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Next Steps in the U.S.-Japan Relationship
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President Clinton will meet his sixth Japanese counterpart when Prime Minister Obuchi visits the United States next month. In his first meeting, in 1993 with Prime Minister Miyazawa (who has re-surfaced as Japan's latest Finance Minister), the discussion was dominated by bilateral trade tensions. The stakes are substantially more serious today, as Japan's deepening recession risks dragging down much of Asia, with grave consequences for regional stability. The importance of U.S.-Japan relations is second to none. Prime Minister Obuchi needs to demonstrate that his government and his party can take the necessary actions to keep it this way.

Today, Asia is in an economic and financial crisis that Japanese inaction threatens to prolong and deepen. While possessing the largest reserves in the world, the Japanese government has failed to adopt and implement fully measures that are essential to restoring growth and confidence throughout the region. Essential banking sector reform is in doubt as well, and the commitment to meaningful tax cuts is questionable. As a result, Japanese purchases of Asian goods and services have slowed to a trickle, and Japan's investment in regional economies has dried up.

Japanese politicians, officials, and business leaders know what needs to be done: restructure the banking sector to deal with huge amounts of non-performing loans, facilitate bankruptcies to free up non-productive use of labor and capital, and provide Japanese consumers with a reason to spend. These measures inevitably will bring pain in the short term, just as they did in the United States during the savings and loan crisis. There will be lay-offs as bad investments are liquidated. And angry voters may well turn on the politicians who have presided over Japan's economy since 1945. Perhaps understandably, Japan's political leaders are loath to do what needs to be done and take offense at the sometimes blunt advice from Washington.

From Washington's perspective, the relationship has frayed because Tokyo has failed to keep up its end of an unspoken understanding. The United States guarantees regional security and maintains an open market for exports from the entire region – Japan included. In return, Japan should be the locomotive for Asian growth, supplying capital and technology to Asia, and providing a market for a major share of the resulting production. The United States continues to fulfill its role; Japan, with the exception of development assistance, has fallen down badly according to this view.

Japan sees the United States as impatient and lacking an appreciation for what it is doing, at home and in the region, to deal with the Asian financial crisis. Some Japanese officials believe the unstated U.S. objective is to keep Japan weak. They also believe the United States is tilting towards China, confusing common interests with strategic interests. These officials see the United States thus weakening through neglect the U.S.-Japanese strategic alliance that has been the linchpin for Asian stability for fifty years.

The accuracy of these perceptions is debatable; the need to improve the bilateral relationship is not. What can the U.S. do in these circumstances?

First, Administration officials should warmly support the new Japanese government. It may not contain the decisive reformers the White House and Wall Street seek. It is, however, Japan's government until Japanese voters (or political intrigue) produces a different one. Thus, we need to engage with it confidently. Finance Minister Miyazawa is well-known to American officials. It should be possible to deal with him quietly through official and unofficial channels. A warm embrace of the Obuchi government is more likely to engender receptive ears for American advice than another round of public criticism.

Second, we need to be clear that the advice we give is for Japan's sake, not ours. It may be obvious to us, but it isn't for many Japanese. Only Japan can restructure its banking system and stimulate its economy. Only Japan can take the tough measures to pull out of its recession. However, the United States could offer technical assistance on bank restructuring, based on our successful experience with the savings and loan crisis.

Japan appears woefully ill-equipped to deal with this issue.

Third, we should acknowledge Japanese assistance to Asia. Japan has given $19 billion in bilateral aid to Asian countries since the financial crisis began in Thailand a year ago. It has also provided $15 billion in export credits. This is substantially more than the United States has done. Indeed, the Congress to date has refused to provide vital, budget neutral, resources to the IMF, resources that would provide an immediate signal to global financial markets that there is responsible leadership in Washington.

Fourth, we should be mindful that Japan is skeptical of the credit China is given for maintaining the value of its currency, the renminbi. Many trace the origins of the current crisis to China's devaluation in 1994, which made other Asian exports less competitive. China has provided relatively little financial assistance to the region, despite its enormous foreign exchange reserves. While applauding its renminbi stance, we should not forget that China is acting, and will likely continue so to do, in its own self-interest. With one of Asia's most closed economies, it makes little economic sense for China to devalue its currency. It makes even less political sense to devalue, as China would lose all the goodwill it has gained for acting in its self-interest.

Our relationship with Japan is multifaceted. The post-World War II relationship of victor and vanquished has evolved into one of the closest alliances in the world. Security needs in North Asia require forward American deployment and cooperation with Japan on regional issues. The bipolar power politics of the Cold War have given over to a much more subtle set of relationships in the region. The Japanese consensus in support of American presence is under stress, and our mutual interests in defense cooperation are being redefined. Confrontations over domestic economic choices are a legitimate subject of debate between the world's largest economic superpowers. But it is unwise and divisive to carry out that debate at high volume, in a way that erodes public confidence in fundamental shared interests of peace and security. Both parties have a responsibility to avoid such a crisis of confidence.

American policy toward Japan is burdened by the apparent incapacity of Japan's political structure, and its formidable bureaucracy, to make bold moves. The U.S. may see the Obuchi Administration as another place-holder, unlikely to beat the average government's eighteen month tenure. This would be a mistake. American interest in a dynamic, healthy Japanese economy remains constant. While our ability to promote radical change is limited, there is little risk to treating Prime Minister Obuchi and Finance Minister Miyazawa as agents of change. Such a show of confidence may produce a pleasant surprise, and may serve to re-establish trust at a critical moment in the relationship. The underlying reality is a need to support Japan in its transition to a more deregulated, open economy – one that invests and buys from others in the region. Japan has a vital role to play, and the U.S. must support that process.

As the President and Secretary Rubin prepare to meet their respective counterparts next month, they should reflect on what *public* posture they wish to take: warm embrace of equals or the exasperation of a senior partner. The former is likely to be more successful in moving the relationship forward. Their most important goal should be to re-establish trust and confidence in the view that the Japanese government is capable of dealing with Japan's financial problems. Clearly, most of the responsibility for this rests with Prime Minister Obuchi and Finance Minister Miyazawa. But President Clinton and Secretary Rubin have an important role, also.

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