



A Chance to Restore the Balance by William T. Breer

The visit next week of Japan's new prime minister will provide a good opportunity to review the key issues - the Asian financial crisis, North Korean missile capabilities and the U.S.-Japan security system - facing the two leaders. More important, it will also provide a chance to right the balance in our East Asian policy, which was badly skewed by the hype of the President's visit to China and the shunning of Japan that took place en route.

There is no question that our relations with China are important for a variety of reasons, not least of which is the maintenance of peace and stability in East Asia and the Pacific. In addition, China's growing economy holds out the promise of providing significant opportunities for American business. There are also a host of global issues, including the environment and health, that we must grapple with together. And, it is important to maintain a broad range of both official and unofficial networks with China so that we are both better able to manage relations in normal times and to deal with crisis that might arise in the future.

But fate and history have made us competitors, not necessarily in a military sense, but in a less tangible and more philosophical way. Perhaps the most important factor is sheer size. We are the first and third most populous nations in the world. In addition, our value systems are different. Americans believe they have a responsibility for maintaining peace and stability in key areas of the globe. We believe that our system of democracy is the best and most equitable way to organize the affairs of mankind. We believe in the rule of law. We strongly believe that the decent treatment of citizens by their government (human rights) is a fundamental obligation of a modern, enlightened civilization. And, we believe that our free market economic system offers the best chance to assure prosperity for our peoples. Chinese leaders have yet to demonstrate they share these values.

While we have sporadic trade flare ups with Japan, our two nations share most of the values mentioned above. That Japan is a functioning democracy is amply demonstrated by the debates that are occurring at present over economic reform and by a long record of free and fair elections. Japan shares our views on the importance of the individual and the advantages of a free market. It has a functioning legal system. And, while it is a determined economic competitor, it is not a rival in any strategic sense.

On the contrary, Japan has been our key ally in the Pacific for the past fifty years. Our alliance with Japan has permitted the United States to maintain forward-deployed forces that have been a key instrument in the maintenance of peace and stability in the region by assuring that no nation can easily achieve hegemony over its neighbors. And, it has permitted

the United States to maintain a voice in developments in the region that has greatly benefitted the American people.

Some have argued that Japan has gotten a free ride. The truth is that Japan has contributed some \$5 billion per year for the last 15 years or more for the support of U.S. troops deployed there for the defense of U.S. interests in Asia. It has made available scores of air and naval bases, including some of the finest facilities in the world, often in the face of understandable objections of local people. It contributed \$13 billion to underwrite the costs of the Gulf War. It has supported the United States, more enthusiastically than many European allies, on virtually every important international issue, including the recent UN resolutions on Iraq.

This is clear evidence of a strategic partnership and what we expect from a strategic partner.

Japan is suffering from its most serious financial crisis since the end of World War II. The crisis is a result of an economy wildly overinflated during the "bubble" years of a decade ago. Because of Japan's unique stockholding arrangements and the interconnectedness of various parts of its economy, the shortcomings of the banking system were overlooked for far too long resulting in a record overhang of bad debt, bad collateral and wrenching credit crunch. Japan has begun to address these problems, but in order to restore market confidence, it needs to do so more visibly and at a much faster pace. Japan's reluctance - because of a fear of the domino effect - to close major financial institutions is understandable, but eliminating the bad loans and creating more liquidity in the banking system must be attacked forthrightly and with more urgency than is apparent now. For its own good, Japan must move more rapidly to open its markets, its financial system and its mind to the outside world. It must cease discrimination against entrepreneurs.

Looking at the brighter side, Japan, with personal savings exceeding \$10 trillion and the world's largest cache of foreign exchange reserves and external assets, is an enormously wealthy country. It has resources to deal with the problem. It now needs firm political leadership, increased will and increased confidence.

Thus, the first visit by the new Japanese prime minister provides an excellent opportunity to rebalance our East Asian policy by reconfirming the importance we attach to our strategic relationship with Japan and to bolster confidence among ordinary Japanese investors, savers and consumers so that they will get their money back into constructive circulation. That would be good news for them, for us, and for the world economy.

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