit), these institutions has not progressed beyond dialogue (Inoguchi, Ikenberry and Sato2011p159-160). They have not produced almost any military-military cooperation that can improve mutual understanding or maritime rules that can stabilize regional security. These institutions have not helped ease confrontations between China and countries within the US led security network in the region.

Another type of cooperative policies is promoting security dialogue and military-military cooperation. Even though some Americans are not satisfied with the current level of US-China security ties, the US has made efforts and achieved relatively deep strategic communications and military-military cooperation with China. In terms of dialogues, The US-China Strategic and Economic Dialogue was established in 2009. The Strategic Security Dialogue, the Defense Consultative Talks, and meetings held under the Military Maritime Consultative Agreement (MMCA) also provided opportunities for high-ranking US and Chinese political and military leaders to deepen an understandings of each side's policies. Many US major think tanks also hold Track 2 and Track 1.5 discussions with Chinese counterparts. With respect to military-military cooperation, the US has been conducting joint-operations, joint-exercises or exchanges in the fields of counter-piracy, humanitarian assistance, disaster relief, search and rescue at sea, military medicine and so on (Harold[2003]). Thus, the US has explored comparatively deep and wide security relationship with China. Furthermore, both countries seem to agree that increasing military-military communications and cooperation will contribute to a better relationship between the two militaries (Harold[2013]p107).

Although this US-China strategic relationship is different in quality from the alliances between the US and its allies, this US-China security connection can be viewed as a part of the regional security network. This US-China strategic relationship can decrease mutual mistrust, thereby upholding regional stability.

Deficiency of Regional Security Network

However, a problem is a divergence between the US and Japan in their security communications and cooperation with China. Japan's security dialogues with China are less advanced than those of the US. The Japan-China Security Dialogue has been held only three times in the last 10 years²¹⁰. In addition to this Security Dialogue, defense authorities of the two countries also have held three meetings on Maritime Communications Mechanism since 2008. They discussed measures to avoid an accidental military clash and contingencies in the East China Sea but have not achieved concrete results so far²¹¹. High-Level Consultations on Maritime Affairs were established as well to comprehensively discuss maritime issues. The first meeting was held in May 2012 and various departments' officials of both countries attended²¹². But the second meeting has yet to take place so far. All in all, Japan's security dialogues with China are much less frequent than those of the US. In addition to this infrequency, Japan's security dialogues with China have not involved participation of high-ranking officials, such as minister or vice-minister, and uniformed officials of their respective defense authorities. Furthermore, Japan lacks military-military exchanges and cooperation with China compared to the US. Japan lags behind the US in terms of military-military communications and cooperation with China

Such lagging behind of Japan's security relations with China can be explained by at least two structural reasons. First, the US is involved in security issues in Asia much more deeply and widely than Japan (Pollpeter[2004]p77). Naturally there are more security matters which China wants or should discuss with the US. The second factor is a feature of Chinese diplomacy. China puts the greatest importance on its relations with major powers. It makes much more effort to manage and strengthen the relations with a major power like the US rather than to improve its relations with a country such as Japan, which China does not perceive as a major power. For these reasons, China downplays the significance of strengthening strategic relations with Japan.

However, it would be wiser of China to promote strategic communications and military-military cooperation with Japan. Even if China's perception that its security relations with Japan do not matter as long as its strategic relationship with the US is stable, the increasing US military presence and its commitment to the security in Asia has been prompted by Japan. Japan is the most important and long-standing partner of American regional strategy, and Japan is central to America's policy to hedge against the potential emergence of a revisionist China (Medeiros[2005]p150). Furthermore, Japan had been making efforts to gradually expand its role in the security field and to increase its importance in the US security strategy in this region. Japan is likely to have more of a voice in formulating the US regional strategy. Although some Chinese believe that US encouragement is the main driving force behind the expanding role of Japan aimed at limiting Chinese power,²¹³ this is not true. The US is only able to endorse Japan's own decisions to expand its security role and has not really succeeded in encouraging them. These decisions are motivated by Japan's growing awareness that an increased role in regional security issues enhances its own security. This awareness, rather than US encouragement, proactively accelerates Japan's efforts to balance the increasing assertiveness of China. This

²¹⁰ http://www.mod.go.jp/j/approach/exchange/nikoku/asia/china/teiki_kyougi.html

²¹¹ http://www.mod.go.jp/j/approach/exchange/nikoku/asia/china/teiki_kyougi.html

²¹² www.mofa.go.jp/mofaj/area/china/jc_kk_1205.html

²¹³ Wu Xinbo, "The End of the Silver Lining: A Chinese View of the U.S.-Japanese Alliance," *The Washington Quarterly* 29, no. 1 (Winter 2005-06): 119-130.

awareness also underlies Japanese demand for stronger US commitment to the regional security. In turn, this demand has encouraged the US to boost its commitment to regional security. For this reason, building strategic communications and military-military cooperation with Japan would help China to moderate the US competitive policy and insecurity spiral in this region.

Unfortunately, in reality, the shortage of military-military ties may actually increase chances of miscalculations and misperception between Japan and China. This shortage would boost fears of an accidental military clash between the two sides²¹⁴ and double US fears of entanglement in such a clash. This lack of Japan-China strategic communications can be thought of as a deficiency of the security network in this region.

4. Policy Suggestion

This deficiency of the regional security network should be supplemented primarily by the Japan-China regular and higher-level security dialogues, in which the two countries could build a more accurate picture of the other's security policy, convey expectations and red-lines to each other, and make maritime rules. However, establishing such security dialogues has been hindered partly by respective militaries' cautious attitudes toward the other. For this reason, a short-term measure can be set as the promotion of military-military cooperation that might be able to ease these cautious attitudes. As a middle-term measure, this ad hoc cooperation could lead to the establishment of more lasting and higher-level security dialogue.

Objective—Security Management

The objective of these short-term measures and medium-term measures is security management with China, not security cooperation. In security cooperation, militaries work together to safeguard common security interests against a potential enemy. In contrast, security management intends to protect national security by decreasing chances of military clashes between two countries, ensuring victory in case a military clash occurs, and cooperating when appropriate against third-party threats, such as pirates. Therefore, Japan's motivation for promoting military-military cooperation with China would differ from that with the US and other US allies.

Short-term Measures

Some might cast skeptical views on the idea of promoting military-military cooperation by claiming that bilateral military cooperation is unlikely to increase as long as security issues between the two countries remain confrontational (Harold[2013]p109). They would also probably voice the concern that excessive transparency would reveal each side's weakness or, especially for Japan and the US, military-military exchanges with the PLA would create a national security risk, such as military-related technology transfer or combat capability transfer (Pollpeter[2004]p82-86, 89-90). However, it is possible that Japan and China can begin with military-military cooperation in less confrontational and less costly fields, such as Counter-piracy, International Disaster Relief/Humanitarian Aid, and Maritime Search and Rescue.

Nonetheless, immediately establishing wide Japan-China bilateral military-military cooperation in these three non-traditional security fields will be difficult partly because of the mutual wariness of both militaries. Therefore, multilateral, not bilateral, military-military cooperation

²¹⁴ Pollpeter[2004]p87-88

would probably be easier for the two countries to join because both countries would obtain more benefits, such as deepening military-military cooperation with a third country. In addition, multilateral military cooperation would assuage potential Chinese domestic reactions against cooperation with Japan.

This multilateral cooperation would be led by the US, not Japan, or would include the US based on a fourth country's initiative. Otherwise it would be ineffective. One reason is that some countries including China want to learn from the superior US military capability (Pollpeter [2004]p79). Other countries such as China and South Korea would show wariness if Japan, not the US, led regional military-military cooperation. US participation in multilateral military-military cooperation would contribute to promoting Japan-China military-military cooperation.

Multilateral Exercises

One initial step of such multilateral military-military cooperation is multilateral joint-exercises. In fact, countries in this region have been carrying out multilateral joint-drills. For example, in late 2011, Indonesia proposed that the US and Australia invites the PLA to join exercise with US and Australian militaries for the purpose of easing China's anxiety over US-Australia agreement to rotate 2,500 US marines through Darwin six months out of the year (Harold[2013]p118). Similarly, in the summer of 2014, China will participate, for the first time, in the Rim of the Pacific (RIMPAC) exercises—the world's largest international maritime exercises conducted around Hawaii and hosted by the US Navy's Pacific Fleet. The 2014 RIMPAC will be the 24th exercise in the series that began in 1971. Twenty three countries including Japan plan to join this exercise²¹⁵. Thus, efforts to involve China in multilateral drills have been made in this region.

This inclusion of China in multilateral exercises is effective in at least three aspects. First of all, the alliance could make more costly any Chinese decision to break military ties with relevant countries. Japan-US alliance also could weaken the claim of some Chinese experts that the alliance aims at containing China. Lastly, the alliance could build cooperation with another directorate within the PLA because multilateral interactions are managed by a different directorate within the PLA than bilateral interactions (Harold[2013]p118-119). For these reasons, multilateral drills would be useful to engage China.

Although some Chinese experts have cautious attitudes toward this multilateral engagement, other Chinese experts state that such multilateral engagement is entirely possible as long as the substance of exercises are not sensitive and remain uncontroversial (Harold[2013]p118-119). Therefore, multilateral exercises in non-confrontational fields such as some non-traditional security fields should be conducted.

PLA's "New Historical Mission"

Such multilateral non-traditional military-military cooperation would be harmonized with a new priority of the PLA missions. Although the rapid growing of the PLA's capability has been increasing tensions with neighbors, the PLA started showing new aspects compatible with interests of neighboring countries from the 2000s. In 2004, Hu Jintao launched the concept of "New Historic Mission". This concept is further defined by the 2006 National Defense White

²¹⁵ <http://www.stripes.com/news/navy/23-nations-heading-to-hawaii-for-rimpac-as-exercise-details-emerge-1.280572>

Paper, emphasizing two tasks for the PLA: improve its capability to successfully carry out combat operations regarding Taiwan and boost the PLA's capability by joining military operations other than war (MOOTW). Priorities on the two tasks were explained in the 2008 Defense White Paper, stating that the PLA's top priority is the increase of its ability to deter and win local wars under informatized conditions. Enhancing its capability to carry out MOOTW missions is secondary but still significant. The concept of MOOTW covers a wide range of operations such as counter terrorism, U.N. Peacekeeping operations, non-combat evacuation, emergency disaster relief operations, international humanitarian assistance, and counter-piracy patrols (Chase and Gunness[2010]).

Since the beginning of the twenty-first century, the PLA Navy has conducted 37 joint military exercises with various foreign navies in fields such as non-proliferation of Weapon of Mass Destruction (WMD), defense of sea-land-air channels, anti-terrorism, and search and rescue. Such joint drills were increasing in frequency and scale (Qiang[2012]p619-620). Some Chinese experts think that the PLA's contribution to global interest through such operations can enhance the reputation of China as a constructive player in global security affairs as well as promote China's national pride and prestige as a major power (Qiang[2012]p614-615).

Based on the idea that the goal of limiting the rise of China is excessively costly, the question would be how China's power is used (Lampton[2010]p10). One answer for this question is to take more advantage of China's aspirations and capability over MOOTW's operations—to boost cooperation with China in the non-traditional security fields. In other words, Japan and the United States can try to utilize China's national resources to produce public goods in this region and the globe. In doing so, Japan-US alliance might be able to modify what China perceives as its national interests. As the PLA's work on MOOTW's operations would be valued and respected by the international community, China might put slightly higher priority on promoting its national pride and prestige by producing public goods in non-traditional security fields.

Of non-traditional security fields, Counter-Piracy, Humanitarian Assistance/Disaster Relief, and Maritime Search and Rescue offer the best possibility of multilateral military-military cooperation among countries including Japan, the US and China.

Counter-piracy

Counter-piracy is one field in which Japan, the US and China have already carried out cooperation, for example, in joint counter-piracy operations in the Gulf of Aden. The US and China deepened their cooperation in this field when they carried out the first joint counter-piracy exercises in 2012. Through counter-piracy cooperation, China wants to learn from the US capability to rescue hostages at sea, which the US army showed off the coast of Somalia in 2009 (Harold[2013]p114-115). For Japan and the US, counter-piracy operations or exercises would carry benefits such as deeper and wider military-military exchanges.

Counter-piracy cooperation among the three counties would contribute to their common interest, the protection of sea lanes of communication (SLOCs). In the 1970s Japan and the United States started to work together on protecting SLOCs. Recently, China has also put a high priority on the security of SLOCs. One reason is that 80% of China's imported oil arrives by sea. According to a Chinese scholar, China's participation in the joint effort to counter-piracy is an inevitable

choice which will provide more opportunities for maritime cooperation between the PLA Navy and the navies of other countries, both bilaterally and multilaterally (Qiang[2012]p617-618). Thus, the three countries have a common interest in their cooperation to protect SLOCs from piracy.

The enhanced PLA's capability on counter-piracy operations can be useful to produce global common goods. Since December 2008, the PLA Navy has deployed ten flotillas and more than 8,400 soldiers to pirate-infested waters off the Horn of Africa to protect merchant vessels. By 15 July 2011, PLA Navy convoy had escorted more than 4,000 vessels, among which about 70% were foreign merchant vessels in that area (Qiang[2012]p615).

Multilateral counter-piracy exercises should be carried out more frequently. Participating countries in these exercises include not only Japan, the US and China but also other neighboring countries such as India, Singapore, Indonesia and the Philippines which also have concerns about pirates in nearby waters. Actually, multilateral counter-piracy exercises will be conducted as a part of the 2014 RIMPAC²¹⁶. Such multilateral counter-piracy drills also could familiarize the navies of the US allies including Japan with the PLA Navy.

Through multilateral counter-piracy exercises and operations, the Self Defense Force of Japan should broaden military-military exchanges with the PLA.

Humanitarian Assistance/Disaster Relief

Humanitarian Assistance/Disaster Relief (HADR) is the field where Japan-US alliance has accumulated plenty of experience cooperating. Japan and the US worked together as the Tsunami Core Group after a gigantic tsunami hit South and Southeast Asia in December 2004 and after the earthquake and tsunami hit East Japan in March 2011.

China has also been increasing its experience to being engaged in HADR. In 2001, China established "China International Search and Rescue Team" (CISAR), whose major task is to carry out emergency search and rescue after earthquakes or other such disasters. Then CISAR was composed of about 230 members, most of whom came from the PLA. Since its establishment, CISAR has frequently participated in overseas rescues, including in Algeria, Iran, Indonesia, Pakistan, Haiti, New Zealand and, most recently, Japan following the earthquake and tsunami of March 2011 (Qiang[2012]p618). Thus, China also has accumulated experience in this field.

Furthermore, China has carried out exercises with foreign militaries in the HADR field, mostly since 2008. Chinese experts see potential benefits in increasing the PLA capability through joint-drills with the US in this field. They perceive that the PLA will learn operational skills and use those skills to enhance the China's international reputation (Harnold[2013]p117). The PLA should be encouraged to join multilateral HADR drills

²¹⁶ <http://www.stripes.com/news/navy/23-nations-heading-to-hawaii-for-rimpac-as-exercise-details-emerge-1.280572>

Most recently, March/April of 2014, a multilateral HADR exercise was hosted by Indonesia—“KOMODO”, in which Japan, the US and China also participated²¹⁷. Furthermore, some US experts also suggested inviting China to participate actively in, not only to observe, the annual Cobra Gold military drills hosted by Thailand (Harold[2013]p118), which included joint-drills on disaster relief²¹⁸ in 2014. If China joins the Cobra Gold, the participating countries including Japan will have another chance to widen military-military interactions with the PLA.

Multilateral HADR drills and operations at disasters, Japan should deepen cooperation with between the Self Defense Force of Japan and the PLA.

Maritime Search and Rescue

In the field of maritime search and rescue, Japan-US cooperation and US-China cooperation are relatively advanced. In contrast, Japan-China cooperation lags far behind. For example, Japan and the US have cooperated in this field since they concluded an agreement on maritime search and rescue in 1979. The US and China also have conducted joint exercises on maritime search and rescue²¹⁹. On the other hand, a Japan-China agreement on maritime search and rescue is still under negotiation. The maritime search and rescue field can provide room for the two countries to promote cooperation. Multilateral maritime search and rescue drills involving all of the three countries would be a good opportunity to widen Japan-China cooperation in this field.

Some American experts worry that the capabilities that the PLA would learn through search and rescue joint-exercises with the US would be transferred into combat search and rescue capability. However, the US Coast Guard carried out an at-sea search and rescue exercise with the China Maritime Safety Administration off the coast of Hawaii in 2012 without only negative impact on US national security (Horold[2013]p117).

One distinct benefit of cooperation in maritime search and rescue is the opportunity for non-military maritime enforcement agencies—such as the Japan Coast Guard, the US Coast Guard and the China Maritime Safety Administration—to work together. This opportunity is especially important because that Japanese agency and that Chinese Agency regularly come into conflict with each other off the Senkaku Islands. US-initiated multilateral maritime search and rescue drills involving both Japan and China would be beneficial to interactions among the maritime enforcement agencies of the three countries.

Medium-term Measures

This ad hoc cooperation in the fields of Counter-Piracy, Humanitarian Assistance/Disaster Relief, and Maritime Search and Rescue would contribute to deepening and widening military-military exchanges between Japan and China. This mid-term measure enable the transfer of enhanced military-military cooperation to the next level, the establishment of a more lasting and higher-level security dialogue between the two countries.

²¹⁷ <http://defencesecurityindia.com/multilateral-humanitarian-assistance-exercise-komodo-begins-indonesia/>

²¹⁸ <http://iipdigital.usembassy.gov/st/english/article/2014/02/20140212292843.html#axzz3219zdbJW>

²¹⁹ <http://www.defense.gov/news/newsarticle.aspx?id=2194>

Current Japan-China security dialogues are irregular and frequently halted by incidents. However, improved military-military relations between the two countries might allow them to build to a more lasting and regular security dialogue.

Moreover, that security dialogue should involve higher-ranking officials from both sides. One reason is that, in the Chinese system, no lower-level interactions occur without the blessing of top leaders (Harnold[2013]p112). In US-China relations, only high-level meetings, such as presidential summits, have succeeded in attaining agreements on promoting military-military cooperation, such as the MMCA. This was because of the US desire for summit “deliverables”; it was not because China recognized that military-military cooperation was valuable to it (Pollpeter[2004]p78-79). For this reason, with respect to Japan-China relations, higher-level meetings could also contribute to promoting military-military cooperation. In order to ensure that the security dialogue would be effective to produce concrete outcomes, a top-down approach is required.

Another aspect of this Chinese preference for a top-down approach is that they require agreement on or resolution of strategic issues, which then leads to the creation of mutual trust, before cooperative activities can take place (Pollpeter[2004]p81, 89). But it seems that complete resolutions of strategic issues are not necessary conditions for improving military-military relations with China. One illustration of this is that, even though the Taiwan issue still remains potentially confrontational in US-China relations, their military-military relations are relatively advanced. For this reason, if there is to ever be complete resolution of what China regards as a problem about the Senkaku islands, it will not be because Japan and China have established a more regular and higher-level security dialogue. The two areas of interaction remain exclusive.

Even if such a dialogue was created, Japan-China security relations would not be analogous to the Japan-US alliance in quality. In the same way, US-China strategic relations are quite different. That dialogue basically aims at improving mutual understanding of the other’s security strategy, producing military-military cooperation mainly in non-traditional security issues, and making maritime and/or air rules. However, the establishment of a Japan-China security dialogue would be an important step to alleviate the deficiencies of the current regional security network, namely the lack of strategic communications between Japan and China.

5. Conclusion

This essay proposes that, as short-term measures, military-military cooperation between Japan and China should proceed in the three areas: Counter-Piracy, Humanitarian Assistance/Disaster Relief, and Maritime Search and Rescue. The initiative should be promoted through multilateral frameworks involving the US. These short-term measures also aim to help reduce miscommunications between Japan and China, presumably allowing the two countries to establish a more lasting and higher-level security dialogue, as a medium-term step. Such a security dialogue would enable the two countries to deepen their mutual understating of each other’s military strategy, enable the formulation of a code of maritime or air rules, decrease chances of military clashes between the two armed forces, and encourage further cooperation in non-traditional security fields. The overall objective of these policy suggestions is to set up a system or arrangement of security management. Enhanced Japan-China security management would remove some of the deficiencies of the current security network, particularly the lack of

strategic communications between the two nations. It would work toward effectively alleviating the current regional insecurity spiral.

Though not covered in this essay, other policy suggestions are conceivable. All three areas suggested above are limited to direct military-military cooperation between Japan and China. As short-term measures, the possibility of such military cooperation in a multilateral context such as United Nations Peacekeeping Operations or Military Medicine Exchanges should also be explored. Furthermore, broader Japan-China exchanges between militaries including low-level officials or between experts on 1.5 Track and 2 Track should be pursued. All of these measures also would reduce mutual misunderstandings between Japan and China and allow these two countries to step forward to the establishment of more regular and higher-level security dialogue.

Second, the short-term measures in the above policy suggestions might not be effective in achieving the medium-term goal—establishing of a more lasting and higher-level security dialogue. One reason is it is not certain that military-military cooperation proposed in the policy suggestions would actually be effective in sufficiently decreasing miscommunications, which is key the establishment of a security dialogue. However, it is certain that military-military cooperation would promote mutual understating of both militaries at some level and would be least costly. Furthermore, such military-military cooperation would also utilize Chinese capabilities in a constructive way. The conclusion is therefore that the short-term measures will in the end be useful to engage China.

Lastly, the escalating tensions between China and such smaller countries as the Philippines and Vietnam could be seen as a negative result of deficiencies in the current regional security network. Some framework to reduce strategic miscommunication between China and these countries should also be considered. Such a process might encourage the development of a meaningful regional security network as public goods.

Class Research Trip to Tokyo March 2014: Photo Album



Urasenke Tea Ceremony



Discussion Session at the U.S. Embassy Tokyo



Briefing at Temple University



Visit to Yasukuni Shrine



International House in Roppongi



Dinner at Gonpachi



Lunch at Minori-An

THE YEAR AT THE REISCHAUER CENTER

Kent Calder
Director, Reischauer Center for East Asian Studies
July 18, 2014

During the 2013-2014 academic year, approaching its thirtieth anniversary, the Reischauer Center continued to expand and innovate. Internationally, it co-sponsored two major conferences in Tokyo, with faculty members also participating in major additional meetings in China, Mongolia, Myanmar, and major nations of Western Europe. At home in Washington, the Center hosted an unusually large and cosmopolitan team of twelve Visiting Fellows from three nations, and convened a record 38 events of great variety. The alumni network expanded steadily to new corners of the globe, with former Visiting Fellows being posted to international locations ranging from Hanoi and Manila to Teheran, as well as Tokyo and Washington. The Center also hosted student interns from Japan, South Korea, and China, as well as the United States.

The seminal honor for the Center during the academic year, however, came to Ambassador Rust Deming, Adjunct Professor of Japan Studies at SAIS, and Senior Advisor to the Reischauer Center. Professor Deming was awarded the Order of the Rising Sun with Gold Rays and Neck Ribbon, one of the highest honors awarded to foreign nationals, by the Japanese Government, for his historic contributions to US-Japan relations. In addition to heading the Office of Japanese Affairs at the US State Department, and serving as Political Minister-Counselor, Deputy Chief of Mission, and Acting Chief of Mission in Tokyo, and later as Principal Deputy Assistant Secretary of State for East Asia and Ambassador to Tunisia, following his retirement Ambassador Deming returned to public service to serve once again as Director of Japanese Affairs during 2011-2012, playing the key coordinating role in the US Government response to the tragic tsunami of March 11, 2011. Ambassador Deming's award was announced on November 3, 2013, and awarded at a special ceremony hosted by Japanese Ambassador to the United States Kenichiro Sasae on April 15, 2014. Ambassador Deming is pictured here at the awards ceremony, together with his wife Chris, as well as Ambassador and Mrs. Sasae.

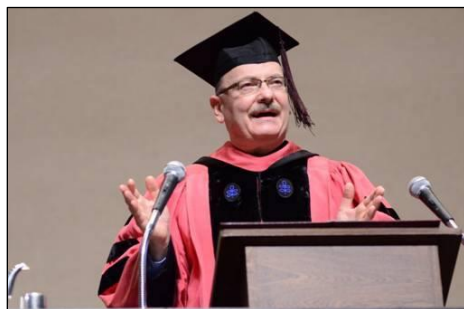


In early fall, an exceptionally able group of eleven Visiting Fellows assembled at the Reischauer Center for the academic year. They included representatives from Japan's Ministries of Finance, Defense, METI, and Foreign Affairs, as well as from the private sector and media organizations, as well as major universities. The Fellows both participated in academic seminars and presented their own research at informal brownbag luncheons. These luncheons and related receptions also provided opportunity for informal dialogue with current and former officials in Washington, D.C., including Marc Knapper, Director of the Office of Japanese Affairs, and Suzanne Basalla, formerly Special Assistant to US Ambassador to Japan, John Roos. The Visiting Fellows, together with MA students in Japan Studies, are pictured below.

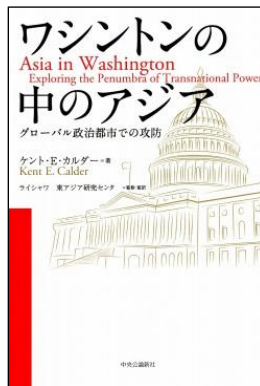
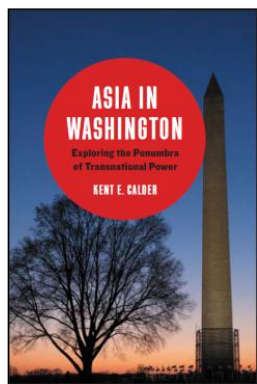


Extra-curricular seminars were a key element of this year's program, and were numerous and more broad-gauge than ever before. Among the main themes explored were energy security; the Kennedy-Reischauer heritage in US-Japan relations; Eurasian continentalism, especially Mongolia's role in a changing Asia; and contrasting approaches of Asian nations to agenda-setting in Washington, D.C. Among the major outside speakers were Skipp Orr, US Ambassador to the Asian Development Bank; and Jonathan Addleton, former US Ambassador to Mongolia; as well as Professors Fumiaki Kubo of Tokyo University; Alexander Cooley of Columbia University; and Jacques de Lisle, director of the Center for East Asian Studies at the University of Pennsylvania.

One major scholarly event of the year was Professor Kent Calder's address at the Fall Commencement Exercises of Waseda University in Tokyo, on September 13, 2013. Calder spoke in Okuma Kodo, the traditional venue of major academic and policy addresses at Waseda, to the assembled graduates and senior faculty of the university, regarding the symbolic meaning, from a global perspective, of Waseda's experience and intellectual approach, which had brought President Bill Clinton, Senator Robert Kennedy, President Jiang Zimin of China, and other major leaders to speak there. He entitled his commencement address "Waseda to the World".



Another major scholarly event of the year was the publication of Professor Kent Calder's Asia in Washington, by Brookings Institution Press, in April, 2014. Calder spoke at a special book launch for the volume, held at the Reischauer Center, on April 3, 2014. The Japanese version of the book was also published by Chuo Koron Sha in Tokyo, on June 25, 2014, with two Visiting Fellows of the Reischauer Center, Kazuhiro Hasegawa and Junya Hashimoto, serving as the key translators. Covers of the English and Japanese version of the book are shown below.



During this academic year the Reischauer Policy Research Fellowship Program, founded in May, 2013, began to take on stronger and stronger momentum. Chosen through a nationwide search, Fellows participate actively in major research projects of the Reischauer Center, while also engaging more broadly with the Washington policy community. Current fellows, some of them pictured below, include Megan Dick, a former National Merit Scholar and recent graduate of Pomona College; and Aileen McClaren, a former JET program participant with extensive teaching experience in Sapporo, Japan, and recent graduate of Mary Baldwin College.



As it enters its thirtieth anniversary year, the Reischauer Center continues to emphasize student education and research as it has since its foundation. This yearbook is representative of that work, and the Center is proud to present its conclusions to the broader world. The yearbook's editor, Professor William Brooks, symbolizes the combination of academic rigor and policy sensitivity that we always strive to maintain. Together with the yearbook, and hopefully synergistic with it, the Reischauer Center is actively coming to terms with an emerging global world, as chronicled in this short report, and will intensify that effort in the years to come.

Reischauer Center 2013-2014 Events

Reischauer Center Seminars:

<i>Date</i>	<i>Speaker</i>	<i>Title</i>
9/18/2013	Tomohito Shinoda, Professor and Director, IUJ Research Institute International University of Japan	Contemporary Japanese Politics: Institutional Changes and Power Shifts
9/19/2013	Gil Rozman, Emeritus Musgrave Professor of Sociology, Princeton University, Editor, The Asan Forum	The Sino-Russian Challenge to the World Order
9/24/2013	Alicia Campi, President, The Mongolia Society	The Mongolia-Japan Strategic Partnership
9/26/2013	Kent Calder, Director, The Reischauer Center for East Asian Studies	Kennedy Reischauer Heritage in US-Japan relations
10/3/2013	Alexander Cooley, Professor, Department of Political Science, Barnard College at Columbia University, Deputy Director, Columbia's Harriman Institute	Central Asia as an Emerging Multipolar System: Competing New Security Organizations, Public Goods and Values
10/17/2013	Quansheng Zhao, Director and Professor, Center for Asian Studies, American University	Troika and the Dynamics of the Washington-Tokyo-Beijing Triangle
10/24/2013	Jonathan Addleton, Former U.S. Ambassador to Mongolia	Mongolia and the United States: A Diplomatic History
11/5/2013	Alicia Campi, President, The Mongolia Society	The Mongolian President's Visit to North Korea--the Regional Implications
11/7/2013	Satu Limaye, Director, East-West Center	The Asia Matters for America Initiative: Putting the Asia-Pacific Pivot in Perspective
11/14/2013	Jacques deLisle, Stephen A. Cozen Professor of Law & Professor of Political Science, Director, Center for East Asian Studies at University of Pennsylvania	History, Sovereignty and International Law: China's East China Sea and South China Sea Territorial Disputes and Implications for Taiwan
11/21/2013	Kent Calder, Director, The Reischauer Center for East Asian Studies	The U.S., Japan, and the Changing Middle East

- 12/12/2013 Rust Deming, Former U.S. ambassador to the Republic of Tunisia, Adjunct Professor, SAIS Japan Studies The Evolving Role of Embassies in U.S. Foreign Policy
- 2/6/2014 Andrew S. Erickson, Associate in Research, Harvard Fairbank Center China's Military Air-Sea Advancement: Regional and Global Implications
- 2/12/2014 Kathryn Weathersby, Professorial Lecturer in Korean Studies, SAIS, Visiting Professor in Political Science and Diplomacy, Sungshin Women's University, Seoul The Decision to Prolong the Korean War: North Korea and the Armistice Negotiations
- 2/27/2014 Jim Foster, Professor, Keio University Graduate School of Media and Governance, Director, Keio International Project on the Internet and Society, Former Economic Counselor and Political Minister at US Embassy Tokyo Abenomics: The Missing Arrow - Reform of Japan's ICT Sector
- 3/6/2014 Skipp Orr, US Ambassador to Asian Development Bank The United States, Japan and the Asian Development Bank: Charting Regional Development Through Rough Waters
- 3/11/2014 Suzanne Basalla, Senior Advisor to Ambassador John V. Roos in U.S. Embassy Tokyo 2010 – 2012, Executive Vice President & Chief Operating Officer, US-JAPAN COUNCIL/Rust Deming, Director of Japan Affairs, US Department of State, 2011-2012, Principal Deputy Assistant Security of State for East Asian and Pacific Affairs 1998 - 2000 2011 Tohoku Disaster and Japan's Future
- 3/13/2014 Jennifer Lind, Associate Professor, Department of Government, Dartmouth College Rupture and Rescue of the U.S.-Japan Alliance
- 4/1/2014 Alicia Campi, President, The Mongolia Society Revitalized ROK-Mongolian Relations: South Korea's 'Eurasia Initiative' and Silk Road Express meets Mongolia's "Transit Corridor"
- 4/3/2014 Kent Calder, Director, Reischauer Center for East Asian Studies "Asia in Washington" book publication seminar
- 4/10/2014 Fumiaki Kubo, Ph.D., Barton Hepburn Professor of American Government and History at the Graduate Schools for Law and Politics, the University of Tokyo Dynamics and Challenges of Asymmetrical Alliance: the Case of the United States and Japan

Brown Bag Luncheons:

<i>Date</i>	<i>Speaker</i>	<i>Title</i>
10/2/2013	Jeffrey Miller, Energy Attaché, United States Embassy in Tokyo, Director, U.S. Department of Energy Japan Office	US-Japan Energy dialogue: informal discussion
10/16/2013	William Brooks, Adjunct Professor, SAIS Japan Studies	Anatomy of Dysfunctional Politics in Japan
10/23/2013	William Brooks, Adjunct Professor, SAIS Japan Studies	The Re-Rise of the LDP and the Future of Japanese Politics
11/13/2013	Kentaro Katayama, International Monetary Fund	Country risk in Central Asia and Middle east
12/4/2013	Kazuhiro Hasegawa, Tokyo Electric Power Company / Masahiro Chikushi, Ministry of Economy, Trade, Industry	Japan's Energy Policy and Electricity Industry ~Our Experience and Future~
12/5/2013	Sawa Omori, International Christian University	How much influence does Japan have? The Role of Japan in the IMF from Comparative Perspective
12/11/2013	Nota Masayuki, Ministry of Economy, Trade, Industry	Reconstruction of Fukushima
1/29/2014	Arthur Lord, Strategist, Department of Defense Office of the Secretary of Defense (Policy)	Thoughts on the US-Japan Alliance: past, present, future
2/5/2014	Suzanne Basalla, Executive Vice President & COO, U.S.-Japan Council	Building the TOMODACHI Generation in U.S.-Japan Relations
2/19/2014	James Schoff, Senior Associate, Asia Program Carnegie Endowment for International Peace	The Business of Thinking: Foreign Policy Think Tanks in America
2/21/2014	Junya Hashimoto, Yomiuri Shimbun	National Security Council in Japan -- Will it succeed?
2/27/2014	Jae-Seung Lee, Professor at International Studies department and at Green School, Korea University	The Return of High Politics?: Reviewing Energy Threats in East Asia
3/7/2014	Kazuhiko Togo, Professor and Director of Institute for World Affairs, Kyoto Sangyo University, Former Ambassador to the Netherlands	Japan's isolation after Yasukuni: how to restructure its priorities
3/10/2014	Satoru Morita, National Tax Agency	Consumption Tax in Japan

4/2/2014	Rieko Matsukura, Ministry of Defense	Examine “China Daily USA”: How will China's soft power affect Sino-US ties and Japan-US ties?
4/11/2014	Masahiro Chikushi, Ministry of Economy, Trade, Industry	Its Meaning and Tasks Remaining: Japan's Energy Basic Plan and 2014 Nuclear Security Summit
4/17/2014	Naoya Araki, Ministry of Foreign Affairs	Beijing's Taiwan Policy, 2000-2005: Improving Policy Effectiveness and Some Similarities with the Policies toward the Senkaku Islands