

U.S.-JAPAN RELATIONS

HEARING
BEFORE THE
SUBCOMMITTEE ON EAST ASIAN
AND PACIFIC AFFAIRS
OF THE
COMMITTEE ON FOREIGN RELATIONS
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U.S.–JAPAN RELATIONS

THURSDAY, APRIL 15, 2010

U.S. SENATE,
SUBCOMMITTEE ON EAST ASIAN AND PACIFIC AFFAIRS,
COMMITTEE ON FOREIGN RELATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 11:07 a.m., in room SD-419, Dirksen Senate Office Building, Hon. Jim Webb (chairman of the subcommittee) presiding.

Present: Senator Webb.

OPENING STATEMENT OF HON. JIM WEBB, U.S. SENATOR FROM VIRGINIA

Senator WEBB. Good morning. The hearing will come to order.

The past 60 years have produced a dramatically different Asia from the region that had been ravaged by World War II. Europe's colonial powers withdrew from their colonies, the United States gave independence to the Philippines, Japan left the countries that it occupied and returned inside its historical borders. Whether in peace or war, new nations have been born. The governments of existing ones have risen or fallen, and on Asia's map, borders far and wide have been erased or redrawn. New political systems, too, have been created, while others have crumbled, and still others have held steady and matured. Good governments have formed, and bad ones, as well. And all of this change, along with the energy that it unleashed, has let loose, in untold millions, an immense store of aspirations, not always successfully. And, above all, it has kindled, in nearly the whole of Asia, a steady, and sometimes surprising, economic growth.

Throughout, the United States has always been on hand, providing the region with a balance and a guarantee of stability that it had previously lacked. We fought two hard wars, in Korea and Vietnam, losing more than 100,000 American lives, as a measure of our commitment to this region's stability.

The wars aside, our military strength has provided overarching regional security, while commercial, economic, and political ties have emerged and flourished. To no small extent, the American presence has quelled larger uncertainties when, from time to time, they have threatened to engulf Asia.

In this sense, we have been an indisputable and indispensable partner, even as we ourselves have steadily become more of an Asian nation, in terms of commerce, military security, and with respect to our own culture here at home.

In a region where the national interests of Russia, China, Japan, and the United States directly intersect, we've provided a rare historical balance that has allowed the people of East Asia to prosper and to advance further along a path leading to a better life than ever known before.

Yet, change is a constant. Peace and stability are not to be found everywhere at any time, and certainly this holds true in today's Asia. China's emergence requires special care, both in the region and elsewhere, to communicate our strong national conviction that China's sense of responsibility in the world must match its increasing influence.

We continue to face a truculent and reckless regime in North Korea. We look on with care and deep concern as our good friends in Thailand struggle to find a more accommodating political mechanism and broader opportunities.

In Burma, we see early but clear signs of transition stirring. Where, or how far, it will go, no one can yet tell, but any evidence of change in Burma, however fashioned, is to be acknowledged, if only for the eternal—excuse me—if only for the eventual good it may hold.

Also, in Japan, new elections have brought a new party to power for the first time in more than half a century, and along with that political change, we are seeing signs of deeper thought and concerns that infect the entire national mood. Predictably, this brings the prospect of some new policies, fresh priorities, and added perspectives. We should study the possible impact of these changes in order to ensure that this vital alliance remains both vital and an alliance. For, above all, it is to be remembered that the relationship between our two countries has endured the test of the many challenging decades since World War II, and, as a result, now rests firmly on a foundation of mutual and rock-hard trust and respect.

This year, in fact, we and Japan celebrate the 50th anniversary of our Treaty of Mutual Security and Cooperation. This treaty, along with strong economic and political ties between our countries, has served us well. In many ways, we are more than allies. Indeed, the ties that bind Japan and America are sometimes overlooked because they have become so complete. It would be hard for either country to envision a future without consideration of the other.

Today, even with the remarkable rise of China and its burgeoning economic growth, the largest economies in the world are in the United States and Japan, respectively. Combined, they account for nearly 30 percent of the world's GDP. And despite a global financial crisis, our trade last year reached \$147 billion with over \$50 billion in United States exports to Japan. Moreover, Japan is our fourth-largest trading partner and the largest holder of United States Treasury securities.

Japan's military is often overlooked, but it is strong, and it is large, and it has taken a strong role in international security and humanitarian missions. It is participating in the Combined Task Force 151, a multilateral force protecting global shipping from Somali pirates. More recently, Japan dispatched 160 members of its Self-Defense Force to Haiti to aid in the earthquake recovery there. Japan is a leading donor for Afghanistan reconstruction, contributing more than \$2 billion in aid, thus far. Last year, it publicly

committed to providing at least \$5 billion more. Japan is also the second-largest contributor to Iraq's reconstruction.

Many Americans tend to forget that Japan itself is host nation to about 85,000 American servicemembers, dependents, and civilians, also provides billions of dollars each year, \$4.3 billion in 2008 alone, for support and upkeep of these bases.

Furthermore, Japan has committed an additional \$6 billion to help pay for the restructuring of the United States military presence. Such significant monetary and force contributions clearly demonstrate, in real terms, that Japan remains stalwartly side by side and shares America's highest goals and aspirations.

Naturally, relationships evolve. America and Japan are no different. One can find ready evidence of this in the attention presently trained on the future disposition of the Futenma Marine Corps Air Station in Okinawa. It's been widely reported, the new Japanese Government is in the midst of reviewing the provisions of a 2006 agreement to relocate this base to a northern portion of Okinawa, and we have heard that a decision would be forthcoming within the next month or so.

Whatever the result, resolution of this issue will have a direct bearing on the larger consideration of America's defense posture in all of Asia.

Thirty-five years ago, I was retained by the Government of Guam to assess our military strength as it existed then in the region, including looking at our forces in the Philippines, Korea, and in Japan, and to map out how our land, sea, and air forces should best be deployed a new strategic posture, including Guam, Tinian, and potentially Saipan.

I continued to scrutinize this issue, both as Assistant Secretary of Defense and later as Secretary of the Navy, and on many occasions as a journalist traveling extensively in Asia. In February of this year, I visited Tokyo to meet with Japanese and U.S. officials in order to discuss our diplomatic, economic, and security relations. Following those meetings, I then visited Okinawa, Guam, Saipan, and Tinian to examine the restructuring of United States military forces now stationed in Japan. I heard from many stakeholders involved in the proposed relocation of the Futenma Marine Corp Air Station and the movement of 8,000 marines from Okinawa to Guam.

And it's important to keep in mind that such a move would involve a nearly 50-percent reduction in what we call the Marine Corps footprint, the forward presence in Japan. If executed properly, I am confident that this relocation can keep us strong in Asia, can alleviate concerns of those affected by this change, and result in continuing to have the kind of forward and flexible force needed to keep overall stability in the region. The question, of course, is how to bring about a proper execution of this plan.

The question before us today is, obviously, much larger than the basing issues that have drawn so much attention. Given the dynamic changes in the region and the inordinate amount of national attention that has gone into our complex and still-evolving relationship with China, how do we best move forward on every level with our true and tested ally, Japan? What measures should be taken to ensure that Americans and Japanese alike understand the vital

importance of a continued friendship and alliance? And how do Japan and the United States best move forward together to ensure our extraordinary bonds continue to grow even stronger and ever-more interwoven?

To discuss these issues today, I am pleased that we are joined by an incredibly well-qualified group of witnesses. I look forward to hearing their views on the strengths and challenges of our relations with Japan, and the future of that alliance.

And, gentlemen, I very much appreciate all of you having taken the time to prepare testimony and also come and exchange ideas today.

Our first speaker will be Dr. George Packard, who's president of the United States-Japan Foundation, former dean of the School of Advanced International Studies at Johns Hopkins University. He founded the Johns Hopkins Foreign Policy Institute, the SAIS Review, the Reischauer Center for East Asian Studies, the Hopkins-Nanjing Center in China. Dr. Packard is the author of 9 books on Japan and East Asia, maybe 10. He just gave me his latest book.

Is this No. 9 or No. 10, Doctor? [Laughter.]

Dr. PACKARD. Number nine.

Senator WEBB. I very much appreciate it.

Second, Mr. Richard Katz, editor in chief of the *Oriental Economist Report*, veteran journalist with more than three decades of experience writing on Japan and United States-Japan relations. Mr. Katz has testified before congressional committees on United States-Japan and United States-Asian relations, as well as lessons from United States—for the United States from Japan's banking crisis. Mr. Katz is the author of two books on Japan's economy and is a frequent commentator on United States-Japan's relations.

Our third speaker will be Dr. Michael Auslin, who is director of Japan Studies at the American Enterprise Institute for Public Policy Research. He is also resident scholar there in foreign and defense policy studies. Dr. Auslin was associate professor of history at Yale University, senior research fellow at Yale's MacMillan Center for International and Area Studies prior to joining AEI. He is the author of a book on negotiating with Japan, and is currently completing a book on the cultural history of United States-Japan relations.

So, we have decades of experience here, from people who have examined the United States-Japan extensively and, by my count, 14 books, which is half a library.

At this time, I would like to place in the record statements that we received here on the subcommittee on the issue of parental child abduction in Japan. This is an issue of continuing concern between American and Japanese relations. I met with a group of these parents when I was in Tokyo recently, and their testimony will be entered into the record at this time.

[EDITOR'S NOTE.—The statements mentioned above can be found in the "Additional Material Submitted for the Record" section of this hearing.]

Senator WEBB. And now, at this time, Senator Inhofe's statement also will be entered into the record. He may or may not be able to

attend, but this is the appropriate place for his statement to be entered.

[The prepared statement of Senator Inhofe follows:]

PREPARED STATEMENT OF HON. JAMES M. INHOFE, U.S. SENATOR FROM OKLAHOMA

Thank you, Senator Webb, for chairing this subcommittee hearing today on United States-Japan relations.

As we celebrate the 50th year of the United States-Japan Security Treaty, whereby Japan granted the United States military base rights on its territory in return for a U.S. pledge of protection, we are witnessing potential fundamental changes in our relationship with Japan. Much of this has to do with the historic victory in August 2009, of the Democratic Party of Japan (DPJ) which ended the almost uninterrupted rule of the Liberal Democratic Party (LDP) in postwar Japan. The impact of this victory is being felt across nearly every aspect of Japanese policymaking, from security alliance relations to Japan's budgetmaking process to the relationship between politicians and career Japanese civil and foreign service employees who served under the LDP—the present opposition party—for close to a half century.

Clearly, a transition was expected and necessary. And it is expected that those who have been out of power for close to two generations, will need time to gain on the job training in running a government. Experienced observers, however, have remarked that this has not been a “smooth” transition by any standard. These same authorities have also suggested that part of the problem is driven by political instead of policy exigencies.

It is a fact that in July 2010, half of Japan's Upper House seats will be up for election. The DPJ controls that chamber of the Diet by virtue of its alliance with two smaller parties, the left-of-center Social Democratic Party (SDP) and the populist/conservative People's New Party (PNP). The results of the July Upper House election may have a formative impact on a number of issues in United States-Japan relations. And it is in this present runup to this election that, in many observers' minds, politics is intruding into the national security decisionmaking process of the current leadership. There is no better example of this alleged intrusion, than in the controversy over U.S. military base realignment plans in Okinawa; the “Futenma” issue.

As you know, beginning in the Clinton through the Bush and into the present administration, negotiations were successfully concluded to realign and expand our mutual security alliance with Japan beyond its existing framework. A key feature of this new arrangement includes relocating the U.S. Marine's Futenma Air Station from crowded Ginowan to Camp Schwab, in the less populated part of northern Okinawa. This realignment of U.S. forces in Japan also includes the redeployment of the III Marine Expeditionary Force (III MEF), which includes 8,000 U.S. personnel and their dependents (when at full capacity), to new facilities in Guam, and thus lead to the return of thousands of acres of land to the Japanese. This move will reduce the number of U.S. Marines on Okinawa by nearly half. United States and Japanese officials settled on Camp Schwab because of its far less populated and congested location.

But now, after 13 years of negotiations, and an agreement signed in 2006 by the United States and Japanese Governments, the present government has stated that it might not honor the agreement in part or whole. Why?

Does the new government want to alter fundamentally the United States-Japan security alliance? Prime Minister Hatoyama has in the past made statements suggesting that U.S. troops in Japan either be significantly reduced or withdrawn altogether, though he backed away from these statements once he was elected, and confirmed the centrality of the alliance to Japan's security. Is it because the present government has a vision of a Japan that is more “normal,” in that it is more assertive and independent on the international stage? Members of the Hatoyama government have been quoted as supporting increased contributions in personnel and materiel to international security operations, but to do so only in missions that are authorized by the U.N. Security Council.

The answer to this question at present is that there is no answer. The Hatoyama government has put off twice giving a definitive response whether it will honor Japan's treaty commitments relating to Futenma. Unsettlingly, there are those who confidently predict that a final decision will be further delayed until after the July 2010 Upper House elections. And even if the election brings a greater majority, the present government will find itself still bound to implicit domestic political promises that fundamentally alter our longstanding security relationship.

I would be very interested in your responses to these troubling predictions, and what implication this politics-over-policy decision—making process allegation might have on other security related issues in the region; e.g., future provocative actions taken by North Korea against Japan.

I would like to raise another less visible, but no less important issue for discussion before this panel today on United States-Japan relations. It is the problem of parent child abduction.

We are experiencing an increasing problem with Japanese citizens abducting their American children and successfully returning to a safe harbor in Japan. The Department of State reports that since 1994, 269 American children have been kidnapped from America to Japan. Shockingly, it is my understanding that since 1952 when Japan regained its sovereignty, not a single kidnapped child from an American parent has ever been returned to the U.S. from Japan. In addition, I understand these American children living in Japan are often denied access to their American parent after a parental separation or divorce. And, to my knowledge, there are no joint custody or visitation rights in Japan. As a result, these children are alienated from their loving American parent, and the psychological trauma is extremely damaging. This tragedy for these American children and their left-behind American parents is overwhelming and must come to an end.

The 1980 Hague Convention on the Civil Aspects of International Child Abduction has not been ratified by Japan. The United States, Great Britain, Canada, Australia, New Zealand, France, Italy, and Spain have all called upon Japan to ratify this treaty. Japan is a modern industrialized society, and ally of the U.S. American children, however, are kidnapped and denied access to their American parents, and no child has been returned. If Japan truly wishes to participate in the international community, it must follow international norms and ratify this treaty.

In the past, private frankness followed by public discretion had been tried to resolve this issue on a case-by-case basis, but to no avail. Recently, however, the tragedy of Japanese child abduction has been made public. I applaud Assistant Secretary of State Kurt Campbell's extended public discussion of the problem of child abductions at a press availability at the U.S. Embassy in Tokyo on February 2, 2010. His comments can be found on the State Department's web page at: <http://www.state.gov/p/eap/rls/rm/2010/02/136416.htm>. In addition, he recently met with the American parents of abducted children last Friday, April 9, 2010, at the State Department here in Washington, DC. It is my understanding that a number of those parents who attended that "Town Hall" meeting with Assistant Secretary Campbell and other senior State Department officials are in the audience today. Their organizations, Bring Abducted Children Home (BAC Home), and American Citizen Children Kidnapped by Japan, can be found at: www.bachome.org and www.japanchildabduction.com.

I encourage this panel to study this problem, if they have had not done so previously, and contribute their scholastic efforts to end the suffering of all concerned.

Thank you again, Senator Webb, for chairing this subcommittee hearing on United States-Japan relations.

Senator WEBB. And, with that, I would like to welcome the panel. We normally have a 7-minute summary period, but I've read through these statements. I would like to say you can take up to 10 minutes, if you like, all three of you. There's a tremendous amount of experience and information in the statements and on the panel.

So, Dr. Packard, welcome.

STATEMENT OF GEORGE PACKARD, PRESIDENT, UNITED STATES-JAPAN FOUNDATION, NEW YORK, NY

Dr. PACKARD. Thank you very much, Mr. Chairman.

It is a great honor to have this opportunity to testify before your committee on the complex relationship between the United States and Japan. As requested, I will focus on the future of that relationship, particularly the political and security issues that face the two nations.

Today, the United States and Japan are allied under the terms of a treaty that took effect in January 1960, more than 50 years

ago. Not a single word of that treaty has been changed for over a half a century, even though since 1970 either side could have called for its abrogation by giving 1 year's advance notice.

The treaty commits the United States to come to the defense of Japan if Japan comes under attack from any country, and commits Japan to provide bases and ports for the United States to station its forces in Japan. It was correctly seen by both sides as a "grand bargain." It enabled Japan to recover its independence, gain security from the most powerful nation in the world at low cost, avoid remilitarizing, stay out of the nuclear weapons race, and win access to the American market as it rebuilt its devastated economy after its defeat in World War II. It gave Japan time to nurture the seeds of parliamentary democracy that the United States planted during the occupation. It enabled the United States to project power into the western Pacific; its troops and bases in Japan could not only help to defend Japan but also lend credibility to its commitments to defend South Korea and Taiwan, and to contain the Soviet Union and Communist China.

The treaty has clearly served the interests of both signatories; otherwise, it would not have survived. It has endured despite dramatic changes in world politics: the Vietnam war, collapse of the Soviet Union, the spread of nuclear weapons to North Korea, and the dramatic rise of China.

But, I would suggest to the committee that we can't assume it will survive into the indefinite future. And I say this for the following reasons.

First, the original treaty of 1952, predecessor to this one, was negotiated between victor and vanquished between a victor and an occupied nation, not between two sovereign states. Every Japanese voter knows that.

Two, Japan, which had never in its history accepted foreign troops on its soil, today, 65 years after the end of the war, has had to accept the indefinite stationing of close to 100,000 American troops, civilian employees, and dependents at some 85 facilities in a nation that is smaller than the State of California. Some 75 percent of the U.S. forces are based on the small island of Okinawa, in the Ryukyu chain.

Three, the U.S.—the continued presence of such a large U.S. military footprint brings with it environmental damage, crime, accidents, noise in crowded cities, and red-light districts.

Four, the American presence is governed by a Status of Forces Agreement, a SOFA, which has never been ratified by the Japanese Parliament and which increasingly strikes thoughtful Japanese as an extension of the extraterritorial arrangements that characterized Western imperialism in Asia in the 19th century.

Five, in order to soften the criticism of its mercantilist trade policies in 1978, Japan agreed to provide "host-nation support" which, Senator, you have already mentioned—that helps pay for the Japanese workers employed at U.S. military bases. That cost has run, as you mentioned, up to \$4.3 billion a year. It is called in Japanese the "omoiyari yosan" or "sympathy budget," a term which should embarrass both sides. That budget paid, in 2008, for 76 bartenders, 48 vending machine personnel, 47 golf course maintenance personnel, 25 club managers, 20 commercial artists, 9 leisure boat

operators, 6 theater directors, 5 cake decorators, 4 bowling alley clerks, 3 tour guides, and 1 animal caretaker—I don't know what he does, but he's there.

It is only natural that a new generation of Japanese who did not live through the cold war will increasingly question why they should put up with foreign troops and bases on their soil. The United States has reduced its military footprint in South Korea, Germany, and the Philippines, and it should not be surprising that a new generation of Japanese is growing restive in this situation.

Of course, the United States has problems with the treaty, as well. It is not reciprocal. Japan is not obliged to come to the aid of the United States if the United States comes under attack outside Japan. And Japan, while admitting that it has the right to engage in "collective self-defense," as provided in the U.N. Charter, has declared that it cannot exercise that right because of Article IX of its Constitution, which renounces war as a "sovereign right of the nation and the threat or use of force in settling international disputes." Repeated efforts by the United States to persuade Japan to change this interpretation have, so far, failed.

Japan has, in a gingerly and painstaking process, taken some steps to meet American concerns that it is enjoying a "free ride." It has taken steps to make its military equipment interoperable with that of the U.S. forces in the country, has engaged in joint planning and training exercises, currently has the seventh-largest defense budget in the world, and, as you know, sent 600 troops to Iraq from 2003 to 2006 to engage in noncombat operations.

A critical turning point in the relationship between our two countries came last August when, after almost 53 years of uninterrupted rule by the Liberal Democratic Party, Japanese voters overwhelmingly threw out the LDP in Lower House elections, and gave a strong majority to the opposition Democratic Party of Japan, or DPJ. The new Prime Minister, Hatoyama Yukio, took office in September 2009, and he has a record of seeking closer relations with other nations in east Asia, and wishing to reduce the presence of the United States military in Japan. On his watch, Japan ended its refueling mission in the Indian Ocean.

In October 2009, Secretary of Defense Robert Gates came to Tokyo and demanded the Hatoyama Cabinet should carry out a decision reached in 2006 between the Bush administration and an earlier LDP administration regarding the relocation of the U.S. Marine air base in Futenma. I believe this was a mistake. Hatoyama's Cabinet was unprepared to act on this demand; his party and coalition consists of a broad spectrum of views on that issue. Many Okinawans feel they have been treated as second-class citizens by both the Japanese and the American governments, and they resent having their small island treating as a kind of "dumping ground" for United States bases that are not welcome on the main islands.

I believe the United States should have given Hatoyama more time to sort out these views. Even more important, I think the United States should have celebrated the rise in Japan of a two-party system, sure evidence that the roots of democracy that we helped to establish are robust.

Public opinion counts in Japan, and the future of the alliance will depend on the degree to which Japanese voters accept military bases. This means that the United States and Japan need to hold new and broad-ranging talks on grand strategy, on roles and missions of United States forces, and be prepared to explain their decisions to the Japanese public.

Until now, the United States has not made an effective case for why the U.S. Marine air base needs to be in Okinawa. What is the mission for those 8,000 marines? General Stalder—Marine General Stalder, it was reported recently, said that they were stationed in Okinawa to be ready for the possible collapse of the North Korean regime and to seize control of fissile material to prevent rogue elements of that government from gaining control. It strikes me as almost unthinkable that the South Korean and Chinese Governments would welcome such a mission.

The main point is that Futenma should not be the primary determinant of the United States-Japan relationship. Far more is at stake. We are the two strongest democracies and economies in East Asia, as you have pointed out, Mr. Chairman. Peace and security in the region can only be maintained by our joint leadership. We are the only two nations of East and West who have successfully overcome huge cultural and historical barriers to forge a genuine partnership of friendship and shared values. The treaty rests on the strong bonds of friendship that have been forged in the last 50 years.

But, there are disturbing signs that the new generation of young Japanese may be changing their views of America. The Washington Post reported on April 11 that undergraduate enrollment of Japanese students in United States universities has fallen by an astounding 52 percent since 2000. Graduate enrollment has fallen by 27 percent. This is happening at a time when enrollment from China is up by 164 percent; from India, up 190 percent. We can only speculate about why this is happening. Clearly it should focus our attention.

The alliance, while crucial, is only one part of the overall partnership that has been built so carefully over the last 50 years. It would be a tragedy to allow Futenma—the Futenma issue to derail all of this.

My bottom line, Mr. Chairman, is that there should be a reexamine of the entire alliance. And I am urging that a new “Wise Man”—or, I should say “Wise Person’s Commission” to be set up similar to those that have played an important part in the past. The Commission should be charged, among other things, with devising new ways in which younger Americans and Japanese can communicate with each other. The foundation that I run has a United States-Japan leadership program that brings together two dozen of the most promising young leaders from both countries for intensive conversations. I am proud to say that Dr. Auslin, on my right here, has been one of those young leaders over the past 10 years.

I believe the Commission should look into expanding educational, cultural, and scientific exchanges, figure out ways to reach out to young Chinese leaders, ensuring that there will be networks of communication between the future leaders of all three countries.

Finally, Mr. Chairman, I am recommending that President Obama, during his November visit to Japan, would go to Hiroshima and use the symbolism of that place to declare his vision of a nuclear-free world. Then Prime Minister Hatoyama should visit Pearl Harbor and declare that his nation will work to create a world in which such an attack will never occur again. Neither leader should offer the hint of an apology, and both should praise the brave men, living and dead, who fought on both sides during World War II. I believe these symbolic gestures would go far to healing the remaining scars that are still painful to both nations, and would solidify the alliance for years to come.

In conclusion, please let me repeat, the future of the alliance will depend on the degree to which it is acceptable to a majority of Japanese voters. Every Japanese politician knows that, and we Americans should respect and celebrate the fact that democracy is alive and well in Japan.

Thank you very much, Senator.

[The prepared statement of Dr. Packard follows:]

PREPARED STATEMENT OF DR. GEORGE PACKARD, PRESIDENT, UNITED STATES-JAPAN FOUNDATION, NEW YORK, NY

It is a great honor to have this opportunity to testify before the Senate Foreign Relations Committee on the complex relationship between the United States and Japan. As requested, I will focus on the future of that relationship, particularly the political and security issues that face the two nations. [I have elaborated on these ideas in the current (March–April 2010) edition of *Foreign Affairs* magazine.]

Today, the United States and Japan are allied under the terms of a Security Treaty that took effect in January 1960—50 years ago. Not a single word of that treaty has been changed for over a half century, even though since 1970 either side could have called for its abrogation by giving 1 year’s advance notice of its intent to do so. The treaty commits the U.S. to come to the defense of Japan if Japan comes under attack from any country, and commits Japan to provide bases and ports for the U.S. to station its forces in Japan.

It was correctly seen by both sides as a “grand bargain.” It enabled Japan to recover its independence, gain security from the most powerful nation in the world at low cost, avoid remilitarizing, stay out of the nuclear weapons race, and win access to the American market as it rebuilt its devastated economy after its defeat in World War Two. It gave Japan time to nurture the seeds of parliamentary democracy that the U.S. planted during the Occupation. It enabled the U.S. to project power into the Western Pacific; its troops and bases in Japan could not only help defend Japan but also lend credibility to its commitments to defend South Korea and Taiwan, and to contain the Soviet Union and Communist China.

The treaty has clearly served the interests of both signatories; otherwise it would not have survived. It has endured despite dramatic changes in world politics: the Vietnam war, collapse of the Soviet Union, the spread of nuclear weapons to North Korea and the dramatic rise of China. It has also survived fierce trade disputes between the two allies from 1971–1990, and it remains strong in spite of the deep cultural and historical differences between the two nations.

But I would suggest to the committee that we cannot assume that it will survive into the indefinite future. I say this for the following reasons:

- The original treaty that entered into force in 1952, predecessor to the current treaty, was negotiated between a victor and a vanquished, occupied nation, not between two sovereign states. Every Japanese voter knows that.
- Japan, which had never in its history accepted foreign troops on its soil, today (65 years after the end of the war) has had to accept the indefinite stationing of close to 100,000 American troops, civilian employees and dependents at some 85 facilities in a nation that is smaller than the State of California. Some 75 percent of the U.S. forces are based on the small island of Okinawa, in the Ryukyu Island chain.
- The continued presence of such a large U.S. military footprint brings with it environmental damage, crime, accidents, noise in crowded cities, and red light districts.

- The American presence is governed by a “Status of Forces Agreement” (SOFA) which has never been ratified by the Japanese Diet (Parliament) and which increasingly strikes thoughtful Japanese as an extension of the extraterritorial arrangements that characterized Western imperialism in Asia in the 19th century.
- In order to soften the criticism of its mercantilist trade policies in 1978, Japan agree to provide “host nation support” that helps pay for the Japanese workers employed at U.S. military bases. That cost has run between \$3–4 billion per year. It is called in Japanese the “omoiyari yosan” or “sympathy budget,” a term which should embarrass both sides. That budget paid in 2008 for 76 bartenders, 48 vending machine personnel, 47 golf course maintenance personnel, 25 club managers, 20 commercial artists, 9 leisure boat operators, 6 theater directors, 5 cake decorators, 4 bowling alley clerks, 3 tour guides, and 1 animal caretaker.
- It is only natural that a new generation of Japanese who did not live through the cold war will increasingly question why they should put up with foreign troops and bases on their soil. The U.S. has reduced its military footprint in South Korea, Germany, and the Philippines, and it should not be surprising that the new generation of Japanese is growing restive in this situation.

The United States, of course, has its own problems with the treaty:

- It is not reciprocal. Japan is not obliged to come to the aid of the U.S. if the U.S. comes under attack outside of Japan.
- Japan, while admitting that it has the right to engage in “collective self-defense” as provided in the U.N. Charter, has declared that it cannot exercise that right because of Article IX of its Constitution, which renounces “war as a sovereign right of the nation and the threat or use of force in settling international disputes.” Repeated efforts by the U.S. to persuade Japan to change this interpretation have all failed.

Still, Japan has in a gingerly and painstaking process, taken some steps to meet American concerns that it was enjoying a “free ride.” It has taken steps to make its military equipment interoperable with that of the U.S. Forces in the country, and has engaged in joint planning and training exercises. It currently has the seventh-largest defense budget in the world. It sent 600 troops to Iraq from 2003–06 to engage in noncombat operations, and from 2001 to early this year, stationed naval vessels in the Indian Ocean to supply fuel to coalition forces fighting in Afghanistan. It has agreed to share its technology with the U.S. in the field of antimissile defense programs. It regularly engages in U.N. peacekeeping operations. Japan is second only to the U.S. in supporting the work of the United Nations.

A critical turning point came last August when, after almost 53 years of uninterrupted rule by the Liberal Democratic Party, Japanese voters overwhelmingly threw out the LDP in Lower House elections and gave a strong majority to the opposition Democratic Party of Japan (DPJ). The new Prime Minister, Hatoyama Yukio, who took office in September 2009, has a record of seeking closer relations with other nations in East Asia, and wishing to reduce the presence of the U.S. military in Japan. On his watch, Japan ended its refueling mission in the Indian Ocean.

In October 2009, Secretary of Defense Robert Gates came to Tokyo and demanded that the Hatoyama Cabinet should carry out a decision reached in 2006 between the Bush administration and an earlier LDP administration regarding the relocation of the U.S. Marine Air Base in Futenma to a new location in Okinawa. This was a mistake. Hatoyama’s Cabinet was unprepared to act on this demand; his party and coalition consists of a broad spectrum of views on the issue. Many Okinawans feel they have been treated as second-class citizens by both the Japanese and American Governments; they resent having their small island treated as a “dumping ground” for U.S. bases that are not welcome on the main islands (the NIMBY syndrome).

The U.S. should have given Hatoyama more time to sort out those views. Even more important, the U.S. should have celebrated the rise in Japan of a two-party system—sure evidence that the roots of democracy that we helped to establish are robust. Public opinion in Okinawa generally favors moving the Futenma base out of Okinawa altogether. Hatoyama has delayed making any decision on this, but promises to put forward his own plan by the end of May.

Public opinion counts in Japan, and the future of the alliance will depend on the degree to which Japanese voters accept the military bases. This means that the U.S. and Japan need to hold new and broad-ranging talks on grand strategy, and on roles and missions for U.S. Forces, and be prepared to explain their decisions to the Japanese public. Until now, the U.S. has not made an effective case for why the U.S. Marine Air Base needs to be in Okinawa. What is the mission for those 8,000 Marines? General Stalder, it was reported recently, said that they were stationed in Okinawa to be ready for the possible collapse of the North Korean regime and

to seize control of fissile materiel to prevent rogue elements of that government from gaining control. It strikes me as almost unthinkable that the South Korean and Chinese Governments would welcome such a mission.

The main point is that Futenma should not be the primary determinant of the United States-Japan relationship. Far more is at stake. We are the two strongest democracies and economies in East Asia. Peace and security in the region can only be maintained by our joint leadership.

We are the only two nations of East and West who have successfully overcome huge cultural and historical barriers to forge a genuine partnership of friendship and shared values. The treaty rests on the strong bonds of friendship that have been forged for the last 50 years. But there are disturbing signs that the new generation of young Japanese may be changing their views of America. The Washington Post reported on April 11, 2010, that undergraduate enrollment of Japanese students in U.S. universities has fallen an astounding 52 percent since 2000. Graduate enrollment has fallen by 27 percent. This is happening at a time when enrollment from China is up 164 percent, and from India, up 190 percent. We can speculate about why this is happening. Clearly it should focus our attention on the future of the alliance.

The alliance, while crucial, is only one part of the overall partnership that has been built so carefully over the last 50 years. It would be a tragedy to allow the Futenma issue to derail all of this. U.S. policy toward Japan should not be dictated solely by the needs of U.S. Marine Corps, however legitimate they may be.

With the proper civilian leadership, we must work together to curb North Korean nuclear ambitions, and to bring about reunification of the Korean Peninsula. Together we can strengthen environmental protection, human rights, antipiracy measures, securing sea-lanes of communication, and combating terrorism.

My bottom line, Mr. Chairman, is that there should be a reexamination of the entire alliance, taking a new look at the rationale for troops and bases, their roles and missions, and how Japan can contribute to our joint goals without violating its peace constitution. It should explore ways to create a permanent security organization along the lines of NATO for all of Northeast Asia. Then and only then can a wise decision, acceptable to both governments, be made regarding the future of the Futenma Air Base.

I would urge that a new "Wise Man's Commission" be set up—similar to those that have played an important role in past years—to conduct this examination and make recommendations to both governments. The Commission should of course include military leaders, but it should appointed by and report to, elected leaders in both countries.

The Commission should be charged with devising new ways in which younger Americans and Japanese can communicate with each other. Our foundation runs a United States-Japan Leadership program that brings together two dozen of the most promising young leaders from both countries for intensive conversations, the creation of new friendships and continuing communication across the Pacific via the Internet. The Commission should look into expanding educational, cultural, and scientific exchanges. It should explore new ways to reach out to younger Chinese leaders insuring that there will be networks of communication between future leaders of all three countries.

I am also recommending that President Obama, during his November visit to Japan, should go to Hiroshima and use the symbolism of that place to declare his vision of a nuclear-free world. Then Prime Minister Hatoyama should visit Pearl Harbor, and declare that his nation will work to create a world in which such an attack will never again occur. Neither leader need offer the hint of an apology, and both should praise the brave men, living and dead, who fought on both sides during World War Two. I believe these symbolic gestures would go far to healing the remaining scars that are still painful to both nations, and would solidify the alliance for decades to come.

In conclusion, let me repeat: the future of the alliance will depend on the degree to which it is acceptable to a majority of Japanese voters. Every Japanese politician knows that, and we Americans should respect and celebrate the fact that democracy is alive and well in Japan.

Senator WEBB. Thank you very much, Dr. Packard.
Mr. Katz, welcome.

**STATEMENT OF RICHARD KATZ, EDITOR IN CHIEF, THE
ORIENTAL ECONOMIST REPORT, NEW YORK, NY**

Mr. KATZ. Thank you much.

If we were meeting about 15 years ago, the main topic on economics would be bilateral trade frictions and the fear among some Americans that Japan was a threat because it was too strong. If we were meeting 7 to 8 years ago, the main topic would be Japan's banking crisis, and alarmist talk about our government bond crisis, and the fear that Japan was a threat because it was too weak. Well, actually, as it turned out, it was the American financial system which caused the global crisis, not that of Japan.

As we meet today, it seems to me the main focus is not—on economics—is not the bilateral relationship. It's whether or not the two nations can work together on global issues, such as the rise of China, such as moving into an era in which critical resources, like oil or water, are no longer cheap and abundant, but, rather, becoming expensive and scarce, which has economic and geopolitical implications.

Yet, there are fears in both countries that we will not be able to have that cooperation. On the part of Japan, there is fear that the United States is bypassing Japan and moving into a so-called "group of two" relationship with China, it was symbolized, perhaps, by the different treatment of the President of China and Prime Minister of Japan during this week's nuclear summit. There is also a fear—one exaggerated, as I believe—on the part of Japan about the United States turning inward and becoming protectionist.

There is a mirror-image fear in the United States about Japan. There is talk that Hatoyama wants to move away from the United States in both economics and security, and wants to orient toward China, a view which I think is unfounded, as I'll discuss later on.

There's also fears that the government is so paralyzed that it really cannot make good decisions; and then, in both countries, the issue of whether the Futenma crisis will become the end-all and be-all of policy and spill over into other issues.

So, what I'd like to go through is which fears are justified, which fears are not justified, and what assets the United States has to play in trying to build about this cooperation, and what obstacles and assets there are in Japan.

First of all, I think one of the most important things to realize is the dog that did not bark. There was widespread fear that this recession would create protectionism all over the world. That has not happened. We have the remarkable spectacle that both General Motors and Chrysler went bankrupt, and nobody blamed Honda or Toyota. Think back to the 1980s, when we had import quotas against Japanese cars for years. The "Buy America" provisions in the stimulus bill was adopted in a way that has the United States adhering to the WTO rules with other countries that have government procurement codes, including Japan, Europe, and other major allies. So, we don't have this danger of protectionism.

What we do have, I believe, in both countries, is a political obstacle to moving forward on trade liberalization as symbolized in this country by the United States-Korea Free Trade Agreement—I don't think could get ratified by Congress today—and, in Japan—the EU has just broken off talks with Japan on their FTA, because they don't think Japan is going to be forthcoming on negotiations. So, that's an issue.

I think the biggest background context for all discussions of United States-Japan relations is the ongoing weakness of the Japanese economy. By conventional forecasts, it will not be until 2013 that Japanese GDP gets back to the level it had in 2008. And then, going forward, the potential growth of the Japanese economy, once it reaches full employment and full capacity, is estimated at about 1 percent. So, we're talking about a country that's going to be mired in low growth, continued low growth, for years to come.

And these are, basically, political problems. The Japanese Government, the DPJ, came into power with some very good ideas of realizing the core of Japan's short-term economic problems was insufficient household income. So, instead of consumer income and domestic demand driving the economy, Japan was inordinately dependent upon a rising trade surplus for growth. And when the world went into crisis, Japan went into really, really worse crisis; it had a recession far worse than that of the United States.

The government has some very good programs to increase consumer income: child allowances, free high school education. Currently it's not free. But, because of fears about a bond government crisis, the government has really waffled—given with one hand, taken back with the other hand—and therefore does really have good macroeconomic policies to get Japan out of this mire of this deep recession.

I believe, I should say, these fears about the Japanese Government bonds are way overdone. We've seen this alarmism before. It's unfounded. I can go into detail, if you want.

Similarly, by the way, I think the fear in America, that the Japanese or the Chinese would pull out of United States treasuries, either as a political weapon, or because of fear of the United States budget deficit, are, again, way overdone. To pull out would be shooting themselves in the foot. It would raise their currencies, hurt their exports; it ain't gonna happen. If it did, the Fed could manage it. Again, I'll go into detail, if you want.

On the longer term prospects, the political situation is that the DPJ faces the same dilemma as the LDP before it, which is that part of its base would be helped by reform, part would be hurt by reform, and so the party is divided between reformers and antireformers. There are lots of really smart, younger Diet members who have great ideas about reform, but the current leadership, because of the political weakness of the party, is sort of playing to the galleries of the special interest groups. It also needs a coalition with two very small parties of the Upper House of the Diet, and these are problematic both on reform issues and on security issues. And the chances are, in this election, the DPJ will not do well, and therefore become even more dependent upon antireformist groups. And so, its hands are tied a little bit in pushing reform.

On the other hand, the pressures for reform are growing. It becomes increasingly impossible to solve political problems without economic growth. How do you finance social security or health care for the growing ranks of the elderly when your tax revenues are shrinking? How do you help out the farmers who are being hurt by imports without making urban—food prices so high when you don't

have the budget to, say, give income subsidies? So, you get conflicts of interests among the different constituencies.

In addition, too, the voter behavior has changed. As Dr. Packard mentioned—and I endorse his comments on this—we now have, finally, two-party democracy in Japan, instead of one-party democracy. It was the last remaining one-party democracy in the advanced sector. That's good, because you need competition in politics as much as in business.

And the voters are more volatile than ever. Instead of just concern about their local Diet member, they're concerned about which national party is going to run the country and what their performance is going to be. And therefore parties, in order to rule and win reelection, and members to rule and win reelection, have got to deal with economic performance. The pressures for reform will grow, but it's not going to come quickly; more years of political turmoil.

The other issue which I would say is very, very important to consider—and I'd just say, in that era of economic weakness and political turmoil, it becomes more difficult for Japan to take decisive steps on the world stage, and that becomes their foray problem—the other issue is concern about the United States, that somehow there's a decoupling of Japan—and of Asia, in general—from the United States, and an orientation toward China. I believe this fear is way overblown. You could have very simplistic numbers that say, "Look at the share of Japan's exports that are rising to China and shrinking to the United States." Yes, those numbers are true, but they're misleading, because most of those Japanese exports to China—this is true of Korea and offshore Asia, as well—the exports to China are, in fact, inputs for China's own exports to the United States. So, I have some really snazzy diagrams here which show, if you look at the ups and downs of Japanese exports to China, they don't depend upon Chinese GDP, they depend upon China's own exports to the United States. The same thing is true of Japan's exports to offshore Asia; they depend upon Asia's exports to the United States. In fact, Japan's exports to Asia depend upon China's exports to the United States, because they have a whole integrated supply chain. But, at the end of the chain, the locomotive is the United States. So, Japan and Asia could not decouple from the United States, even if they wanted to; and from talking to people, they don't want to, anyway.

And I would look at, for example, President—first of all, I've had my own talks to people in the DPJ and President Lee of Korea's interview in the Washington Post on this issue, of why they want strong reliance on the United States to diversify. It's solely dependent upon China.

That being said, there is this integrated supply chain in Asia that China is increasingly the organizing hub. And therefore, nations and firms that want to be part of that supply chain have got to satisfy the needs of Chinese companies and Chinese standards. And that's a concentration that people don't like. So, yes, Asia, as a whole, can't decouple, but within Asia, China is becoming a hub. And to the extent that the United States and Japan are not able or willing to play an active role, that becomes more problematic, because people do want a balance there.

Now, the U.S. asset, here, is our own huge market. We are the locomotive. We have this asset. But, because of our own political problems, we've been unable to leverage this asset to the extent that I think we ought to be able to. For example, I don't think KORS could pass the Congress today. And I think to have it rejected by Congress would be worse than not voting it at all. Hopefully, at some point, it will be able to be ratified.

So, we're not able to leverage our own asset, which is unfortunate. We say we want a seat at the table if there's ever an East Asian economic community. Without fast-track, without being able to ratify agreements of Congress, what do you bring to the table?

And finally, a quick word on Futenma. Now, I'm not a security guy, so I have no expertise on the security aspect. But, the first thing they teach you in Economics 101 is, "There ain't no free lunch." Economists have bad grammar. And the point is, if I accept the administration point of view, that there's no viable alternative to the 2006 agreement, there's still—the issue is, Are the benefits more than the costs? What are the costs?

We have, for the first time, two-party democracy in Japan. That is something in the interest of both Japan and the United States. And while the DPJ is causing its own problems, we're adding some more straws to the camel's back through this sort of pressure. Polls show that half the people in Japan want Hatoyama to resign if he can't reach agreement with the United States on this, but that doesn't mean that they support the United States position. Half of the voters say they want the U.S. troops out of Okinawa altogether.

We're also incurring the resentment of a government that campaigned on this thing. There's also the spillover effect, or the potential for spillover effect.

So, what I'm saying is, I don't know the answer: Are the costs or the benefits more? What I am worried about is, I don't think there's been an open asking of the question and answering of the question: What are the benefits, what are the costs, and how do they match each other? And that should be asked and answered.

Thank you very much.

[The prepared statement of Mr. Katz follows:]

PREPARED STATEMENT OF RICHARD KATZ, EDITOR OF THE ORIENTAL ECONOMIST
REPORT, NEW YORK, NY

GLOBAL COOPERATION, NOT BILATERAL RELATIONS, ARE NOW THE PIVOT

If we were meeting 15 years ago, the main theme of the economic discussion would be bilateral trade friction, the widespread fear in the United States that Japan's strength was a threat to the United States. If we were meeting 7–10 years ago, the main theme would be that Japan was a threat, not because it was too strong, but because it was too weak. Its weakness was a contributing factor, though certainly not the main factor, in the 1997–98 financial storms in Asia. In 2003, there were even some who feared global financial storms resulting from a crisis in Japan's banking system and/or its government bond market. As it turned out, it was problems in America's financial system which wreaked global havoc over the past 2 years. And, although there is some talk of an impending crisis in Japan's Government debt market, that fear is just as exaggerated today as it was 7 years ago, for reasons I'll detail below.

Today, trade frictions with Japan are, for most part, little different from the occasional trade frictions we have with other allies—despite occasional exceptions like the beef episode of a few years back. The biggest fear these days is that the two nations are "decoupling," that neither one needs the other as much as it used to.

If that were true, it would have big implications for cooperation between the two nations on economic as well as security matters.

In the United States, there is fear among some that, under the new government led by the Democratic Party of Japan (DPJ), Japan is moving away from a focus on the United States to a focus on Asia, particularly China. This was fed by talk that Prime Minister Yukio Hatoyama wanted to form an East Asian Economic Community excluding the United States. There is also fear that Japan will be so lame economically and troubled politically that it will have neither the desire nor the resources for playing an activist role on the Asian or global stage.

In Japan, there is fear that the United States has moved from “Japan-bashing” to “Japan passing,” and that the United States and China are forming a de facto “Group of 2.” Ears perked up in Japan when Secretary of State Hillary Clinton, then a candidate for President, wrote in *Foreign Affairs* that, “Our relationship with China will be the most important bilateral relationship in the world in this century.” A couple decades earlier, that description was being applied to United States-Japan ties by then-Ambassador to Japan Mike Mansfield. There is also fear in Japan that the United States is turning inward and becoming more hawkish on trade, a fear symbolized by, among other things, the inability to push through the Korea-U.S. Free Trade Agreement (KORUS). Finally, there are fears that tensions over the Futenma base issue—symbolized by President Obama’s refusal to have an official meeting with Prime Minister Hatoyama during this week’s nuclear summit—could spill over into economic arenas.

In both countries, there is concern that the two allies will not be able to cooperate in the face of a rising China and that, as a result, the rest of Asia will orient economically toward China. The goal in both capitals is not to contain China, but to integrate it as a “responsible stakeholder” in the Asia-Pacific economic community of nations. That smooth integration becomes harder if the two nations cannot cooperate well, or are preoccupied with internal problems.

The rise of China is not the only area where cooperation is needed. In the last couple decades, an era of relative peace and prosperity was fed by, among other things, cheap resources. But now, as India and other countries join China in achieving rapid growth, demand for energy and water is growing faster than supply. Rising prices and a potential scramble for resources has not only economic but also geopolitical implications. Then, there is the needed repair of the financial system. These are all areas where problems would be far more manageable to the degree that Japan and the United States can work together.

Let us discuss a bit which concerns are justified, which are not, and the ability of the two nations to overcome the obstacles that do exist.

PROTECTIONISM: THE DOG THAT DID NOT BARK

One of the most remarkable features of the recent global economic crisis is the dog that did not bark: protectionism. It was widely predicted that the sharpness of the recession would produce beggar-thy-neighbor policies in country after country. In reality, a September 2009 report by the World Trade Organization (WTO) showed no surge in the use of the “safeguard clause” or of “antidumping” cases, or similar measures.

Many in Japan, misinterpreting some of the statements made by Barack Obama during the Democratic primary campaign, feared that he would be a trade hawk. Not only was that a misunderstanding of President Obama, but it failed to consider the relative lack of political pressure on the administration and Congress to take harsh protectionist measures. It is remarkable that, when both General Motors and Chrysler went bankrupt, no one blamed Toyota and Honda. No one called for a repeat of the 1980s when a far less severe crisis for the Detroit Three led to years of de facto quotas on imports of Japanese cars. On the contrary, by some estimates, half of the cars sold under the U.S. cash for clunkers program were Japanese brands, many of them made in the United States but many imported.

This does not mean that there are no bilateral trade frictions. The rules of Japan’s own cash for clunkers program, its continued partial restrictions on beef imports, and the move to roll back reforms of the banking and insurance operations of the government-owned Japan Post have all become contentious issues. Inward foreign direct investment in Japan, while higher than before, is still very low, partly because it remains harder than in other countries for foreigners (or Japanese) to acquire domestic firms. But most of these problems are akin to the frictions the United States has with many other allies. Moreover, it is Japan’s low growth, rather than import barriers, which poses the biggest obstacle to an increase in U.S. exports to Japan.

Similarly, Japan and other countries were concerned about the “Buy America” provisions that were added to the stimulus program last year. However, at the administration’s request, Congress made sure that the provision complied with WTO rule and thus its implementation is governed by the Government Procurement Code signed by the United States, Japan, Europe, and others. There are some in Japan who see the Toyota recall case as an example of disguised U.S. protectionism, but that is not the predominant view.

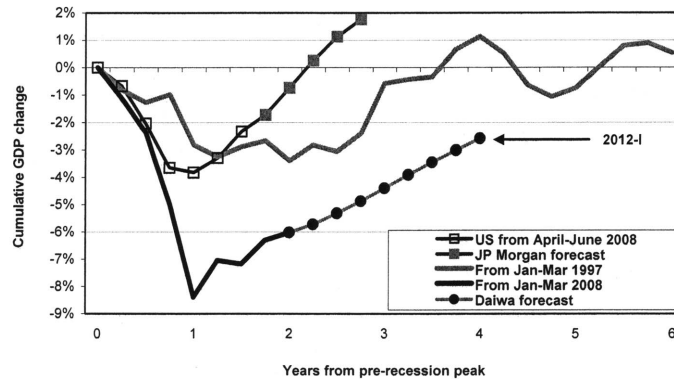
In short, bilateral trade frictions are no longer the keystone of United States-Japan economic relations, as they were in the past. What is the case, as we’ll discuss below, is the political inability in both Japan and the United States to take further proactive governmental measures toward trade liberalization, such as truly substantive Free Trade Agreements (FTAs).

PROLONGED ECONOMIC STAGNATION; DPJ TARGETS ONLY 1 PERCENT REAL GROWTH RATE THROUGH 2020

The biggest background factor is Japan’s prolonged economic stagnation. I believe that Japan will eventually undertake the economic reforms it needs, because it can have neither economic vitality nor political stability without better growth. However, the medium-term picture is not encouraging.

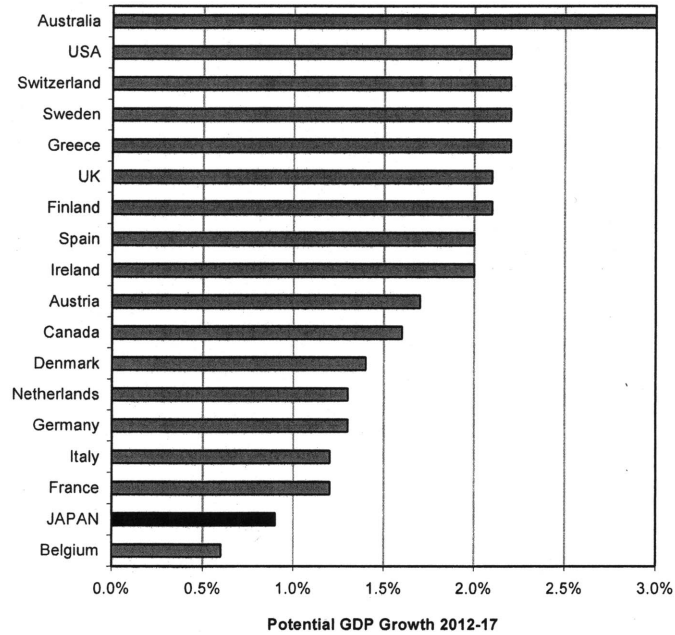
The conventional forecast is that Japan will grow at an annualized rate of around 2 percent for the next few years. But that is from a very low starting point. Japan’s GDP suffered a peak to trough plunge of 8.4 percent, which is more than twice as bad as the U.S. downturn. At 2 percent, it would take Japan until mid-2013 just to get back to level of GDP it had reached 5 years earlier at the beginning of 2008 (see Figure 1).

Figure 1: Japan May Not Get back to 2008 GDP Until 2013



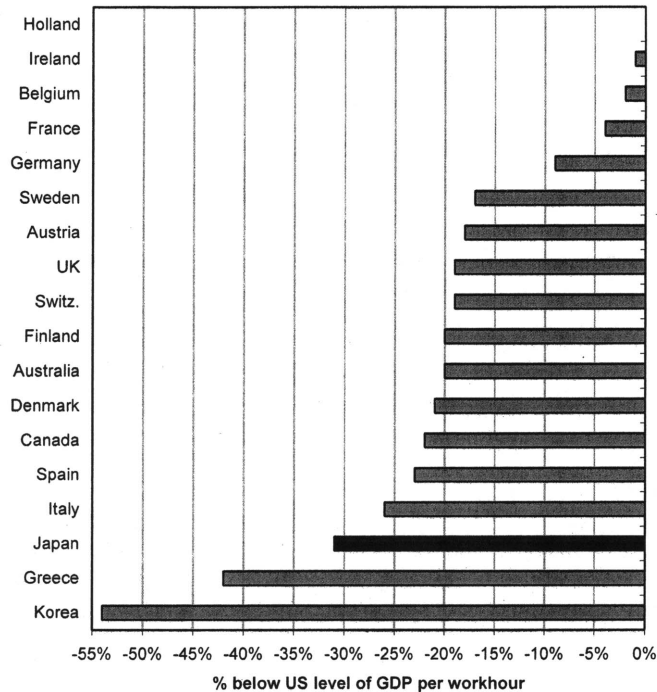
Source: Cabinet Office, US Commerce Department, forecast by Daiwa Institute of Research and JP Morgan

Worse yet, once Japan reaches full employment and full capacity-utilization, its potential for further growth is exceedingly mediocre, among the lowest in the OECD (see Figure 2). Conventional estimates are about 1 percent per year or so. The reason is twofold. GDP growth in any country is the sum of growth in the number of workers plus growth in output per worker; i.e., productivity growth. In Japan, the working age population is now shrinking. As a result, says the OECD, the labor force will shrink by about 0.7 percent per year during the coming decade. Meanwhile, trend productivity growth is only around 1.7 percent per year according to the OECD; 1.7 percent growth in productivity minus 0.7 percent due to fewer workers results in annual GDP growth of 1 percent a year.

Figure 2: OECD Predicts Low Growth For Japan

Source: OECD

The tragedy is that Japan could enjoy much higher rates of growth if it undertook productivity-enhancing reforms that brought it up to global benchmarks. While Americans tend to think of Japan as a high-productivity country because we see the likes of Toyota and Sony, the reality is that there are two Japans. One is the high-productivity exporting sectors, which have to be efficient because they face fierce competition in the global market. But then there is the domestic Japan, which makes up the lion's share of the country. It neither exports nor faces much competition from imports or Foreign Direct Investment. Moreover, in many cases, firms in these domestic sectors face little domestic competition due to outmoded regulations that protect entrenched firms, a distribution and financial system that makes it hard for newcomers to displace entrenched leaders, and weak antitrust enforcement. There can be no competitiveness without competition. The result is that overall output per worker in Japan is 30 percent lower than in the United States. That's lower than almost any other OECD country than Korea and Greece. U.K. productivity is 20 percent lower than in the United States; Germany's is 10 percent lower and France's only 4 percent lower (see Figure 3).

Figure 3: Japan a Laggard In Productivity

Source: OECD

Unfortunately, the Hatoyama administration, like its Liberal Democratic Party (LDP) predecessors seems unwilling and/or unable to undertake the necessary reforms. There are lots of smart, younger Diet members in the DPJ who have very good ideas about economic reform, but they are not running policy—at least not yet.

The official “growth strategy” of the DPJ accepts low growth as a fait accompli. It offers little growth and no strategy. It says that its goal is 2 percent real growth per year through 2020. But its “fuzzy math” counts from the depths of the recession. If one takes their target for 2020 and compares it to the prerecession peak GDP of early 2008, the reality is that the DPJ target is a low 1 percent a year over the entire 2008–2020 period.

THE POLITICAL OBSTACLES TO ECONOMIC REFORM AND REVITALIZATION

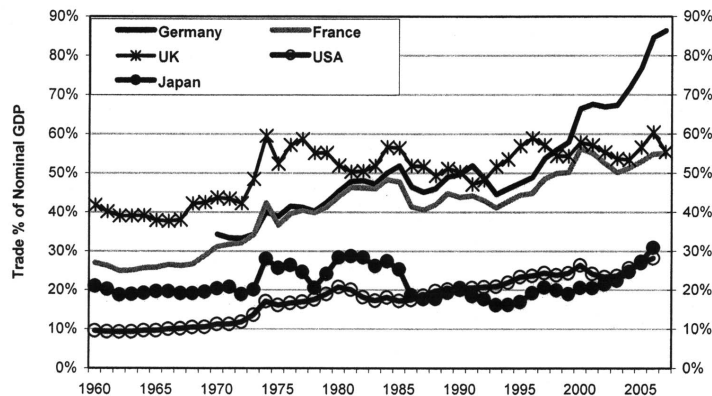
The DPJ, like its LDP predecessors, faces a big political dilemma regarding economic reform.

On the one hand, there is great political pressure to undertake reform in order to raise the rate of growth. There are many political stresses that cannot be resolved without better growth. For example, how can Japan finance social security and health care for the growing ranks of the elderly without an increase in tax revenues and better returns to pension funds? In the absence of better growth, politicians will have to cut benefits, raise premiums, and/or let the government debt grow even bigger. The public wants reform, even if it cannot identify the content. In the last two elections for the Diet’s Lower House (the House that chooses the Prime Minister and Cabinet), the public overwhelmingly voted for change. The only difference was their view of who could best deliver that change. In 2005, it was Prime Minister Junichiro Koizumi of the LDP; in 2009, it was the DPJ. Transport Minister Seiji Maehara’s bold moves to downsize and rehabilitate the bankrupt Japan Air Lines are a good example of the reform spirit in parts of the DPJ.

On the other hand, there are great political costs in implementing reform since it would hurt many of the special interest groups that the DPJ either already sees as part of its political base, or would like to wrest away from their past support of the LDP. Consider just one example among many: the intersection of trade and farm policy. Without being willing to put farm issues on the table, Tokyo finds it hard to negotiate genuinely substantive Free Trade Agreements. While Japan is engaged in a number of talks on FTAs, trade experts have raised questions about the “quality” of past agreements, and those being negotiated now, in terms of how much real liberalization will occur. Indeed, the European Union is balking at going ahead with Economic Partnership Agreement talks with Japan planned for this year. Whether this proves just a temporary setback or a lasting problem remains to be seen.

And yet, increased trade is critical to hiking efficiency and the growth rate. Japanese companies increasingly import not just raw materials, but parts and machinery from the rest of Asia, often from their own subsidiaries there. So, they have a big interest in trade liberalization. Countries that trade more tend to grow faster as they benefit from the division of labor and increased competitive pressures. Japan has one of the lowest ratios of trade to GDP among rich countries, even adjusting for its population and distance from trading partners (see Figure 4). Due to malapportionment of election districts, the rural sector has a political influence way out of proportion of the number of farmers. A few years ago, many DPJ leaders supported in principle a very good policy on farm issues. Instead of old-style LDP price supports and import barriers to keep in place the dwindling ranks of aging inefficient farmers (more as voters than as farmers), the DPJ would give income support while opening up the import market. This would simultaneously lower the price of food to urban consumers/voters and enable Japan to negotiate substantial Free Trade Agreements. The income support part was put into the FY 2010 budget, but market-opening seems to be in limbo. Meanwhile, in its 2009 campaign manifesto, which set the goal of a United States-Japan FTA, the DPJ added an exclusion for farm products after the farm lobby protested. The DPJ got its reward when the powerful farm cooperative dropped its traditional nationwide endorsement of the LDP in this July’s Upper House elections.

Figure 4: Japan Has Low Trade:GDP Ratio



Source: World Bank

Note: Countries with larger populations tend to have lower trade:GDP ratios; so, the fact that the US trade:GDP ratio now matches Japan’s is rather remarkable

The DPJ faces another dilemma. While it has an overwhelming majority in the Lower House, it lacks a majority in the Upper House. This forces it into an alliance with two smaller antireform parties, the Peoples New party (PNP) and the Social Democratic Party (SDP). Reformers had hoped that the DPJ could remove this burden by winning a single-party majority in the Upper House this July. That would give the DPJ a better chance of moving decisively on key issues. This now looks very unlikely. DPJ poll ratings are dropping like a rock, partly due to the indecisiveness of Prime Minister on a host of issues and partly due to the financial scandals surrounding party Secretary General Ichiro Ozawa. Depending on the outcome of the

election, there could be internal DPJ pressure on PM Hatoyama and Ozawa to step down. There is even talk that Hatoyama may have to step down in May if he fails to reach agreement with the U.S. on the Futenma relocation dispute (see below).

The DPJ could end even more divided and beholden to special interest groups and antireform coalition partners than it is already—at least for a while.

The upshot is that, far from ending Japan's long period of party realignment, the DPJ's landslide victory in 2009 is just another milestone in what will prove to be a long process. The LDP could, like the Italian Christian Democrats, simply evaporate. There is no guarantee that the DPJ will exist in its current form by the end of the decade.

This is not an atmosphere conducive to bold moves on either domestic reform or on Japanese activism on the global economic and security fronts.

GOOD NEWS: POLITICAL PRESSURE FOR REFORM GROWS

While the short- and medium-term view may sound discouraging, the longer term view is far more optimistic. Yes, there are political obstacles to reform, but at the same time, there are also big and growing political pressures for reform. Without reform, the economy will continue to slide, raising popular discontent and frictions among the various political constituencies. There can be no political stability without a stronger economy and no stronger economy without deep and thorough structural reform. And so we will see continued efforts by reformers to find the right political combination to take control.

For decades, the LDP had ruled in a one-party dominant democracy, the last one remaining among the rich countries. Its inability either to reform itself or to revive the economy brought its downfall, and perhaps its demise as well. That has broken a logjam, opening up new opportunities for institutional reform in the economy.

This development both reflects and reinforces a big shift in voter preferences. In the old days of LDP dominance, voters tended to focus on their local Diet member rather than the national party. In recent elections, this has changed. Voters are putting higher priority on which party will run the country. Moreover, they are choosing the party based on expectations of performance. And finally, voters are more volatile than ever; they are willing to shift from party to party to get what they want. Formerly safe seats are safe no more. The LDP under Koizumi won in a landslide in 2005, and then, under his successors, lost in a landslide in 2009.

As a result of this shift in voter attitudes, parties that want to win need to produce better economic performance on a national level. Individual Diet members who want to win want to be members of the party or coalition that can deliver that performance.

Politics will be dominated by the effort to juggle the competing claims of assorted special interests (which is harder to do when there are not enough economic resources to please them all) as well as the balance between special interests and the national interest. In the absence of good growth, it is a very hard juggling act. That, too, produces pressure for politicians to deliver on economic performance, performance that can only be achieved through deep and thorough reform. But this is a long process. Japan is still in the midst of a political-economic transition that began with the collapse of the bubble in 1990–91. It has quite a ways to go.

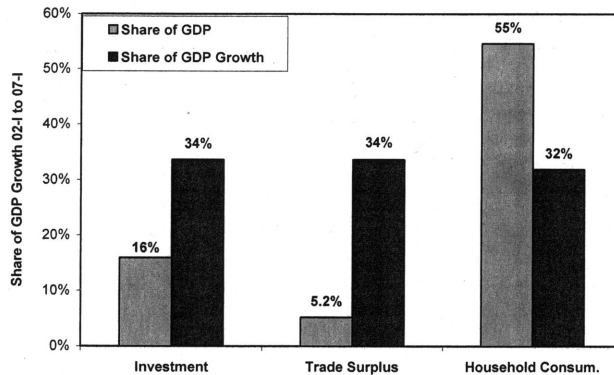
PARALYSIS ON MACROECONOMIC POLICY

It is not only on issues of long-term growth that the Hatoyama administration seems as paralyzed as its LDP predecessors; there is also much confusion on short-term macroeconomic policies to bring about quicker recovery from the severe recession of 2008–09.

The DPJ's 2009 campaign manifesto seemed to have great potential. It marked the first time any Japanese Government recognized that the heart of Japan's chronic problem of weak domestic demand was lack of sufficient consumer income. That's why Japan was inordinately dependent on a rising trade surplus to fuel growth in this decade's recovery: a rising trade surplus and business investment (itself often dependent on exports) accounted for two-thirds of all GDP growth during 2002–07. Consumption provided only another third (see Figure 5). The DPJ proposed a number of measures to increase household disposable income—so as to fuel more consumer spending. The first step was to shift government spending from pork to people. This included, among other things, a child allowance of ¥312,000 (\$3,300) per year per child; free high school tuition at public schools and aid for students in private high schools (currently parents pay as much as \$5,000 per year at public high schools for tuition, fees, books, and so forth); cuts in highway tolls adding up to 0.4 percent of GDP (a few hundred mile car trip can cost as much as \$250), and assorted tax reductions for individuals and small firms adding up to 0.5 percent of

GDP. The total spending on transfer payments and tax cuts was to amount to ¥21 trillion (\$225 billion), or 4 percent of annual GDP, over 2 years.

Figure 5: Last Recovery Too Dependent on Trade Surplus, Capex, not Consumption



Source: Cabinet Office

However, due to excessive fear over the rising government debt (see below), the DPJ has waffled on these plans. It has passed free high school tuition. However, the child allowance was, as planned, introduced at only half the planned rate this year and there is a fight among party leaders on whether or not to fulfill the campaign promise to raise it to the full amount next year. Many highway tolls may end up being raised rather than cut. Finance Minister Naoto Kan is talking about raising the consumption tax, and the Minister for National Strategy has talked about raising the tax soon, in violation of Hatoyama's campaign pledge not to raise it until at least 2013. This risks repeating the disastrous hike in the consumption tax in 1997, the trigger for the 1997–98 recession.

Having ruled out additional fiscal stimulus, and even raising the possibility of fiscal tightening, the Hatoyama administration is acting as if deflation were the primary cause of Japan's stagnation and talking as if the Bank of Japan (BOJ) had a magic bullet called "inflation targeting," that could solve the problem. Neither proposition is true.

What is required is a fiscal-monetary one-two punch, but that does not seem in the offing. Once again, Tokyo seems to be hoping a cheaper yen and rising global growth will rescue Japan.

NO CRISIS IN JAPAN GOVERNMENT BONDS

The risk for Japan is continued corrosion, not crisis. Just as in 2003, there is a lot of unwarranted alarmism over the state of Japanese Government debt. It has been amplified by the Greek crisis. This alarmism is not only wrong; it's harmful. It inhibits the government from taking the aggressive action on fiscal stimulus that it needs to help break out of its stagnation.

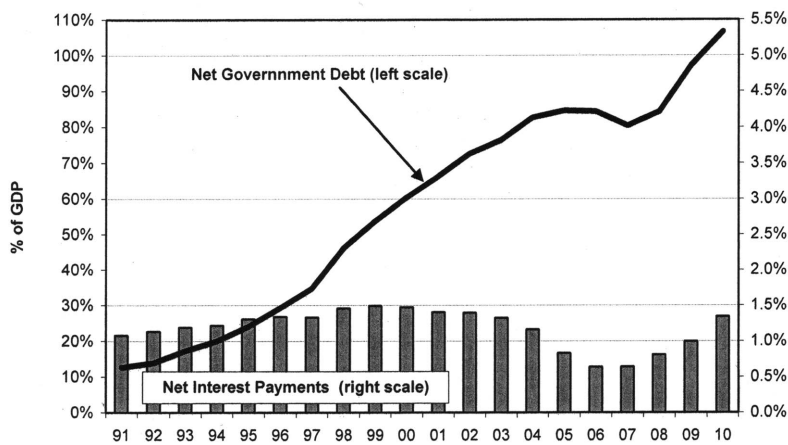
Japan's budget hawks and the bond market vigilantes point out that Japan's gross debt now equals more than 200 percent of GDP. However, the correct measure is not gross debt, which involves "double counting" of debts that one government agency owes to another; e.g., government bonds owned by the Bank of Japan (BOJ). The correct figure is net debt, which has now reached 100 percent of GDP. That's certainly worrisome. But there is no particular reason to believe that this is a magic limit. No more than was the case back in 1997 when the government raised taxes and triggered a horrible recession because net debt had reached 35 percent of GDP. No more than in 2003 when financial markets panicked because net debt had reached 76 percent of GDP. Other countries have run net debt at around 100 percent of GDP for as much as two decades without provoking crisis, among them Italy and Belgium. What raises concern over the long haul is not today's level, but the ever-rising trajectory. Structural problems in the economy, like weak household income, have made Japan a deficit addict.

What distinguished Greece is not just its big government debt, but the fact that it ran a big current account deficit. When foreigners pulled out their money, that capital flight caused the crisis, as in the Asian crisis of 1997–98. But Japan's debt

is almost entirely funded domestically. It need not fear an international capital flight.

The key thing for sustainability in the medium term is not the level of debt, but the level of interest payments. In fiscal year 2010 (which began on April 1), net interest payments are expected to amount to less than 1.5 percent of GDP. That's well below the level of the early 1990s (see Figure 6). The reason is that interest rates are so much lower today. Since the BOJ has the capacity to keep rates low for quite some time, Japan has plenty of breathing space to apply fiscal stimulus now and design a plan for debt reduction in the longer term. But there is no long-term solution to the mushrooming of government debt in the absence of better growth rates.

Figure 6: Government Interest Payments Still Low As % of GDP

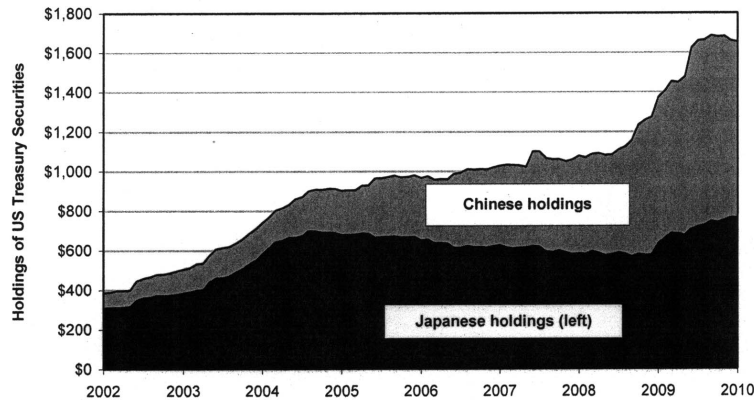


Source: OECD

Note: This covers *net* debt and *net* interest at all levels of government

NO RETREAT FROM U.S. GOVERNMENT BONDS

Another fear in the market is that Japan and/or China might flee from U.S. Government debt, either due to fears about the U.S. budget deficit or as a political weapon in trade frictions. The fear is that this would cause U.S. interest rates to skyrocket. This fear, which has been around for years, is unfounded. Chinese and Japanese holdings of U.S. Treasuries in January 2010 were 20 percent higher than in January 2009 (see Figure 7).

Figure 7: China and Japan Continue to Buy US Treasuries

Source: US Treasury Dept.

Neither Beijing nor Tokyo would sell off U.S. Treasury bonds to make a political point. That would be shooting themselves in the foot. They don't buy U.S. bonds as a favor to the United States but in their own interests. To undertake a big selloff would cause the dollar to sink and the Japanese and Chinese currencies to rise. That, in turn, would cause serious damage to the exports of these export-dependent countries.

Even if Beijing and private Japanese investors panicked over the U.S. budget deficit, their holdings are not big enough to cause a financial problem that the Federal Reserve could not manage. China and Japan together hold about 14 percent of U.S. Treasury debt. Treasury debt, in turn, is about a third of all marketable debt in the United States. Hence, Japanese holdings of Treasury debt add up to only 2.1 percent of all marketable debt; Chinese holdings add up to only 2.5 percent.

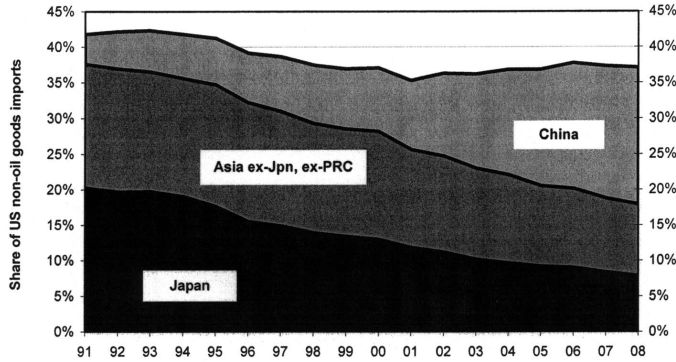
NO DECOUPLING FROM UNITED STATES; NO SHIFT TO CHINA

A lot of ink has been spilled saying that the Hatoyama administration is seeking to shift the focus of Japan's international economic relations away from the United States to Asia in general and China in particular. I disagree. First of all, conversations with DPJ leaders indicate that there is no such intention. Second, it is not something that Japan could do even if it wanted to.

The talk of "decoupling" is fed by simplistic figures that simply look at the rise in China as the chief market for Japanese exports, displacing the United States. Over the past decade, the U.S. share of Japanese exports has halved from 31 percent in 1999 to only 16 percent in 2009. Conversely, the Chinese share rose from 6 percent to 19 percent.

Such figures ignore the fact that a majority of those Japanese exports to China serve as capital goods or inputs for China's own exports to the United States. The same is true for other Asian countries. Many of the goods labeled "Made in China," should instead be labeled "Assembled in China with parts from Japan and other Asia countries." That's why, as U.S. imports from China rose as a share of total U.S. imports, the share coming from the rest of Asia fell. The total Asian share of nonoil imports is actually a bit lower than a couple decades ago (see Figure 8).

Figure 8: Rise in US China Imports Share Offset by Decline from Elsewhere in Asia



Source: US Department of Commerce

The result of all this is that Japan's ability to export to China and the rest of Asia depends on Asia's ability to export to the United States. The ups and downs of Japanese exports to China correlate, not so much with the ups and downs of Chinese GDP, but of China's exports to the United States (see Figure 9). The same is true of Japan's exports to the rest of Asia; they depend on Asia's exports to the United States. Most interesting of all, Japan's exports to Asia ex-China hinge on China's exports to the United States. So, there is a quadrilateral pattern of trade: Japan exports to Asia, which exports to China, which exports to the United States. While intra-Asian trade is enormous, two-thirds of Asia's trade—including a third of intra-Asian trade—consists of capital goods and parts and materials used to meet final demand outside of Asia. The United States is the main engine in this locomotive. This is why Japan and the rest of Asia were hurt so badly by the U.S.-originated global recession.

Figure 9: Japan's Exports to China Hinge On China's Exports to US



Source: Asian Development Bank

Note: The same pattern could be seen in comparing Japan's exports to Asia ex-China and Asia's exports to the US

ENGAGEMENT IN ASIAN ECONOMIES: JAPAN LOSING OUT TO CHINA

Even though the United States and Europe are the final destinations for Asian trade, China is rapidly emerging as the organizing hub of the Asian supply chain. Dependence on China is growing and China has rapidly overtaken Japan in terms

of Asian trade and direct investment. This results from two factors: (1) China's extremely rapid growth versus Japan's low growth; and (2) the very high dependence of China on international trade and inward Foreign Direct Investment (FDI) compared to the low levels of both trade and inward FDI in Japan.

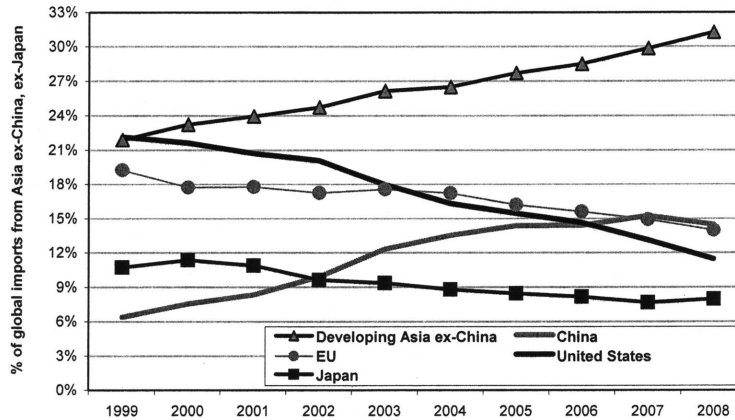
Japan's share of world GDP (measured in constant 2000 US \$) hit its high point at the end of the bubble era in 1991 at 17.3 percent. As of 2000, it was down to 12.8 percent and will undoubtedly be much lower by 2020. By contrast, China's share, which was below 1 percent in the Mao era, hit 6.5 percent in 2008 and will be much, much higher 10 years from now. It is useful to use constant dollars to avoid the misleading distortions caused by gyrations in currency rates. But, just for the record, in current dollar measures, by 2008, China had almost caught up to Japan, with China at 7.1 percent of world GDP vs. 8.1 percent for Japan. By now, China has probably caught up.

Of more direct importance to intra-Asia dependency relations, China is not just an export superpower, but an import superpower as well. Japan's imports equal 15 percent of GDP; this is less than half the 33 percent ratio for China. Japan's manufacturing imports account for about 7 percent of Japan's GDP, about one-third of the 20 percent level for China. Moreover, the nature of Japan's trade is far more insular than that of China. For example, about 40 percent of Japan's manufacturing imports are from Japanese companies' own foreign subsidiaries, rather than from indigenous firms in foreign countries. By contrast, the majority of China's imports and exports are conducted by multinationals working in China, some of which are Asian multinationals.

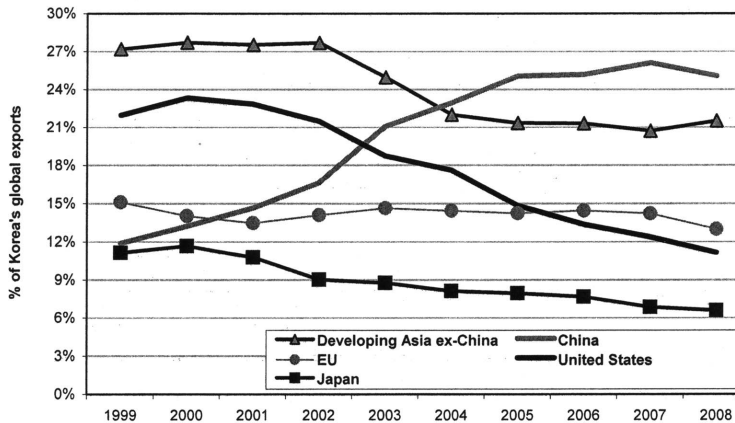
As a result, by 2008, China accounted for 6.5 percent of global imports (up from 2.3 percent a dozen years earlier). That beat out Japan, which bought only 4.6 percent of global imports (down from 6.8 percent a dozen years earlier).

For years now, China has been importing more from Asia than does Japan. In fact, among the newly industrializing and developing countries in Asia, Japan imports less than China, the United States, the EU or developing Asia. In 2008, Japan's share of total global imports from these countries was 8 percent, compared to 11 percent for the United States, 14 percent for the EU, 14 percent for China and 31 percent for Asian developing countries ex-China. Given the smaller role played in manufacturing imports in Japan, when it comes to a more developed country like Korea, Japan plays an even lesser role. In 2008, it bought just 7 percent of all global imports from Korea, compared to 11 percent for the United States, 13 percent for the EU, 22 percent from developing Asia, and 25 percent for China. It is notable that China has now surpassed all the rest of Asia ex-Japan put together as Korea's largest customer (see Figure 10, top and bottom panels).

Figure 10: Japan Lags Others in Buying Imports from Asia ...



... And Korea



Source: IMF

Note: "Developing Asia ex-China" includes the IMF's list of all the developing countries in Asia plus Hong Kong, Korea and Singapore; Taiwan is not included since it is not an IMF member

When it comes to sheer numbers, China's role is not dominant throughout Asia—most of Asia does more trade with itself than with China as seen in the top panel of Figure 10. However, because of its increasing role as the organizing hub of the intra-Asian production chain, other countries increasingly need to satisfy Chinese firms in order to participate in that chain. With that growing economic dependency come political ripple effects.

Raising the level of trade to GDP could be a vital boost to Japan's own growth. As noted above, countries with higher ratios of trade to GDP tend to grow faster. They get to specialize in what they do best, import what they do not make efficiently and expose both their exporters and import competing sectors to fiercer competition. Those sectors in Japan with the least exposure to international trade tend to have the least domestic competition and the lowest productivity. At the same time, increasing trade and FDI would enable Japan to play a more active role in the Asian scene, providing a counterbalance to China.

U.S. ASSET: ITS HUGE MARKET—CAN IT TAKE ADVANTAGE WITH FTAS?

One of the major assets that the United States has in dealing with Asia is its huge and open market. The United States is the engine of the trade locomotive, even if China appears to be the intermediary. As detailed above, the notion of an Asian economic bloc is unrealistic. Whether or not the United States is a formal member of this or that particular multilateral organization in East Asia, its indispensability to Asian economic growth is a reality that cannot be ignored by the nations of the area.

However, at the present, the United States, like Japan, finds its ability to leverage its market hamstrung by domestic political difficulties. At a time when China and the European Union are moving ahead with assorted Free Trade Agreements (FTAs) with countries in Asia, the United States is unable to do so. Consider the Korea-United States FTA (KORUS). It was negotiated, and then to meet some objections on the part of U.S. automakers, renegotiated. If KORUS were submitted to the Congress today, it probably could not be ratified. And a rejection would have a worse political impact on United States-Korean relations than further delay until conditions are such that it can be ratified. If KORUS cannot be ratified, then the United States is in no position to negotiate the much more difficult issue of some sort of Economic Partnership Agreement with Japan, even if Tokyo were in position to do so (which it is not at the present time).

The Obama administration has insisted quite strongly that, if any sort of East Asian Economic Community were to be formed, the United States would expect to be a member. It should be noted that the formation of any such community is years and years away. But the point remains: if the United States is not in position to negotiate on a fast track basis and if the United States cannot get already-signed FTA agreements ratified in Congress, then what does the United States bring to the table of any FTAs in Asia? What would be its leverage in shaping any such partnership to its liking?

At present, in the face of a rising China, both the United States and Japan face big limitations in their ability to use their markets as leverage, either individually or in tandem.

A FEW WORDS ON FUTENMA

I happened to be in Tokyo in December when the issue of relocating the U.S. Marine air base at Futenma, Okinawa, heated up. What struck me was the degree to which so many of my meetings with economic officials and business people, both Japanese and American, were dominated by concern about possible spillover effects from the Futenma dispute.

I am no expert on security matters and not competent to discuss the pros and cons of the relocation argument per se. However, the first thing we are taught in economics is that there is no free lunch. Let us accept the administration argument that there is no viable alternative to the agreement that Washington hammered out with the LDP government (although this is disputed among some security experts). The question remains: are the benefits of that agreement worth the political cost of getting it implemented over the stiff opposition of a DPJ government which has campaign against it for years and against public opinion in Okinawa. The polls show that the Japanese public is very upset at Prime Minister Hatoyama's mis-handling of the issue; in one recent poll 49 percent of respondents said he should resign if he fails to secure an agreement with Washington by the end of May. But that does not mean that the public supports Washington's position. On the contrary, in a poll taken a few months ago, half of voters wanted the bases moved out of Okinawa altogether. Some said out of Japan.

What are some of the costs?

For one thing, the new government in Japan represents the end of one-party democracy in Japan and the beginning of truly contested elections. Party competition is as important to a modern nation's political health as competition in business is to economic health. The United States has an interest that Japan's experiment in competitive democracy succeed. It does not serve the United States for Japan to have a government that is even more gridlocked by coalitions with small antireformist parties than it is today. After the DPJ took power last August, it had asked the United States to wait on Futenma until after this July's Upper House elections. However, Washington calculated that delay could be fatal to the plan, which may be accurate. The upshot is this: while the DPJ is mostly responsible for its current dismal political position, U.S. pressure on this issue has added several straws to this overburdened camel's back.

Second, whether or not Prime Minister Hatoyama survives the crisis over Futenma or the July elections, Washington will be dealing with the DPJ for at least

a few years to come, perhaps several years depending on the outcome of the 2013 Lower House elections. So, another cost is the resentment of Washington within a government whose cooperation on other fronts the United States will need to seek now and in the future.

A third potential cost is a spillover of tensions around Futenma onto other issues. Various frictions on the economic side do come up from time to time, such as renewed discussion on Japan's restrictions on been imports due to the "mad cow" issue. Others are multilateral, such as new rules on finance in the wake of the financial cataclysm. Then, as noted above, is the need to cooperate vis-a-vis China, and in concert with China, on energy issues for example. When atmospherics at the highest level are so strained, it cannot help but shape how working level officials react on these day-to-day issues.

Is it really the case, as suggested by a few former U.S. foreign policy officials, that changing the 2006 agreement endangers the entire United States-Japan security relationship? Does it help to raise the temperature of discussions in this way? Or is it the case, as one former U.S. Foreign Service officer said to me, "One Marine base does not make an alliance?" If in the end, Tokyo does not agree, what is Washington's plan B?

In the days of LDP dominance, Washington often sacrificed economic interests to security interests. Was it worth selling a few more oranges to Japan if that caused the LDP to lose to the Socialists, thus endangering U.S. base rights in Japan? Once again, Washington faces a tradeoff between its preferences on security and economic issues vis-a-vis Japan.

I am by no means claiming that the costs of the effort to implement the 2006 Futenma agreement—or of failure to achieve it after applying so much pressure—are greater than the benefits. Not being a security expert, I am not equipped to make such a calculation. But it is a question that needs to be asked and answered.

Senator WEBB. Thank you, Mr. Katz.

Dr. Auslin, welcome.

STATEMENT OF MICHAEL AUSLIN, DIRECTOR OF JAPANESE STUDIES, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. AUSLIN. Mr. Chairman, thank you for the opportunity to testify today on the current state of United States-Japan relations, and to look ahead at the role the relationship will play in future economic and security developments for both countries.

Despite current difficulties in the relationship, close ties with Japan are essential for the United States to retain a credible strategic position in East Asia and for future economic prosperity in both Asia and America. Yet, we must also recognize that relations between the United States and Japan will be more tenuous over the next several years, requiring close communication and a frank assessment of how the relationship benefits each partner.

The past 7 months of the United States-Japan relationship have been consumed, as we've discussed this morning, with the dispute over whether Japan will fulfill the provisions of the 2006 agreement to relocate Marine Corps Air Station Futenma to a more remote setting on the northern part of the island of Okinawa. Given that the state of United States-Japan relations directly influences the larger strategic position of the United States in the Asia-Pacific region, any substantive changes in the United States-Japan alliance, or in the political relationship that undergirds it, could have unanticipated effects that might increase uncertainty and potentially engender instability in this most dynamic region.

Last August, as we've noted, voters ended the rule of the Liberal Democratic Party, after 54 years of near-continuous power. The electoral victory of the Democratic Party of Japan was due equally to voter anger of the inability of the LDP to end Japan's nearly

two-decade-long economic slump as it was the reflection of trends that have been reshaping Japanese society for decades. These trends include worries over demographic decline, the end of permanent employment, and a pervasive sense of isolation from its neighbors. Japan's stagnation, at the very time that China has burst onto the world scene, has added to the frustration of Japanese officials and citizens, alike.

Many in Japan worry that the country is turning inward, and some statistics support this interpretation. Dr. Packard mentioned that the number of Japanese students studying in the United States has dropped by half in the last decade, to just 29,000; this at a time when Chinese students in the United States have increased by 164 percent. It should also be noted that, today, Japan has just 38 members of the self-defense forces distributed around the world on peacekeeping operation missions sponsored by the U.N. versus over 2,150 for China at the same time.

The DPJ, the Democratic Party of Japan, capitalized on these dissatisfactions and fears to win a resounding electoral victory. Yet, they have found governing more difficult than electioneering. And given its troubles, many of which Mr. Katz just talked about, Washington must be prepared for continued debates within the DPJ, in coming months, over foreign and domestic policy, as well as the high likelihood of leadership changes at the top of the party.

These DPJ debates will occur at the same time that new political parties are forming and dissolving, many breaking off from the LDP. Rather than entering a period of two-party electoral democracy in Japan, we are entering one of multiparty electoral democracy, and Japanese domestic politics will become even more fluid and chaotic over the next half-decade or more.

While I believe that Prime Minister Yukio Hatoyama is committed to United States-Japan relations, he does have a different vision of the future of our relationship than did his predecessors; hence the attempts here to understand whether his repeated calls for a more equal alliance with Washington mean more independent, and what such policies might lead to.

We should take at face value his desire for Japan to play a more expansive global role, craft a closer relationship with the nations of East Asia, and take a lead in issues from nuclear disarmament to climate change, no matter how vague the specifics of his plans.

Ironically, perhaps, our relations are further influenced by the continued worry in Japan over long-term trends in America's Asia policy. The main concerns are, first, that the United States will, over time, decrease its military presence in the Asia-Pacific, thereby weakening the credibility of its extended deterrence guarantee; and second, that Washington will itself consider China in coming decades as the indispensable partner for solving regional and global problems, alike.

Despite this litany of problems, both real and perceived, the United States-Japan alliance, and the broader relationship it embodies, remains the keystone of United States policy in the Asia-Pacific region. America and Japan share certain core values, including a belief in democracy, the rule of law, civil and individual rights, among others. Our commitment to these values has translated into policies to support other nations and around the world—

in Asia and around the world, that are trying to democratize and liberalize their societies.

Today, Asia remains in the midst of a struggle over liberalization, as witnessed by the current tragic unrest in Thailand, and the willingness of both Tokyo and Washington to support democratic movements will remain important in the coming decades.

To that end, Japan and the United States should take the lead in hosting democracy summits in Asia designed to bring together liberal politicians, grassroots activists, and other civil society leaders to discuss the democratic experiment and provide support for those nations bravely moving along the path of greater freedom and openness.

Political development in Asia has benefited not only from the United States-Japan diplomatic engagement I've just mentioned, but also from the security burdens both countries have shouldered to maintain stability in the western Pacific, throughout the cold war and after. As has been noted, there are over 35,000 U.S. military personnel stationed in Japan, and another 11,000 afloat as part of the 7th Fleet, and three-quarters of our military facilities are located in Okinawa.

Yet, without the continued Japanese hosting of United States forces, this forward-based posture is untenable, and the role of the U.S. Navy in maintaining freedom of the seas, and the U.S. Air Force in ensuring quick and credible United States reach anywhere in the region, will become even more important as other nations in the Asia-Pacific continue to build up their national military capabilities.

Beyond such traditional security concerns, Japan and the United States continue to be among the handful of countries that can act as significant first responders to humanitarian disasters as we did in Haiti this year and in the tsunami back in 2004. For any such actions in the Asia-Pacific region, our bases in Japan are indispensable to timely, effective intervention.

It is clear that the presence of U.S. military forces is welcomed by nearly all nations in the Asia-Pacific and sends a signal of American commitment to the region. Today, for all its dynamism, the Asia-Pacific remains peppered with territorial disputes and longstanding grievances, with few effective multilateral mechanisms, such as exist in Europe, for solving interstate conflicts.

Our friends and allies in the area are keenly attuned to our continued forward-based posture, and any indications that the United States was reducing its presence might be interpreted, by both friends and competitors alike, as a weakening of our longstanding commitment to maintain stability in the Pacific.

Yet, when our alliance was signed in 1960, it was titled the "Treaty of Mutual Cooperation and Security." Cooperation took precedence in the eyes of Americans and Japanese, and that should serve as our guidepost for the future as we contemplate how Japan and America can work together in economic and social spheres.

Our common activities are undertaken to promote not just stability, but also well-being, as delineated in Article II of the treaty. Economically, of course, we are increasingly intertwined, with over 132 billion dollars' worth of trade last year, and with Japanese

companies in 49 States, employing approximately 600,000 Americans in high-paying, skilled jobs.

America's continuing economic recovery is dependent, in part, on Japan's willingness to continue to employ Americans and buy our debt, and as both countries seek to balance their export and import sectors, openness to trade is of vital importance, as are trade policies designed to reduce barriers. Here, both countries need to focus more attention on job growth and trade opportunities, helping with retraining programs, and promoting entrepreneurship by reducing bureaucratic impediments.

Both our countries are leaders in scientific research and development and bred multinational corporations that continue to change the nature of global commerce. Current Ambassador to Japan, John Roos, has made it a priority to expand United States-Japan economic cooperation, particularly in the high-tech areas with which he is so familiar. Joint research and development in energy-efficient and clean energy technologies, such as smart grids and nuclear power, will benefit not merely our two economies, but can bolster our export industries and promote better practices and higher growth in developing nations, thereby promoting stability in Asia and around the globe.

With all of these suggestions, however, we must maintain our realism. The heady days of the 1980s are long over for Japan, when pundits breathlessly proclaimed it the next superpower. And today, while the Hatoyama administration is long on ideas, it is short on specific policies. Officials on both sides of the Pacific must seek to avoid mismatched expectations that will only lead to disappointment and more hand-wringing over the future of our relationship.

For the foreseeable future, American policymakers must accept that Japan will be most focused on its internal politics and problems, even as we attempt to create new initiatives to leverage Japan's strengths and weaknesses—I'm sorry—Japan's strengths and interests.

Japan will continue to play a major role in Asia over the next decades; and, as it does so, the role of a democratic Japan should become increasingly important in Asia as democracies young and old continue to evolve, and as authoritarian and totalitarian regimes oppress their own people and threaten others. Japan cannot, of course, play this role by itself, and the United States must fully embrace its role as a Pacific nation; one inextricably tied to Asia, but, most importantly, one with a vision for an Asia that is increasingly freer, more stable, and more prosperous. This means a renewed commitment to expending the human and material capital required to maintain our position in the Asia-Pacific region.

In conclusion, as we look to the kind of Asia that we hope develops in the future, there is much that continues to commend Japan to the region's planners and peoples, much in the same way the United States-Japan relationship plays an indispensable role in ensuring our country's commitment to the Asia-Pacific and in providing a necessary stabilizing force to powerful tides of nationalism, competition, and distrust in that region.

Our relationship with Japan is, indeed, a cornerstone of the liberal international order that has marked the six decades since the end of the World War as among the most prosperous and generally

peaceful in world history. For that reason, among others, we should look forward to maintaining this relationship for years to come.

Thank you, and I look forward to your questions.

[The prepared statement of Dr. Auslin follows:]

PREPARED STATEMENT OF MICHAEL R. AUSLIN, PH.D., DIRECTOR OF JAPAN STUDIES AND RESIDENT SCHOLAR IN FOREIGN AND DEFENSE POLICY STUDIES, AMERICAN ENTERPRISE INSTITUTE FOR PUBLIC POLICY RESEARCH, WASHINGTON, DC

Mr. Chairman, Senator Inhofe, and members of the committee, thank you for the opportunity to testify today on the current state of United States-Japan relations, and to look ahead at the role the relationship will play in future economic and security developments for both countries. Despite current difficulties in the relationship, I believe that close ties with Japan are essential for the United States to retain a credible strategic position in East Asia and for future economic prosperity in both Asia and America. Yet we must also recognize that relations between the United States and Japan will be more tenuous over the next several years, requiring close communication and a frank assessment of how the relationship benefits each partner.

This past January, Washington and Tokyo observed the 50th anniversary of the United States-Japan Alliance, one of the most successful bilateral agreements in recent history. Yet the past 7 months of the United States-Japan relationship have been consumed with a growing disagreement over whether Japan will fulfill the provisions of a 2006 agreement to relocate Marine Corps Air Station Futenma from its current crowded urban location to a more remote setting on the northern part of the island. Given that the state of United States-Japan relations concerns not only the economic relations between the world's two largest economies, but directly influences the larger strategic position of the United States in the Asia-Pacific region, any substantive change in the United States-Japan alliance or in the political relationship that undergirds it could have unanticipated effects that might increase uncertainty and potentially engender instability in this most dynamic region.

All political relationships change, and that between Japan and the United States is no exception. Policymakers on both sides of the Pacific have continually adjusted the alliance to reflect national interests, capabilities, and perceptions of the strengths of each other. The strategic realities of maintaining a forward-based U.S. presence in the western Pacific have been intimately tied to the domestic political policies of administrations in Tokyo and Washington for the past half-century. Yet today, new governments in both countries have policies that seem, on the surface, to indicate goals different from their predecessors, thus raising anxieties in both capitals.

Last August, Japanese voters ended the rule of the Liberal Democratic Party after 54 years of near-continuous power. For Japan, Asia's oldest and most stable democracy, this was a change of epochal proportions. The proximate cause of anger voter was the inability of the Liberal Democrats to end Japan's nearly two-decade long economic slump, which has seen the country's once unstoppable business sector stagnate, develop unevenly, and lose ground to emerging exporters such as China and South Korea. Numerous scandals and being out of touch with the voters also doomed the LDP and encouraged Japanese to cast their ballots for change.

Yet the electoral victory of the Democratic Party of Japan equally was the reflection of trends that have been reshaping Japanese society for decades and leading to deep currents of unease. These include worries over Japan's falling population rate and demographic decline, the supplanting of permanent employment by temporary jobs, the shrinking number of married couples and families, and a pervasive sense of isolation from its neighbors and indeed the world. A two-decade period of stagnation, at the very time that China has burst on to the world scene economically, politically, and militarily has added to the frustration of Japanese officials and citizens alike. Many in Japan worry that the country is turning inward, leaving behind the goal of "internationalization" that was the vogue two decades ago. Some statistics support this interpretation, as the number of Japanese students studying in the United States has dropped by half in the last decade, to just 29,000; this at a time when Chinese students in the U.S. have increased by 164 percent since 2000. In certain ways, these broad concerns have highlighted the importance of the relationship with the United States even as some have questioned the wisdom of continuing to tie Japan so closely to America.

The Democratic Party of Japan capitalized on these dissatisfactions and fears to win a resounding electoral victory. Their election "manifesto" spoke directly to Japanese voters, promising a new era of politics, in which business interests would be

supplanted by citizen interests, in which creating an equitable economy would supercede a focus on corporate balance sheets, and in which Japan would privilege promoting global peace over unreflectively maintaining its status-quo relationship with the United States. Yet the DPJ has found governing more difficult than electioneering. Given that the DPJ itself is an uneasy coalition of ideological opposites, from former Socialists to pro-alliance realists, Washington must be prepared for continued debates within the DPJ in coming months over foreign and domestic policy, and for the likelihood of leadership changes at the top of the party that may push it in different directions and potentially create further instability in Japanese politics. These DPJ debates will occur at the same time that new political parties form and dissolve, many breaking off from the LDP, the former ruling party. Far from entering an era of stability last August, Japanese domestic politics are likely to become even more fluid and chaotic over the next half-decade or more.

For the United States, Prime Minister Yukio Hatoyama's desire to consider a different location for the Futenma base has raised questions about his administration's overall commitment to United States-Japan relations. Such concern is overstated, I believe, but Prime Minister Hatoyama does have a different vision of the future of the United States-Japan relationship than did his predecessors. His repeated assertions that the alliance remains at the core of Japan's security policy is to be taken at face value, but so should his desire for Japan to play a more expansive global role, craft a closer relationship with the nations of East Asia, and take a lead in birthing a new East Asian Community, no matter how vague the specifics of his plan. With respect to the narrower issue of the Futenma relocation, the current Japanese administration has until now been equally influenced by the necessity to maintain its coalition with the Social Democratic Party in the Upper House of the Japanese Diet as it has been by a desire to listen to the voices of the people of Okinawa and reduce the Marine Corps burden on that island, which, ironically, the 2006 agreement was crafted to do.

Unfortunately, however, the Futenma issue has been folded into larger questions about Mr. Hatoyama's foreign policy, thus raising doubts about the DPJ's commitment to maintaining the United States-Japan relationship as the most important one for both countries in the Pacific region. Hence the attempts here to understand whether Prime Minister Hatoyama's repeated calls for a more "equal" alliance with Washington mean more "independent," and what such policies might lead to. Much of the worry in the U.S. Government comes from the newness of the DPJ and the inherent uncertainties in dealing with any government that does not have a track record we can interpret and use for predictions. Such, I may add, is a constant source of concern among Japanese at our Presidential transitions, so we are, perhaps, now finding ourselves in Japan's shoes for the first time in over half a century.

Our relations are further influenced, despite the laudable efforts of U.S. officials here and in Tokyo, by the continued worry of Japanese opinion leaders and policymakers over long-term trends in America's Asia policy, thereby fueling part of their interest in China. I will mention perhaps the two main concerns: first, that the United States will, over time, decrease its military presence in the Asia-Pacific, thereby weakening the credibility of its extended deterrence guarantee, and second, that Washington will itself consider China in coming decades as the indispensable partner for solving problems both regional and global. Both these concerns exist despite repeated U.S. assurances that our military presence will not shrink, and despite the very public problems cropping up in Sino-U.S. relations in recent years. Ironically, perhaps, these Japanese concerns almost exactly mirror U.S. worries, from frustrations over Japan's continued reluctance to increase its security activities abroad to our casting a wary eye on exchanges between Beijing and Tokyo.

Despite this litany of problems both real and perceived, the United States-Japan alliance, and the broader relationship it embodies, remains the keystone of U.S. policy in the Asia-Pacific region. There is little doubt that America and Japan share certain core values that tie us together, including a belief in democracy, the rule of law, and civil and individual rights, among others, which should properly inform and inspire our policies abroad. Our commitment to these values has translated into policies to support other nations in Asia and around the world that are trying to democratize and liberalize their societies. Today, Asia remains in the midst of a struggle over liberalization, as witnessed by the current tragic unrest in Thailand, and the willingness of both Tokyo and Washington to support democratic movements will remain important in the coming decades. Indeed, I believe a political goal of our alliance with Japan must be a further promotion of "fundamental values such as basic human rights, democracy, and the rule of law in the international community," as expressed in the 2005 United States-Japan Security Consultative Committee Joint Statement. To that end, Japan and the United States should take the

lead in hosting democracy summits in Asia, designed to bring together liberal politicians, grassroots activists, and other civil society leaders, to discuss the democratic experiment and provide support for those nations bravely moving along the path of greater freedom and openness.

Political development in Asia has benefited not only from United States-Japan diplomatic engagement, but also from the security burdens both countries have shouldered to maintain stability in the western Pacific, throughout the cold war and after. There are over 35,000 U.S. military personnel stationed in Japan, and another 11,000 are afloat as part of the 7th Fleet; three-quarters of our military facilities are in Okinawa. Without the continued Japanese hosting of U.S. forces, this forward-based posture is untenable, particularly in a period of growing Chinese naval and air power in which the acquisition of advanced weapons systems indicates increased vulnerability of U.S. forces over time. Similarly, options for dealing with any number of North Korean contingencies would be significantly limited without access to bases in Japan. The role of the U.S. Navy in maintaining freedom of the seas, and the U.S. Air Force in ensuring quick and credible U.S. reach anywhere in the region will become even more important as other nations in the Asia-Pacific continue to build up their national military capabilities.

Beyond such traditional security concerns, Japan and the United States continue to be among the handful of countries that can act as significant first responders to humanitarian disasters. We did so jointly during the Boxing Day tsunami of 2004 and earlier this year in Haiti, and will remain the leading providers of such public goods well into the future. For any such actions in the Asia-Pacific region, our bases in Japan are indispensable to timely, effective intervention.

Maintaining this presence is a full-time job for officials on both sides of the Pacific. Both Washington and Tokyo have revised the Status of Forces Agreement (SOFA) governing the U.S. military in Japan to respond to local concerns over judicial access to U.S. service members, and domestic pressures to reduce Japan's \$4 billion annual Host Nation Support (HNS) are a continuing feature of bilateral discussions. The new Japanese Government has indicated its desire to consider further revision of SOFA and HNS, which portends continued, sometimes difficult negotiations between both sides, though I would be surprised by any significant changes in either.

It is clear, however, that the presence of U.S. military forces is welcomed by nearly all nations in the Asia-Pacific and sends a signal of American commitment to the region. From a historical standpoint, the post-war American presence in the Asia-Pacific has been one of the key enablers of growth and development in that maritime realm. And today, for all its dynamism, the Asia-Pacific remains peppered with territorial disputes and longstanding grievances, with few effective multilateral mechanisms such as exist in Europe for solving interstate conflicts. Our friends and allies in the area are keenly attuned to our continued forward-based posture, and any indications that the United States was reducing its presence might be interpreted by both friends and competitors as a weakening of our longstanding commitment to maintain stability in the Pacific. The shape of Asian regional politics will continue to evolve, and while I am skeptical of what can realistically be achieved by proposed United States-Japan-China trilateral talks, it seems evident that we must approach our alliance with Japan from a more regionally oriented perspective, taking into account how our alliance affects the plans and perceptions of other nations in the region.

Yet when our alliance was signed in 1960, it was titled the "Treaty of Mutual Cooperation and Security." Cooperation took precedence in the eyes of American and Japanese, and that should serve as our guidepost for the future as we contemplate how Japan and America can work together in economic and social spheres. Our common activities are undertaken to promote not just stability, but also well-being, as delineated in Article II of the treaty. Economically, of course, we are increasingly intertwined. Our bilateral trade last year was worth over \$132 billion, making Japan our fourth-largest trading partner even despite a fall of nearly \$80 billion in trade from 2008. Japanese companies in 49 States employ approximately 600,000 Americans in high-paying, skilled jobs. Japan is also the world's largest purchaser of U.S. Treasuries, currently holding over 768 billion dollars' worth, more than China's official portfolio of \$755 billion in American securities. America's continuing economic recovery is dependent in part on Japan's willingness to continue to employ Americans and buy our debt, and as both countries seek to balance their export and import sectors, openness to trade is of vital importance, as are trade policies designed to reduce barriers. Here, both countries need to focus more attention on job growth and trade opportunities, helping with retraining programs and promoting entrepreneurship by reducing bureaucratic impediments.

Both our countries are leaders in scientific research and development, and bred multinational corporations that continue to change the nature of global commerce. Current Ambassador to Japan John Roos has made expanding United States-Japan economic cooperation, particularly in the high-tech areas he is so familiar with, a priority of his tenure. Joint research and development in energy efficient and clean energy technologies, such as smart grids and nuclear power, will benefit not merely our two economies, but can bolster our export industries and promote better practices and higher growth in developing nations. This, too, will help promote stability in Asia and around the globe, thus feeding directly into the security responsibilities of the United States-Japan alliance.

With all of these suggestions, however, we must maintain our realism. The heady days of the 1980s are long over for Japan, when pundits breathlessly proclaimed it the next superpower. And today, while the Hatoyama administration is long on ideas, it is short on specific policies. Officials on both sides of the Pacific must seek to avoid mismatched expectations that will only lead to disappointment and more hand-wringing over the future of our relationship. For the foreseeable future, American policymakers must accept that Japan will be most focused on its internal politics and problems, even as we attempt to create new initiatives to leverage Japan's strengths and interests.

Japan will continue to play a major role in Asia over the next decades, as that region continues to be the engine of global economic growth. As it does so, the role of a democratic Japan should become increasingly important in Asia as democracies young and old continue to evolve, and as authoritarian and totalitarian regimes oppress their own people and threaten others. Japan cannot, of course, play this role by itself, and the United States must fully embrace its role as a Pacific nation, one inextricably tied to Asia, but most importantly, one with a vision for an Asia that is increasingly freer, more stable, and more prosperous. That means a renewed commitment to expending the human and materiel capital required to maintain our position in the Asia-Pacific region.

As we look to the kind of Asia that we hope develops in the future, there is much that continues to commend Japan to the region's planners and peoples. Much in the same way, the United States-Japan relationship, plays a currently indispensable role in ensuring our country's commitment to the Asia-Pacific and in providing a necessary stabilizing force to powerful tides of nationalism, competition, and distrust in that region. Our relationship with Japan is indeed a cornerstone of the liberal international order that has marked the six decades since the end of the Second World War as among the most prosperous and generally peaceful in world history. For that reason, among others, we should look forward to maintaining it for years to come.

Senator WEBB. Thank you very much, Dr. Auslin.

And again, my appreciation to all three of you for the insights that you've brought.

I would like to put, sort of, two or three general questions before the panel, and get your insights, in terms of how we can best address our future relations with Japan.

Let me start by saying—I say this many times; I say it with my Japanese friends, as well—that the United States has bilateral relations around the world. Japan has its own set. We don't expect each country to have the same sorts of relationships with each other country. But, there is a vast difference that needs to be emphasized from time to time between a relationship and an alliance. You can be at peace with another country, and that country isn't necessarily your friend; you can be friends with a country, and that doesn't necessarily mean that country is your ally.

And the alliance that we have with Japan, I think, is the essential tool for us to remain properly involved in this emerging dynamic in Asia. And it cannot be said often enough as we look at this.

And with respect to this, we have a challenge. And all of you have mentioned it in different ways. Dr. Packard, you mentioned "public opinion counts," and there are questions from all of you about this—and comments about the situation with the basing on

Okinawa, and how we explain it, how we ourselves understand it in the United States, and also in Japan.

I go back to a comment that was made years ago about, “National strategy is kind of like birth control. You know, if you cease taking the proper precautions, the possibility of an incident is elevated.”

And so, we tend to take for granted the stability that comes from a relationship like this, when it’s gone on for a very long period of time. And we don’t properly educate our own people, or the Japanese people, about how important it is.

When we’re talking about public opinion—I was reminded, when I was in Japan, Dr. Packard, that 85 percent of the Japanese people have a positive opinion about the United States. That doesn’t mean that they support the basing system or these other areas.

And here, one of the worries that I have—and, Dr. Auslin, you mentioned it, and, Mr. Katz, you alluded to it, and the flip side of it—my worry, as an American, is not so much that Japan might decouple from the United States in favor of China; it’s that, with so much attention on the relationship with China, we tend to forget the importance of the relationship with Japan. There are only so many issues you can talk about in any given day up here in the Congress, for instance.

So, really, the first question I’d like to lay before the panel, really, is, How do we address, fairly, the importance of this relationship as it impacts the future of both countries’ innovation?

Dr. Packard, you did mention some of this in your testimony. I would appreciate it if you would begin.

Dr. PACKARD. Yes, sir. I want to underscore your point. Japanese public opinion at the elite leaders or a Yakitori bar—

Senator WEBB. Is your mic on, Doctor?

Dr. PACKARD. Japanese public opinion toward the United States is very strong and very enduring, and I want to emphasize your point. Whether it’s A-league leaders or whether it’s in a Yakitori bar in Kojimachi, you will hear the same thing, “We cannot do without America.”

And by the same token, the Chicago World Affairs Council’s polls have shown that 80-some percent of ordinary Americans, and almost 92 percent, I think, of so-called “elites,” believe that Japan is a reliable ally. So, I’m not so much worried about that condition.

But, the—there is, in the press today—and as an old news man, I’m embarrassed by this—there’s a kind of a narrative that, “Japan is a failed state, it’s going downhill. We don’t need to pay attention to it. It cannot recover.” Richard Katz has mentioned some of those kinds of things. That is—all of it—is untrue, and there needs to be a counternarrative today.

In the 1985 to 1990 period, we had so-called revisionists, who said, “Japan is out to kill us, they’re out to destroy our industry.” You don’t hear much from those guys today. And—but, unfortunately, not many people challenged their assumptions.

So, first of all, in the media, people who know Japan need to stand up and tell it like it is.

Second, I think we need to concentrate on the younger generation. I mentioned there is a United States-Japan leadership program today which has sent 240 Americans and Japanese to inten-

sive 1-week conferences, both in Kyoto and Seattle. And that continues now. And that results in lifelong friendships and continuous Internet communications and reunions, and so forth. And I could mention a number of these young leaders who are advancing into positions of real leadership.

And finally, I would say I'm very optimistic, maybe even a little bit more optimistic than Dr. Auslin, about the coming generation of young politicians in their, say, early forties. A number of them have been my students or colleagues, and I see a situation where—there will be reshuffling of the parties—and I see a situation where the internationally minded younger politicians will create a new party at some point, not too far away, and will be firm, reliable allies of the United States. So, I remain optimistic on that score.

Senator WEBB. Thank you.

Mr. Katz.

Mr. KATZ. Yes. First of all, I agree with the tenor of your remarks. I think it's very, very important. And I think one of the issues is that sometimes the alliance, at least the security side of the alliance, is often viewed in terms of Japan being an unsinkable aircraft carrier and a checkbook. And I think that is outmoded.

What we need to think now, I think—given the fact, as I say, we're addressing global issues, some of which are political, some of which are security, some of which are intertwined—is the extent to which both countries can cooperate in a very active way to deal with all sorts of issues.

I attended a conference where people in Southeast Asia were worried about being able to get water for fish. Fish were dying because of dams being built in China, across the border. Water has become a security issue. It's a new world. Not to mention the fights over energy.

So, the two countries actively engage on the world stage? We need something much more than just an unsinkable aircraft carrier as part of the alliance.

And, I think, therefore, what concerns me about the Futenma is sort of that it's viewed in one dimension. And I think we need to view it in a larger way. And I do think we need to recognize that the political change which has just occurred in Japan, this idea of actually having contested elections, is going to result in changes that make Japan—it's going to be a rough road getting there, but the end of the road will make it more responsive to its internal needs, and more able to play a role on the world stage; will make it a much more dynamic economy.

And I share this optimism, actually, about this younger generation. You talk to politicians or people in the business world or the bureaucracy, in their 40s, who have grown up in a different atmosphere; they do have a different mindset. And I think that generational change is all to the good. But, I think as we focus on this or that issue, our stake in some of these larger changes sometimes gets lost in the shuffle.

Senator WEBB. Thank you.

Dr. Auslin.

Dr. AUSLIN. Mr. Chairman, I know you're a student of history. And as a historian, I can't help but think of the issues in a histor-

ical framework. And we face a couple of unique, I think, historical conditions right now.

The first—and, I think, goes directly to the beginning of your question—is that, certainly for the United States—and, honestly, for Asia, as well—there's never been a time in history where there's been a strong Japan and a strong China at the same time. They've always alternated.

And so, the pattern of international relations, either within the region or as the rest of the world dealt with the region, reflected that—those rises and falls. And that's been the rule for our engagement with the region since the 1840s.

Today, we don't have that. We have two strong countries, one of which, as you note, is an ally, and the other one we have—with which we have an increasingly integrated relationship. And I don't think we've yet figured out how you manage that balance.

I would actually argue, even though I'm a Japan person, you know, professionally, I think it's entirely natural that we, in the United States, are focusing on China. I don't think it's abnormal, in any way, that my former colleagues in the universities are focusing on China, or the think tanks are focusing on China. It is, economically and politically, a country that is evolving into a new role, and new roles that we need to take account of.

So, the idea that there is some type of shift that is unnatural, away from Japan and toward China, I think is, itself, just not reflective of how we approach and think about the world.

The other historical anomaly that I would mention here is the nature of the alliance itself. Historically, obviously, if you look at alliances, they are short-term political arrangements. They come about because of a political exigency, a military crisis, whatever you have. And when that situation is resolved, they break up and they reform in different ways.

The type of alliance we have with Japan, as much as we celebrate the 50-year alliance, it is historically abnormal.

We are in a multigenerational, open-ended relationship and political set of responsibilities and commitments to each other that I fully support, and yet, I think we need to recognize, is not the norm for how two states interact over the long term with each other. So, we are, in a sense, making it up as we go along every day.

At one level, I think part of the problem is the broken-windows theory. We are simply trying to take care of current problems in the relationship, which just means you're running ever harder to keep up. On the other end, all of the calls—and I'm certainly one who has made calls like this—for a new start to the alliance, a new vision for the alliance, I'm not sure is necessarily as politically realistic as we think it is, when you take into account all of the responsibilities that come with it.

So, I don't know if there's necessarily an answer to your question. I agree that we need to educate our peoples better. I agree that without this alliance our position in East Asia is far more tenuous. And yet, the historical uniqueness of where we stand today means that there are no clear answers, and we will continue to muddle through for the foreseeable future.

Senator WEBB. Thank you.

Let me offer two quick reactions to what you just said, and then I have a couple of other questions. I think we have a vote that's going to be called at 12:10, which means I can stay a bit longer than that, and I will.

First of all, with respect to the amount of attention that's being given to China, I agree with you, that that is natural. It's an evolving relationship.

There are a tremendous number of unknowns in that relationship. My concern is that, with the attention span of the Congress and of most people in the country, and the media, as Dr. Packard points out, we risk losing our appreciation of the essential nature of our relationship with Japan. It's not an either/or situation, here. In foreign policy, since I've been in the Senate, you're either talking about Iraq, Afghanistan, or China. And it's one of the reasons I put so much emphasis on Southeast Asia, where I spend a good bit of my time, the ASEAN countries—650 million.

With respect to alliances, let's be careful with history, here. If you examine Japan's foreign relations since they opened up again, and with the 1854 time period, they either have developed an alliance with the dominant naval power of the region or they have attempted to become the dominant naval power of the region. They started with an alliance with Great Britain. And I would venture that this is not only an essential strategic axis for the United States in the region, but also a perfect fit between two countries, particularly with the evolution of China and the unknowns that face it. That's just a big parentheses to clarify my own reaction to what you said.

I would like to get all of your views on another matter, and that is—another piece of this, anyway—and that is the prospect for our two countries becoming more interdependent, economically.

Let me start by saying, Mr. Katz, your comment about water is one of my two great concerns when I look at Southeast Asia as they impact the unknowns with China, quite frankly. One is the issues of sovereignty in the South China Sea. We held a hearing on this. And it actually goes all of the way to the Ryukyus, in terms of, you know, unresolved sovereignty issues.

The second one is inside the mainland of Southeast Asia with respect to the Mekong River. I just participated in a conference, last week at the Stinson Center, where they are raising issues of riparian rights—if you can call them riparian rights when you're talking other countries—where there's so much hydroelectric being put in China, and now Chinese companies moving into Laos and Cambodia; and the Mekong River is in danger of losing its vitality, when you get down into Vietnam and the southern end of it. And only the United States—and perhaps the United States with Japan, on the economics of financing dams—can create the multilateral environment in which to address—and I don't mean to use the environment as a—it's not supposed to be a pun—but the multilateral situation where that issue can be addressed. You can't address that issue bilaterally. I don't think these smaller countries can. So, these are real issues.

And that goes to the question of the two areas where we might become more interdependent and, as a result, stronger as allies. One is working together. And that has an economic underpinning

to it, if you're looking at financing for dams outside of China. But, the other is just the basic economies.

And, Dr. Packard, I'd like to start with you on this. The Japanese, traditionally, have been very inward-looking, in terms of their economic systems. I believe it would be to their advantage and economic benefit, as well as our own, if there were areas where—and I think, Ambassador Roos, as you pointed out, Dr. Auslin, mentioned certain high-tech areas he's worked in. But, there were certain areas that were not directly in competition with existing bureaucratic structures, that we could have a more interdependent economy that would benefit both countries.

Dr. PACKARD. At risk of stepping on Mr. Katz's territory, here, I will venture just a couple of thoughts.

Japan's historical desire has been to maintain its own autonomy at home, control of the territory of the main four islands, since 1854, as you pointed out. And when you noted that they have made alliances with distant—with powers—the strongest power, they have always been distant powers; first, Great Britain, then Germany, tragically, and then—now the United States. With none of those powers did they have territorial disputes. So, I do not imagine a time when Japan could either make an alliance that is against our interest with China, because of the territorial disputes, or with Korea, because of history.

So—but, I do think there is some need for independence. Perhaps it's a question, but I do not know why Japan cannot stimulate its own domestic demand and get its economy out of the doldrums. And maybe Richard Katz can talk about this. There is a tremendous need for housing. Anyone who's gone on a train and seen the apartment buildings, the so-called "danchi," knows that there's a huge demand. There is a large supply of capital, in Japan, saved, due to a high saving rate by the older generation, and there is plenty of land if they take some of those rice fields out of cultivation. I know this is heresy in Japan, but I believe it's going to come, just because of economic necessity. And if you had a strong Japanese economy with high demand, it would, as Richard Katz said, release the nation from dwelling on its own economic problems and being—making it willing to step forward and engage in diplomacy and economics abroad.

Senator WEBB. Thank you.

Mr. Katz.

Mr. KATZ. On this river thing, which was, again, new to me—I learned about it last year—and it really is a geopolitical, as well as an economic, issue, when you're losing your ability to fish because of some dam across the border.

And yet, you know, Japan has got a lot of technology. Japan has got one of the best records, for example, learning how to save energy, how to make steel with, I don't know, much, much less energy than, say, China does.

And so, if you think about the role the United States and Japan, both as technology superpowers, trying to address this issue; yes, there's diplomatic answers to this issue, but, ultimately, people do need energy, and they do need the water, and you have—the more that resources are scarce, the more the countries are likely to take each-country-for-itself attitude. The more that you can apply to

technology to lessen that sort of tradeoff, then you have the context of both peace but also cooperation and prosperity.

And the technology assets of the United States and Japan, and their ability to work together, I think, is a perfect example of what I was talking about, is a mission for the alliance, beyond the unsinkable aircraft carrier. It's, how do we work together to solve these problems which could become huge problems?

Now, on the openness issue, you know, Japan is—people talk about this Japan/Asian model of growth.

Well, it's not exactly true. Most of Asia is growing so fast because they are incredibly open countries. You look at the ratio of trade to GDP in Korea, China, and Malaysia, and Thailand, and all over the place—huge, huge ratios of trade to GDP. In Japan, it's about 30 percent; in Korea, it's 110 percent.

If you look at the role of foreign-directed investment inward; in Japan, it's minuscule. In China, two-thirds of their exports and imports are handled by multinationals. Globalization created prosperity throughout the region.

One of the reasons Japan is growing so slowly is because it's not availing itself of the opportunities of openness the way that it could. It's better than it was 10 years ago; its got a long way to go. And here's an area we're bringing in foreign companies, bringing in imports, further integration in the region would help Japan. Some of the younger reformers see it that way; the special interests don't. That's one of the political dilemmas that the DPJ faces.

Senator WEBB. Agree. Do you have any thoughts as to where—what would be your thoughts? Yes.

Mr. KATZ. You know what? The best successes that we've made is—you know, they have this term in Japan, called "gyatzu," foreign pressure. And internal pressure is "nyatzu." Well, the best things have worked when it's called "ny-gyatzu," which is the combination of internal and external.

For example, Toys "R" Us wanted to get into Japan. They had this large-scale retail-store law, which really meant small shopkeepers could keep out the really efficient, large stores, whether they're foreign or domestic. So, there was an alliance between Toys "R" Us and the large Japanese stores to get that law changed. That served the consumers. That's helped the economy grow. Motorola had some things in cell phones, which has made the cell phone industry huge in Japan, technologically advanced. Richard Fisher did some things as USTR, again, an alliance between United States interests and Japanese interests that want to reform.

We've got to find Japanese interests who want to push, for their own reasons—they say in Japan, "Sleep in the same bed, but dream different dreams"—who want the same thing, maybe for different reason, work together. So, "ny-gyatzu" is, I think, the way we get those kinds of changes.

Senator WEBB. Thank you.

Dr. Auslin.

Dr. AUSLIN. Mr. Chairman, I'll be brief. I fully second what Rick has just said. And I'm not an economist. I think that the issue is creating, or trying to figure out how we, together, can create, the political and social conditions that allow for that. But, anyone whose been in Japan knows that there really are two economies.

And I'll—you know, won't want to get into areas that Rick knows better than I do, but you—the leader of the exports, the world-beating Toyotas and Sonys and the like. And then the domestic economy, which is sheltered from competition, which is not very competitive, and which is the economy that most Japanese, themselves, deal with on a daily basis.

So, there certainly is a wide gap to work with, in terms of what would benefit Japan's consumers, what would benefit companies that are domestically oriented in Japan.

But, I think the answer is really, to wrap up, just what Rick mentioned, which is two things: the issue of global integration and this issue of competitiveness. I think that's why Japanese are worried, in part, about their growing sense of isolation from the world. If you don't have students going out and engaging, if you start shutting down your news bureaus abroad, and you start shutting down your offices abroad—last year, in Washington, Kadonrin, which is the equivalent of the Chamber of Commerce, more or less, closed down its Washington office, its only America office. If you don't have that type of engagement, let alone representation, not only will you feel more isolated, you will, in fact, be more isolated.

And I think that that is a feedback in to the issues of where Japan does not necessarily seek to become competitive at the world level. And I think Rick's absolutely right, you have to find areas where it is in Japan's interests to do that. And there, they have taken leads in efficiency and the rest.

As to the specifics, I can't speak to that, but I think it is the conditions that will lead, ultimately, to the end state that you so rightly point out is necessary.

Senator WEBB. Thank you.

My thought on this, really, is that there are sectors where the Japanese don't do well, where we do well, where they would not view, you know, large-scale American involvement as directly competitive, in the same sense as they would if we were going to go and try to sell a car or some of these other things. And if there were a way for that to happen, the American people also would feel more invested in the future of their country. You know, there's a tremendous independent streak in the Japanese culture. We know that. It's a possible reason, when you're—Dr. Packard, when you were reading from the Washington Post article—I saw that article, too, and I immediately thought, "This is a historic trend." You were talking about the trends. You know, we become insular again.

And people in the United States don't feel the same risk with the success of the Japanese economy as they do in other places. And if there were sectors where the two countries could become economically interdependent—and that's probably not a word that the Japanese like to hear—but I think it would be healthy for the relationship, but also for the strategic bond that I believe is so essential to what we're doing in Asia.

You've been a great panel. This has been a lot of fun.

And I very much appreciate the time that all three of you have taken.

And there are many people in offices, all throughout the Senate, who have watched good pieces of this, and I think you've really

assisted in raising a level of understanding on these issues. Thank you very much.

This hearing is closed.

[Whereupon, at 12:20 p.m. the hearing was adjourned.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF PAUL TOLAND, COMMANDER, U.S. NAVY

Chairman Webb, Ranking Member Inhofe, and other Senators, thank you for calling this hearing and bringing attention to a hidden aspect of Japan that is gaining more traction daily within Congress and among the American people, International Child Abduction.

My name is Paul Toland. I am a Commander in the United States Navy with over 20 years of active service, and I am the only living parent of Erika Toland, abducted nearly 7 years ago and wrongfully retained in Japan by her grandmother.

My daughter Erika was abducted by my now deceased wife Etsuko on July 13, 2003, from our home at Negishi Navy Family housing in Yokohama, Japan. Etsuko and I were married for over 7 years before Erika was born. For the majority of our marriage, we were assigned to duty stations in the United States. Etsuko was a naturalized United States Citizen, and Erika is also a U.S. Citizen. Soon after Erika's birth, Etsuko sunk into a severe postpartum depression. She refused treatment in a military hospital and her untreated condition rapidly deteriorated. Our marriage, too, soon followed suit. Etsuko's mother lived alone in Japan, and did not want to move to the United States with us. Instead, she wanted Etsuko to stay behind in Japan. I was unaware of this and caught completely by surprise when I received a call from my neighbor in summer 2003, asking me if I was moving, because there was a moving truck outside our house. When I returned home, Etsuko, Erika, and our household goods were all gone.

Soon after this I began my journey into the surreal world of Japanese family law. Japan is a haven for international child abduction. In the past 58 years, no child has ever been returned from Japan to ANY foreign country. Japan stands alone as more than just a haven for abduction, and is instead, quite literally, a black hole for abduction, from which no child ever returns.

I first sought advice from the Navy Legal Services Office in Yokosuka, Japan. I was distraught and looking for help. My daughter had disappeared into the foreign country in which I was assigned, and I needed the Navy's help. Any attorney with a rudimentary knowledge of the dysfunctional Japanese family law system would have told me to avoid entering the Japanese legal system at all costs, and instead hire an attorney in my home state, contact the U.S. State Department and National Center for Missing and Exploited Children. Instead, the advice I was given by the young inexperienced Navy attorney was "this is a private matter, I suggest you hire a Japanese attorney." That advice doomed me to years of unnecessary legal battles. Two years after that experience, Washington State family court did rule that they had jurisdiction over our marriage, but also ruled that since I had initially entered the Japanese family law system, I had forfeit my right to any U.S. jurisdiction over my case.

I entered Japanese mediation in late 2003 in an attempt to maintain contact with Erika. The Japanese version of mediation is unlike anything you could possibly imagine. My wife and I never saw each other or met to discuss issues. Instead, we both waited behind frosted glass in separate waiting rooms, each spoke to a "judge" separately, and never discussed any issues of substance. Most importantly, the court completely avoided any discussion regarding visitation with Erika. When I said I wanted to see Erika on weekends, the judge and the attorneys in the room laughed. When I asked to see Erika to give her gifts on her birthday, I was advised to mail the gifts to my wife's attorney. This same advice was again repeated at Christmas. After 8 months of repeatedly asking to see Erika, I was finally granted 20 minutes of visitation in a small courthouse playroom while having both a court supervisor and Erika's grandmother present in the playroom with me. Meanwhile my wife, her attorneys and my attorneys all watched the visitation from behind one way glass, and the entire "event" was recorded on videotape. This is the type of visitation afforded to felon criminals in the United States, yet there I was, the victim of a crime and a highly respected military officer, subjected to this humiliating spectacle.

My own Japanese attorney apologized for actions taken by the Japanese court, asking me in an e-mail to "Please understand your case is not a piece of cake be-

cause of the racism and irrationalism of Japan. It might be something like defending Taliban in the U.S.”

In summer 2004, I was transferred back to the United States, and spent the next 3 years trying in vain to maintain contact with Erika, spending approximately \$200,000 in attorney fees in the process. Then, in late 2007, I received the tragic news that Etsuko had committed suicide, having never received proper treatment for her depression. Although devastated by her death, I had renewed hope to be able to see Erika. Our own U.S. Supreme Court has found that the rights of a parent supersede the rights of any third party nonparent, and I naively thought that other societies, such as Japan, would also respect the rights of a parent over a nonparent. However, I was wrong.

Erika is today held by her grandmother Akiko Futagi in Japan, and I have absolutely no access to her. The U.S. State Department has asked to visit Erika, but the abductor Grandmother has said “No.” The Japanese Ministry of Foreign Affairs has asked to see Erika, but again, the abducting Grandmother said “No.” In the Japanese system, where no enforcement mechanisms exist and compliance is completely voluntary, all any government agency can say to me is “We’re sorry, we tried.” Nobody can offer any remedies or solutions, because none exist.

I flew back to Japan this past October to wait on a street corner and greet Erika on her way home from school and bring her birthday presents, because this is the only possible contact with dignity that is possible. I am left with no other choices. I knew if I tried to take Erika to the Embassy to attempt to get a passport, I would likely meet the same fate as Christopher Savoie met when he attempted to retrieve his children from Japan. I would likely be blocked at the gates of Embassy by a U.S. State Department more interested in preserving relations with Japan over the welfare of U.S. citizen children, and I would likely wind up in Japanese jail as Christopher Savoie did, for simply trying to bring Erika home.

Nothing is more important and deep-seated in this world than a parent’s love for his or her child . . . we all love our children. Equally important is a society’s responsibility to ensure that their most vulnerable citizens, their children, have the opportunity to know and love their parents. This is where Japan and many other nations have failed, and this is why we are here today.

I am left without any remaining options. Erika is essentially held captive in Japan, separated from her only living parent in a country that has never returned a child. I never dreamed that serving my country overseas in one of our allied nations would result in the loss of my only child. Japan is supposedly an ally of the United States, so why does the United States continue to tolerate this behavior from Japan? How can a nation that we call an ally be guilty of such despicable human rights violations and get away with it?

I humbly ask that you take any and all actions within your power to make a difference for Erika and for all children wrongfully abducted and withheld in Japan from loving parents. I also ask that you act expeditiously. My own parents are ill and in their eighties. They hang on to life in the hope of meeting the granddaughter they have never met. Please act now, before it is too late. Thank you.

The views expressed in this testimony are not the views of the Department of the Navy or the Department of Defense.

LETTER FROM MOISES GARCIA

To: Senate Foreign Relation Subcommittee on East Asian and Pacific Affairs

KARINA GARCIA ABDUCTION TO JAPAN

I am writing this report to represent the facts and problems that I have been facing after the abduction to Japan of my daughter Karina Garcia on February 27, 2008, by her estrange Japanese mother Emiko Inoue. I have been represented since the moment my daughter was abducted by GLOBAL FUTURE whom has supported me emotionally and logistically.

BACKGROUND

Karina was born in Milwaukee, WI, on August 27, 2002. She lived her whole life here and went to school at a suburb public school in Fox Point, WI, at the time of her abduction. She was a very happy and caring child. She enjoyed her multiple national cultural heritage as she liked eating Japanese food and dancing Hispanic music. In addition, she was getting fluent in all three languages Japanese, English, and Spanish.

MARRIAGE BACKGROUND

I met my wife during my studies at the University of Oslo in 1998. She was working for Scandinavian Airlines and studying Norwegian, while I was taking a course on "International Health System Development." Our relationship continued after I got a scholarship to study Gastroenterology in Japan from 1998–2001. Later, I returned to work as physician in 2001 in Milwaukee. During a vacation trip in Japan on December 2001, Emiko got pregnant. We married at the Milwaukee Court House in February 2002, and Karina was born in August. Our marital problems started after the baby was born when Emiko became very depressed. She went without treatment for many years and later in spite of psychological therapy things didn't improve. She filed for divorce in 2006, and temporary orders were in place that included prohibition for my daughter Karina for traveling outside of U.S., and prohibition to obtain a passport either Japanese or Nicaragua for the risk of abduction. At that time, I was granted generous visitation with my daughter. In July 2006, we started a process of reconciliation initiated by Emiko and finally we closed this divorce action in December 2006. However, things went wrong again as soon as the divorce action was closed. In February 2008, I decided to file divorce and honestly notified Emiko. Because of the risk of abduction, I had been granted an ex-parte order of sole custody. A few days later, Emiko and Karina disappeared from my home, and later I find out that she had taken our daughter to Japan with a Japanese passport that apparently was illegally obtained. However, the local police didn't intervene properly and Amber Alert was not activated in spite of my insistence. The divorce action continued and the ex-parte orders became temporary orders. Emiko hired a U.S. attorney to represent her in U.S. to try to get property division and child support. However, she was ordered to return to the original jurisdiction with the child. At the end, she tried to delay the divorce trial by firing her own lawyer, however, the court proceeded with the final trial on June 2009, where I was granted sole custody and physical placement for my daughter and Emiko was ordered to return to U.S. She was also found in contempt and she is ordered to pay 500 USD daily for every day my daughter is out of country.

JAPANESE COURT EXPERIENCE

After obtaining my final U.S. divorce judgment, I was one of the few U.S. parents that could request a validation of such judgment in Japan, since my case is strong even in Japan. My judgment fulfilled the requirement requested by the Japanese civil code, which are:

1. Judgment is Final (I had to wait 3 months to prevent any appeal from my former spouse).
2. The Japanese part was properly served, or appear voluntarily in court. (My former wife had a U.S. attorney supporting her all the way to the end of the trial.) Please note that Japanese courts don't recognized service by publication and the service using the Hague convention could last up to 6–9 months. However, when Japanese courts decide to use such service in the U.S., the delay usually last only 4–6 weeks.
3. There is comity, meaning that a Japanese judgment should also be accepted in U.S. courts.
4. U.S. judgment doesn't go against public policy, this is a big one that many failed to pass considering that U.S. laws are totally different than Japanese laws. For example, some parts of my judgment (especially the contempt and the fact that parental abduction is a crime in U.S.) are not recognized by the Japanese courts.

I currently have also sole legal custody under Japanese law. However, I am still being denied access to my daughter. I opened a case for "habeas corpus" in Japan at the Osaka Supreme Court in October 2009 and they ruled accepting U.S. jurisdiction and the previous U.S. custody orders. However, the return of my daughter has not been enforced. I found that Japanese courts don't work cohesive like American courts do. For example, I found out that my former wife filed for divorce action in March 2009 in spite of me never being served any summons and having an open process in U.S. She also filed for change of custody in the family court in June 30, 2009, in spite of U.S. judgment was not final contradicting one of the requirements for recognition and again without me being served any summons. Unfortunately, most of the divorce cases are handled by family courts where hearsay is allowed, there is not a professional evaluation in spite of using the standard "The best interest of the children," and favor the part possessing the child since they lack enforcement power.

District and High courts, in the other hand, work more like normal U.S. courts. However, they handle very few cases per year, for example, my "habeas corpus" case is just the 9th case to be handled in Osaka. They still allow hearsay, however, eval-

uation includes an attorney at litem and pretrials. However, there is significant and well-documented biases and discrimination against foreigners and there is not enforcement power.

My case for return of my child is still open at the Tokyo Supreme Court under two separate appeals: (1) Constitutional violation of Human rights and discrimination. (2) Violation of law procedures and review of evidence.

HUMAN RIGHT VIOLATIONS

Karina and I have been prevented from seeing each other since February 21, 2008, when she was still in Milwaukee, in spite of outstanding U.S. court orders issued multiple times in U.S. I was able to secure a 90-minute visit in Japan after continued pressure from my U.S. and Japanese attorney. I saw my daughter in a yard of a local hotel surrounded with security. I had to give my passport to hold during the visit, to my wife. To my knowledge, only criminals have a supervised visitation like that.

After the U.S. judgment became final in June 10, 2009, all communication has been cut by my former Japanese wife and her family. I have been even abused over the phone by her family saying that in Japan I don't have any rights.

Karina is also being also brainwashed and alienated against me, my family and even her country of birth, the U.S. This represents another violation of her basic children rights to have contact with her parents and to keep her background.

In addition, in March 26, 2010, while attending a hearing at the Kobe Family Court, I was allowed to see my daughter for only 20 minutes in a so-called "trial visitation" where the objective was to assess the degree of attachment of my daughter and me. At that time, I was not allowed to bring old pictures of my family member and friends in U.S., and a court officer opened and read all my letter and presents. Fortunately, my daughter Karina and I rebounded very quickly to the Japanese court officer and the abductors surprise, and they could not take away my bond with Karina, or my sole legal custody ruling.

CONCLUSION

In this report, I want to state clearly that I and my daughter have had stolen, our basic human right to stay together and have significant contact with her Japanese family and supported by the Japanese Government. In addition, I have found many difficulties in the U.S. legal system to address my needs. I have been fighting an unfair war against a strong law state as U.S. and a weak and racist system as the Japanese. I have found some support from the U.S. Government specifically from the Department of State; however, to achieve my goal to have my daughter back home the Department of State will need stronger tools. In the other hand, my former spouse has all of the support of her government to legalize the abduction of our daughter, while violating her human rights, and child abuse ongoing.

MOISES GARCIA, M.D.
Fox Point, WI

LETTER FROM SHOKO MATSUDA

APRIL 16, 2010.

To: The Honorable Members of Senate Foreign Relations Sub-Committee.

I am submitting this letter for the record of East Asian and Pacific Affairs sub-committee hearing on U.S.-Japan relations on April 15, 2010.

My name is Shoko Matsuda. I am the mother of two children age 15 and 11 years old today. My children were abducted by their father from their habitual residence in VA to Mexico immediately after I filed divorce and custody at Fairfax court in March 2003. I spent almost one year searching for them in Mexico. Then I learned my ex-husband had covertly abducted our children to Japan. In March 2003, our children were 8 and 4 years old. I am Japanese citizen with a permanent resident. Both children have dual citizenship of Japan and U.S. Their father is dual citizen of Mexico and U.S.

I was granted temporary custody of both children from Arlington court in VA in November 2003. I was able to locate my children in Tokyo in April 2004 with help from the U.S. State Department. In order to locate my children, and to pursue custody of them, I have been to the FBI, NCMEC and U.S. State Department seeking assistance. I hired private investigators in Mexico and Japan. I also have been to Tokyo children's welfare center, Tokyo government and consulted with Japanese at-

torneys seeking assistance. I have hired attorneys in U.S. and Japan to seek a resolution through the courts in Arlington VA and Tokyo.

It took four years to reach final divorce and custody in the Arlington court. My ex-husband did not respond to the U.S. court for two and a half years and the Arlington court imposed a \$500 per day fine for my husband's non-compliance and non-response. He then challenged jurisdiction in VA trying to move jurisdiction to Japan for the purpose of denying my VA ordered temporary custody, and in an effort to dismiss VA court ordered fines. His challenge was made in November 2005. At the same time he filed for divorce and custody in Tokyo family court. This attempt ended as a failure for him, but the long delayed court process clearly worked for advantage in his favor, as our children remained with him in Japan the whole time. In January 2007, the judge in Arlington court suspended the court's fines against him, on the condition that he complies with the court orders and future orders, part of which is our visitation schedule. (The fines totaled \$255,500 against him, for 511 days of non-compliance) The judge granted me visitation every summer in U.S., every other winter and spring in Japan. I trusted in the rulings of the court, I had every reasonable expectation that I would finally be able to see my children again on frequent and meaningful basis.

This is a quote from our final divorce decree: "The return of the children for the travel to the United States defined below is the final step in ending a cross continent dispute about which Court, or courts, had jurisdiction. The Father has accepted the continuing jurisdiction of the Virginia Courts over the parties' divorce and all issues raised in it, including child custody, visitation, support, and property division, by his appearances, Answer and cross complaint."

That first visitation was held for 10 days in the backyard of my ex-husband's parents' home in VA in May 2007. (I was not allowed inside the house, and my husband's brother guarded the gate the whole time.) It became very clear that my ex-husband was only intent on using this one visitation to dismiss the FBI's criminal charge against him. During the entire visitation, my children refused to talk to me and did not leave the premises. I requested Arlington court to keep my children in VA to address the alienation. The judge ordered for the children to go to psychological counseling. But my ex-husband ignored the court order and my children have never had a chance to receive proper psychological intervention or evaluation. My children went back to Japan after that one VA visitation only, and I have not been able to see them ever since. Unfortunately, it was the FBI's agreement to have the FBI arrest warrant dropped, if my ex-husband complied with that visitation. I requested to the FBI to postpone the agreement to help and enforce compliance of future visitation orders. However the FBI dropped his criminal charge after one visitation.

Despite all of the U.S. court agreements, my ex-husband filed a motion to change the VA court order regarding visitation in the Tokyo family court in December 2007. He told the Tokyo family court that I had abandoned my children when they were very little, and children have been traumatized from that experience. I explained to the Japanese Judge that it was an abduction case, and my ex-husband was doing his best to alienate my children. However Tokyo family court paid no respect for my parental right and completely ignored the VA court order. In April 2009, Tokyo family court sent me their order stating that not only I couldn't have visitation in Japan, but also I was not allowed to contact my children at all . . . no written letters, no email, and no phone calls. It is very easy to manipulate the Japanese court system because they make no effort to investigate claims and allegations by a moving party, change status of custody, and they turn a blind eye toward abduction cases. Because there is no court order that they will enforce, there will never be a solution which includes shared parenting or joint custody.

I am court ordered in VA to pay child support on a monthly basis. I have continued to send them child support every single month. I am sending international money order addressed to my children with a letter to tell them I miss them so much and I am praying every day and night hoping to see them soon. I am hoping my children will respond to me sometime soon. But I have not been able to see either of my children and I have not heard anything from them for more than 2 and a half years.

This has been a terrible injustice. I haven't been able to be with my children simply because I wanted to protect my children through the divorce. Because I didn't want my children to lose either of their parents. Because I respected father's parental right and I had never prevented from my children from seeing their father. Because I believed in equal parenting, I wanted my children to grow up in the environment that they could see both parents anytime they wanted. Because I believed that the law would protect the people who would follow the law.

In May 2007, the Arlington Judge could have kept my children here to provide proper psychological intervention for them that would have stopped all of this. In December 2007, the Japanese court could have made the decision to enforce U.S. visitation order. That would have maintained a relationship between my children and me, so they can grow up with knowing how much their mother loves them.

I am asking the honorable members of the subcommittee to enforce the previously established U.S. court orders and to help U.S. government to establish the system between Japan and U.S., which leads to immediate resolution of these inhuman crimes.

Sincerely,

SHOKO MATSUDA.

LETTER FROM SCOTT SAWYER, GENERAL SECRETARY OF GLOBAL FUTURE: THE
PARENTS COUNCIL ON INTERNATIONAL CHILDREN'S POLICY

Re (1) Wayne Sawyer and all other U.S. citizen children kidnapped to Japan; (2) rethinking Japan.

DEAR SENATOR WEBB: The following testimony is respectfully submitted for inclusion in the record of the EAP Subcommittee hearings on Japan.

The story of my son Wayne's criminal kidnapping to Japan by his mother on December 15, 2008, includes transgressions and intrigue by Japanese diplomats on U.S. soil, passport fraud, the violation of Los Angeles Superior Court custody, travel ban and passport surrender orders, extortion, the failure of U.S. authorities to effectively support a parent's extensive efforts to prevent the crime, and Japanese governmental policies, which are ultimately responsible for inflicting cruelty and life-long damage on my innocent child, who turns four years old on August 5 and remains captive in Yokohama, Japan.

Besides the human tragedy such kidnappings represent, they also serve as case studies in the larger context of Japan's behavior within the overall U.S.-Japan relationship. Prior to the kidnapping, I followed the instructions of the Superior Court and the State Department's website and requested that the Japanese Consulate in Los Angeles withhold issuing a Japanese passport to Wayne. Aware of the Superior Court's custody and travel ban orders, Vice Consul Yamamoto of the Los Angeles Japanese Consulate and his assistant Suzuki, in 2007 and 2008, gave my attorney and I (with a translator present) multiple verbal assurances that the Japanese Ministry of Foreign Affairs had placed a restriction on issuing Wayne a Japanese passport. Yamamoto refused our repeated requests to put this commitment in writing.

I went even beyond the U.S. court system, but still could not prevent the kidnapping. Our case is the only one I know of in which Japanese diplomats, prior to the kidnapping, directly promised a U.S. parent that Japan would not issue a Japanese passport for a U.S. citizen child, but did so anyway. I have recently obtained written confirmation that the Japanese Consulate in San Francisco issued the passport, which identified Wayne with a false Japanese name. Wayne's mother had surrendered a duplicate Japanese passport to the Superior Court. It contained a different identification number than the one on her uncanceled original, which she used to leave the country with Wayne.

That a U.S. parent must petition a foreign government to not aid and abet a criminal kidnapping is a Kafkaesque absurdity, yet this is exactly the procedure the US DOS recommends. At no point did any Japanese diplomats offer the courtesy of allowing U.S. officials to participate in the interfaces. At no point does the U.S. government help prepare ordinary Americans to interface with professional and wily foreign diplomats, who conduct those encounters under foreign rules of engagement. For example, one half hour after informing me of the MOFA passport restriction, Mr. Suzuki called me again and asked a series of questions about my commitment to raising Wayne with Japanese culture. At the time, I felt that the call was inappropriate, suspicious, tinged with ulterior motives and probably recorded without my permission.

The objective of any diplomatic mission is to foster good relations with the host country. Japan's hustling and injury of ordinary citizens and innocent children of the host country are diplomatic incidents that should invite high scrutiny. Below we have written proof that instead of directing its nationals (especially its U.S. green card holders) to obey the laws of the host country, Japan's policy is to counsel its nationals to circumvent the laws of the United States. Had Japan chosen the more civilized former course, my son and our family would not be living this nightmare.

Japanese Consulates in the U.S. posted the following instructions for Japanese nationals in the U.S. on their websites on March 17, 2010:

In the United States, taking a child abroad without consent of his/her spouse who has custody may be accounted to criminal liability (Please see the National District Attorneys Association). In fact, there are cases in which parent taking a child was arrested of child abduction when he/she reentered the United States, or that parent was placed on the international wanted list of International Criminal Police Organization (ICPO). *To prevent Japanese citizens from such disadvantages*, (italics added) the Embassy of Japan and the Consulates General are checking verbally to confirm the existence of agreement of both parents on the application for child's passport, even if there is no declaration of disagreement from one parent.

Japan's insincerity, meaningless gestures and defiance regarding international kidnapping is a matter of longstanding record. Cleverly warning kidnapers against returning to the United States is just another example. It is instructive that the Consular posting does not read, "The government of Japan urges all Japanese in America to obey the laws of the United States, especially regarding the kidnapping of children."

The facts of all the kidnappings worldwide prove that observance of other countries' laws is not a priority concern for Japan. Many of the U.S.-based kidnapping cases share similar facts and the emboldening of kidnapers by Japanese policy. Upon landing in Japan on December 16, 2008, Wayne's mother emailed me to announce the kidnapping, using uncharacteristic prose which indicated she received coaching from experts. She claimed to have hired a criminal attorney to check for arrest warrants and threatened to cut off all contact forever if I contacted police. She demanded a \$3,000 monthly extortion payment in exchange for allowing me to only see images of Wayne over an internet camera.

As described above, Japanese policies foist real costs and injuries upon American citizens in the United States. Wayne has a speech delay problem, a lazy eye and red hair. In Japan, he is an especially easy target for intense bullying, a phenomenon in Japan that is well-researched and documented. He is being subjected to classic parental alienation and psychological manipulation tactics. Kidnapping is a serious form of child abuse. The government of Japan has put him in this dangerous position.

RETHINKING JAPAN: WITH A FRIEND LIKE THIS . . .

As the United States and Australia, Canada, France, Italy, New Zealand, Spain, the United Kingdom continue to jointly issue official demarches and call on Japan to resolve its outstanding cases of international child abduction, Japanese Prime Minister Yukio Hatoyama and other officials have stated an intention to reconsider various aspects of the U.S. alliance. Likewise, the United States and other countries each have a responsibility to rethink their relationship with Japan.

Japan's exhibition of little commitment to genuine reciprocity in bilateral matters, including trade, defense, human trafficking and kidnapping, among other issues, is turning Japan into a pariah state. International leaders are taking notice.

Belgium's Deputy Prime Minister and Foreign Minister Steven Vanackere recently urged Japan to ease non-tariff trade barriers with the European Union.

"As far as barriers, especially the non-tariff barriers are concerned, in fact Europe is becoming wary, a little bit impatient," Vanackere said.

U.S. policy makers should also be concerned with addressing Japan's non-tariff barriers to exports of automobiles, machinery, beef and rice, among other products. The United States runs a dangerously high trade deficit with Japan due in large part to Japanese government policies, such as non-tariff barriers, then borrows heavily from the same foreign government to make up in part for the loss of export revenue.

The same joint demarche group has an opportunity to convene and invite others, including Belgium and the EU, for a summit to comprehensively review and rethink the West's relationship with Japan. Each possesses some legitimate complaint or other with Japan. Each can ably assess the aggregate damage done by 60 years of LDP policies and work towards a new and improved partnership with Japan, which stands to benefit handsomely from embracing real, unqualified, unparsed partnership with the West. Labor and business markets worldwide, along with Japanese consumers and businesses, will also benefit. The alternative—the status quo—is not working well by comparison.

Japanese government officials, especially the strongly anti-American element among them, assertively and routinely complain about the behavior of U.S. service personnel in Okinawa. It is long past time that the U.S. reciprocates by complaining about the behavior of Japanese diplomats on U.S. soil, who encourage their nationals to evade U.S. law, while knowingly issuing Japanese passports to U.S. citizen children in violation of U.S. sovereignty, jurisdiction and court orders.

In April 2010, Japan announced the extension of trade sanctions against North Korea, due to the latter's nuclear weapons policies and the kidnappings of Japanese citizens to North Korea in the 1970s and 1980s. Likewise, the United States should consider appropriate sanctions for Japan's policies regarding the kidnapping of American citizen children from the United States.

Over the last 20 years, Japan has ranked in the top three countries each year to which the U.S. issues student, work and diplomatic visas. However, Japan ranks 37th amongst countries whose nationals receive education on student visas in the U.S. and then remain in the country to establish careers or businesses in American communities.

The protection of children is a fundamental issue for the world's advanced industrialized civilized democracies. If Japan cannot deal in good faith on the issue of innocent children it has kidnapped from the soil of the U.S. and other countries, on what other issues can its international partners trust it? Japan's longstanding resistance to enter into direct and meaningful bilateral treaties on child kidnapping demonstrates a general unwillingness to work sincerely with other nations for mutual benefit.

A country that steals children from another's own streets and never returns any, while also showing consistent bad faith in so many bilateral matters, behaves more like a belligerent than a trusted ally and friend. Such a country invites reevaluation of its relationship with others. The global civil society must immediately and relentlessly press Japan to deal bilaterally and in good faith with each nation whose children Japan presently and unlawfully holds. The children and their parents have only one childhood to share together. It slips further away each day Japan fails to rectify these tragedies. The world must no longer tolerate the painful separation, stolen childhoods and broken lives that Japan has imposed on them. I hope you can assist us parents in the goal of elevating our kidnapped children in Japan to emergency, first-priority status. Quick success in this area will provide simultaneously provide a real and symbolic template for other Japan issues, from which the entire world will benefit.

Thank you for your time and review of this submission.

Sincerely,

SCOTT SAWYER,

Lawful U.S. parent of Wayne Sawyer.

