

Economic Realities Limit Japan's Security Options

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Since the inauguration of the Hatoyama administration in Tokyo last September, US-Japan relations have resembled a slow-motion train wreck. The Hatoyama government's desire to "rebalance" Japan's foreign policy and to forge "a more equal relationship" with its ally have triggered alarms and raised fears of a rupture, rather than the recalibration that everyone professes to want. But those fears are misplaced. Japan in fact has no viable alternative to its alliance with the United States. The real danger is that the current troubles do lasting damage to what Secretary of State Hillary Clinton recently described as a "truly indispensable" partnership.

There are many, generally well-known, reasons why the alliance will almost certainly survive this difficult period. Most obvious here are the many values and geopolitical interests that Tokyo and Washington share. Also important is the high degree of security that the relationship has brought Japan at very low cost. Voters may complain about the roughly \$4 billion that they contribute annually as host nation support, but much of that money actually goes to Japanese workers on the US bases and hence benefits the local economy. Moreover, even the \$6 billion that it would cost Tokyo to relocate US Marines to Guam is a pittance compared to the cost of replacing those capabilities indigenously.

Nor are alternative security schemes very attractive. As for collective defense, there is no multilateral security architecture in Asia, at least none to which Japan could reasonably entrust its fate at a time of North Korean belligerence and persistent anxieties about China's rise. The possibility of something approaching an alliance with Beijing is likewise unrealistic. Historical tensions, competing aspirations to lead East Asia, and clashes over territory restrict the range for cooperative relations between these neighbors and render the possibility of an intimate Sino-Japanese security relationship illusory. At this point rudimentary confidence-building measures are the order of the day.

A policy of much greater self-reliance is also improbable. The Japanese public is still uncomfortable with a fully functional military. The scars on the political landscape from the nuclear bombings of Hiroshima and Nagasaki have not fully healed, leaving a sincere and deep antinuclear pacifism. The transformation of the Japan Defense Agency into a ministry did little to overcome that popular skepticism regarding both conventional and nuclear armament. To the contrary, the aging of the population implies a gradual turn in a more conservative direction – not the sort of thing that

would encourage political parties to undertake bold new security initiatives.

Yet these political and diplomatic obstacles are just foothills. Behind them stand the mountains of economic exigency, mountains that definitively block the path to a new security system. All of the alternatives would require raising the military budget far above the 1 percent of GDP that Japan has maintained for several decades. Self-reliance, to adduce one example, would require that Tokyo shoulder the entire financial burden of national defense while a shift toward China or regional defense would necessitate retooling the existing, US-based weapons systems. Such changes would inevitably prove expensive.

The importance of economic considerations may be inferred from the established direction of security policy. Although the economy grew robustly in the middle 2000s, bringing the government significantly more tax revenue, during these years, successive governments reduced the defense budget, which fell from ¥4.94 trillion in 2002 to ¥4.74 trillion in 2008. Critical armament programs were scaled back over this period, which meant that Japan gradually grew more dependent on the US security guarantee. Reversing this trend is something that the Ministry of Finance, other relatively parsimonious parts of the civil service, and large portions of the electorate would firmly oppose.

The trend toward economization will presumably intensify under the DPJ government. Although Ozawa Ichiro and other DPJ luminaries want Japan to adopt a more independent and assertive foreign policy, the government's focus is squarely on domestic affairs. Its foremost objectives are asserting control over the civil service and winning this summer's Upper House election. If those goals are attained, the prime minister and his Cabinet will then embark on their domestic agenda of promoting green technology, offering more subsidies for farmers and other favored lobbies, expanding childcare support and other assistance to families, and meeting the immense healthcare needs of a rapidly aging population. These priorities matter both because they indicate the government's lack of interest in strategic departures and because they will consume resources that would otherwise be available for military expansion. Therefore, it is not surprising that Prime Minister Hatoyama has postponed indefinitely the formulation of the new National Defense Program Guidelines as well as the Mid-Term Defense Program.

More restrictive than the direction of government policy, however, is a lack of money. Put simply, Japanese GDP will not grow fast enough over the next decade to fund expensive new demarches. In the short term, the country could produce a burst of growth if there were sufficient demand to employ the swathes of excess capacity that presently exist. But the scope for increased fiscal stimulus and greater overseas demand are

both fairly predictable and, unfortunately, limited. Over time, companies will close down excess facilities and the potential rate of GDP growth will fall below 1.5 percent. The combination of inadequate demand in the short term and the inability to expand supply quickly in the medium term means that the actual rate of economic growth through 2015 will probably barely exceed 1.0 percent per annum. This leaves little margin for Tokyo to expand defense expenditures through tax revenues.

The remaining option for financing a new defense strategy is borrowing, but here too Japan's room for maneuver is severely constrained. The gross national debt is already approaching 200 percent of GDP, a vertiginous level by international standards and one that alarms government officials and much of the electorate. Furthermore, that debt is rising fast because after shrinking during the commercial efflorescence of the middle 2000s, the government budget deficit has widened again. New borrowing will reach 8 percent of GDP in 2010 before – assuming a politically questionable degree of fiscal discipline – dropping back to just under 6 percent of that standard by 2016 and slightly less in subsequent years. Interest rates are now so depressed that there is little danger of a financial crisis anytime soon, but there is widespread agreement that it would be rash to undertake significant additional burdens.

In short, Japan cannot afford to abandon its alliance with the United States. This does not mean, however, that Washington can adopt an obdurate stance in its talks with Tokyo, for doing so would vitiate the public support that is critical to the bilateral relationship. It would make more sense to accommodate Japan's reasonable needs while also acknowledging that economic trends imply that Tokyo's financial contribution to the alliance may well diminish over time. The goodwill engendered by such a moderate negotiating strategy would then reinforce the alliance during the probably difficult transition to Chinese regional dominance. Put simply, the United States should not dwell on the fact that Japan has no alternative to the bilateral partnership but rather seek to enhance the mutual confidence that underlies it.