

JAPAN'S CHANGING ROLE

HEARING

BEFORE THE

SUBCOMMITTEE ON ASIA, THE PACIFIC AND
THE GLOBAL ENVIRONMENT

OF THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

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JAPAN'S CHANGING ROLE

THURSDAY, JUNE 25, 2009

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ASIA, THE PACIFIC
AND THE GLOBAL ENVIRONMENT,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:06 a.m. in room 2200, Rayburn House Office Building, Hon. Eni F. H. Faleomavaega (chairman of the subcommittee) presiding.

Mr. FALEOMAVAEGA. The subcommittee hearing will come to order. This is the hearing by the House Foreign Affairs Subcommittee on Asia, the Pacific and the Global Environment. We are discussing today the subject of Japan's changing role not only in the region but as a global player in the Asia Pacific and certainly in other regions of the world as well.

I will introduce our distinguished members of the panel, but before doing so I am going to have an opening statement. I know my distinguished ranking member, the gentleman from Illinois, Mr. Manzullo, will join us at a later time. But I will begin this hearing with my opening statement.

Japan remains America's most important ally in the Asia Pacific region, currently is the world's second largest economy, and home to many of the world's best companies and most advanced technologies. The country's importance to the United States was underscored by Secretary of State Hillary Clinton when she made Tokyo her first overseas stop, and by President Obama when he accorded Prime Minister Aso the administration's first official visit by a foreign leader.

During the Prime Minister's visit, and echoing earlier comments by Secretary Clinton at her confirmation, the President said, and I quote: "The alliance that we have is the cornerstone of security in East Asia. It is one that my administration wants to strengthen." Despite such sentiments, however, Japan receives scant attention from the rest of the executive branch and Capitol Hill—perhaps with the exception of this subcommittee.

To a degree, Japan's low profile can be viewed positively. After all, it was not so long ago that Japan repeatedly made the headlines for its so called unfair trade practices and its alleged threats to United States interests and economic preeminence. You might say also that at the time if we were not bashing the Japanese we were bashing the Chinese, probably because of our own shortcomings in our own economic development.

There is a perception by some pundits and experts that Japan's role seems to have diminished regionally and globally. Japan's stagnant economy and politics—especially when contrasted with China's vibrant growth, growing confidence in the world stage and military modernization, in my view—contribute greatly to this perception.

Indeed, Beijing has become ever more central to Washington debates on key problems confronting this country, from the global financial crisis to climate change, and from North Korea's provocations to Pakistan's instability and the current crisis even in Darfur, Sudan.

To address these and other issues, the Obama administration has announced it will hold its first Cabinet-level strategic and economic dialogue with China at the end of next month. S&ED is probably an acronym that we are going to be learning more about. As a successor to a Bush administration initiative, the S&ED will provide an ongoing channel for talks between officials at the highest levels, from President Obama and President Hu Jintao, Secretary of State Clinton and State Consular Dai, Treasury Secretary Geithner and Vice Premier Wang, to a host of other senior officials.

The regularity of the S&ED and the high levels of its participants coupled with China's dynamism will keep the United States-China relationship in the forefront. Let me note here that sometime next month this subcommittee plans to hold a hearing on the S&ED. Japan's struggle to define its role reflects the real, immediate and consequential challenges it faces. Japan today is one of the world's oldest countries, with those over 65 years of age exceeding 21 percent of that country's population. It is estimated that by the year 2050 the number of elderly people in Japan will be well over 40 percent of that country's population.

In response to its demographic and economic challenges, as well as other problems, Japan has been searching for answers. In 2003, for example, then Chief Cabinet Secretary and subsequently Prime Minister, Yasuo Fukuda, commissioned a major Japanese think tank to assess how the country should adjust to its decline to so called middle power status. Now, I have no doubt that Japan will remain a critical ally of the United States and an important global player despite the challenges she is now confronting.

Of course, Japan can take some obvious steps to minimize its demographic problems. I suspect, however, that one such step—Tokyo opening itself to a large influx of immigrants—may never be an acceptable option. Another, promoting larger families, has been attempted, albeit modestly, by the government, but has achieved no discernable results. Providing women greater opportunities in the workplace would increase the country's labor force, but efforts to make the significant social changes necessary to have a real impact in this area have never gained requisite traction.

A couple of other observations that may be worth noting are that the number of Japanese students studying in the United States declined from 45,000 in the 1994–95 academic year, to 35,000 in the 2006–07 year, even as the numbers from other countries increased tremendously. For example, there are now more than 85,000 students studying here in the United States from India, 70,000 students from China, and some 70,000 also from South Korea.

I might also note with interest that we have approximately 500,000 foreign students studying here in American colleges and universities, probably the largest contingent of foreign students of any country in the world studying in our colleges and universities. I am glad that we are doing a lot better in the way that we have provided student visas so that students from all over the world will be welcome to come and study here in our universities.

Security ties between Japan and the United States, of course, remain close, and they have been revitalized over the years partly as a result of the work of some of our witnesses today. In a welcome development, last month, Japan's ambassador to the United States offered the Government of Japan's first apology over the Bataan Death March.

That is a significant development given the fact that during World War II, in 1942, some 68,000 Filipinos and some 12,000 American soldiers were put on a forced march by Japanese soldiers, and tremendous amounts of brutalities and atrocities were committed against them. I was happy to learn that the ambassador of Japan made this formal apology in front of the 73 survivors of the Bataan Death March in the ceremony.

Meanwhile, prudence on the part of Tokyo and close cooperation with the United States are absolutely essential as Japan responds to North Korea's provocations and growing concerns over China's growing prominence economically as well as in terms of security.

Yet in a major break from previous taboos, there are open discussions now in Japan about nuclear weapons. After the first North Korean nuclear test in 2006, some senior Japanese politicians, including the current Prime Minister by the way, called for a reconsideration of Japan's traditional policy of non-nuclear development. In other words, because of the problems in North Korea, there seems to be a threat to Japan's security and expressions of concern that perhaps maybe Japan needs to also develop a nuclear capability.

Most observers in the United States believe our extended deterrence makes it highly unlikely that Tokyo will produce its own nuclear weapons. As the Congressional Research Service recently noted, Tokyo currently does not have "the expertise in bomb design, reliable delivery vehicles, and an intelligence program to protect and conceal assets and sites for nuclear testing." My quote, however, is, "it doesn't mean Japan doesn't have the capacity to produce nuclear weapons if it seeks to do so." And, of course, this will cause a complete shift in regional military strategic issues affecting the whole region in the Asia Pacific, especially toward China.

South Korea, China and Russia are not nearly so sanguine, however. Last month, for example, the Chosun Ilbo, South Korea's largest daily newspaper, ran an editorial calling on Seoul to develop its own nuclear capability. Ostensibly, North Korea's nuclear tests prompted the editorial, but the clear subtext was concern over Japan's nuclear ambitions.

On June 9th, Russia's Interfax News reported that a Russian Foreign Ministry source anonymously discussed North Korea's nuclear test and Japan's response. He said this: "Naturally we are getting worried about a certain trend in Japan where there are in-

creasingly loud voices calling for a building up of the country's own potential at an accelerated pace." Interfax noted that the official was referring specifically to nuclear weapons.

And in a semi-monthly journal published under the auspices of the Chinese Ministry of Foreign Affairs, a featured article said, "Some people believe that the Democratic People's Republic of Korea's possession of nukes will trigger a nuclear arms race with Japan and then the Republic of Korea following. If that is so, East Asia will become one of the regions most threatened with nuclear war."

Chinese, Russian and South Korean concerns about Japan's nuclear ambitions may well be overstated. But sometimes perceptions play a crucial role in policy decisions.

In any case, the challenges Japan faces due to North Korea's provocations and the trajectory of its population and economy are clear and daunting. Japan has had a divided government since 2007, with the Democratic Party of Japan controlling the Upper House and the Liberal Democratic Party controlling the Lower House—thus requiring a two-thirds vote in the House of Representatives to override opposition by the House of Councillors on controversial pieces of legislation.

Moreover, Japan's bureaucracy seems to have lost its way, and few, if any, politicians of either party have demonstrated any ability to successfully lead Japan in meeting current challenges.

Nevertheless, Japan will likely hold general elections by this September. With the Aso Cabinet's approval rating at 20 percent and published support for the DPJ, or the Democratic Party, ahead of the Liberal Party by 10–20 percent, depending on the pollster you talk to, the ruling party faces the real prospect of losing control of the government for only the second time in post-war history.

How the DPJ might govern, especially on foreign policy remains an open question. DPJ's draft 2009 policy statement, which will form the basis for its campaign pledges, will include "proposals that may give rise to friction between Japan and the United States. It calls for a drastic review of the Status of Forces Agreement and a withdrawal of the Maritime Self Defense Force from its mission in the Indian Ocean," according to the Asahi Shimbun.

That said, predicting what policies the Democratic Party of Japan would actually implement if in power is particularly difficult since the Democratic Party's Diet members cover the spectrum from former socialists to former conservative LDP members.

In previous periods of Japanese history, when faced with the enormous challenges of catching up with the West or rebuilding Japan's war-torn nation, Tokyo rose to the occasion by forging a durable consensus on how to respond. Forging consensus regarding the construction of a modern state or rebuilding after war, however, is likely far easier than reaching broad agreement on accommodating relative economic and real demographic declines.

I believe the U.S.-Japan alliance should remain a pillar as strong as ever, and I sincerely hope that Japan will rise to the challenges it faces by drawing on the country's inherent strengths. Whether that is likely and how Japan can define its changing role are the subjects of today's hearing.

[The prepared statement of Mr. Faleomavaega follows:]

**COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515**

**STATEMENT OF
THE HONORABLE ENI F.H. FALEOMAVAEGA
CHAIRMAN**

**before the
SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE
GLOBAL ENVIRONMENT**

Japan's Changing Role

June 25, 2009

Japan remains as America's most important and key ally in the Asia Pacific region, the world's second largest economy and home to many of the world's best companies and most advanced technologies. The country's importance to the United States was underscored by Secretary of State Hillary Clinton when she made Tokyo her first overseas stop, and by President Obama when he accorded Prime Minister Aso the Administration's first official visit by a foreign leader.

During the Prime Minister's visit, and echoing earlier comments made by Secretary Clinton at her confirmation, the President said that, "The alliance that we have is the cornerstone of security in East Asia. It's one that my Administration wants to strengthen."

Despite such sentiments, however, Japan receives scant attention from the rest of the executive branch and Capitol Hill – with the possible exception of this Subcommittee.

To a degree, Japan's low profile can be viewed positively. After all, it was not so long ago that Japan repeatedly made the headlines for its unfair trade practices and its alleged threats to U.S. interests and economic preeminence.

There is a perception by some pundits and experts that Japan's role seems to have diminished regionally and globally. Japan's stagnant economy and politics – especially when contrasted with China's vibrant growth, growing confidence on the world stage and military modernization, in my view – contribute greatly to this perception.

Indeed, Beijing has become ever more central to Washington's debates on key problems confronting this country, from the global financial crisis to climate change, and

from North Korea's provocations to Pakistan's instability, and the current crisis in Darfur, Sudan.

To address these and other issues, the Obama Administration has announced it will hold its first cabinet-level Strategic and Economic Dialogue with China at the end of next month. Commonly known as "S&ED," a successor to a Bush Administration initiative, it will provide an ongoing channel for talks between officials at the highest level, from Presidents Obama and President Jintao Hu, Secretary of State Clinton and State Councilor Dai, Treasury Secretary Geithner and Vice Premier Wang, to a host of other senior officials. The regularity of the S&ED and the high level of its participants, coupled with China's dynamism, will keep the U.S.-China relationship in the forefront. Let me note here that sometime next month, this Subcommittee plans to hold a hearing on the S&ED.

Japan's struggle to define its role reflects the real, immediate and consequential challenges it faces. Japan today is one of the world's oldest countries, with those over 65 years of age exceeding 21 percent of the population. It is estimated that by 2050, the number will approach 40 percent of that country's population.

In response to its demographic and economic challenges, as well as other problems, Japan has been searching for answers. In 2003, for example, then Chief Cabinet Secretary – and subsequently, Prime Minister – Yasuo Fukuda commissioned a major Japanese think tank to assess how the country should adjust to its decline to so called "middle power" status.

Now, I have no doubt that Japan will remain a critical ally of the United States and an important global player, despite the challenges she is now confronting.

Of course, Japan could take some obvious steps to minimize its demographic problems. I suspect, however, that one such step – Tokyo opening itself to a large influx of immigrants – may never be an acceptable option. And another – promoting larger families – has been attempted, albeit modestly, by the government, but has achieved no discernible results. Providing women greater opportunities in the workplace would increase the country's labor force, but efforts to make the significant social change necessary to have a real impact in this area have never gained the requisite traction.

A couple of observations regarding U.S.-Japan relations are worth noting. The number of Japanese students studying in the United States declined from 45,000 in the 1994/95 academic year to 35,000 in the 2006/07 year – even as the numbers from other countries have increased tremendously. For example, there are now more than 85,000 Indians, 70,000 Chinese and 70,000 South Koreans studying here. About 500,000 foreign students study in American colleges and universities – probably the largest contingent of foreign students in the world studying in another country's colleges and universities. I am glad that we are doing a lot better in providing student visas so students from all over the world are welcome to study in our universities.

Security ties between Japan and the United States, of course, remain close, and they have been revitalized over the years, partly as a result of the work of some of our witnesses today. In a welcome development last month, Japan's Ambassador to the United States offered the Government of Japan's first apology over the Bataan Death March. That's a real significant development given the fact that in 1942 some 60,000 Filipino and 12,000 American soldiers were put on a forced march by Japanese soldiers, and tremendous numbers of brutalities and atrocities were committed against the Filipinos and Americans soldiers. I was pleased to hear that the Japanese ambassador made his formal apology in front of the 73 American survivors of the Bataan Death March in ceremonies held recently.

Meanwhile, prudence on the part of Tokyo, and close cooperation with the United States are absolutely essential as Japan responds to North Korea's provocations and as Tokyo's concerns over China's prominence economically as well as in terms of security continue to grow.

Yet, in a major break from the previous taboo on open discussion of nuclear weapons, after the first North Korean nuclear test in 2006, senior Japanese politicians – including the current prime minister – called for reconsideration of Japan's traditional non-nuclear policy. In other words, because of the problems in North Korea and the threat posed to Japan's security, views that perhaps Japan should also develop a nuclear capability are more openly expressed.

Most observers in the United States believe that extended deterrence makes it highly unlikely that Tokyo will produce its own nuclear weapons. As the Congressional Research Service recently noted, Tokyo currently does not have the "expertise in bomb design, reliable delivery vehicles, an intelligence program to protect and conceal assets and sites for nuclear testing." This does not mean Japan lacks the capacity to produce nuclear weapons if it seeks to do so. But if Japan did choose that path, there will be a complete shift in the strategic picture affecting the whole Asia Pacific region.

South Korea, China and Russia are especially concerned about Japan's nuclear intentions. Last month, for example, the Chosun Ilbo, South Korea's largest daily newspaper, ran an editorial calling on Seoul to develop its own nuclear capability. Ostensibly North Korea's nuclear tests prompted the editorial, but the clear subtext was concern over Japan's nuclear ambitions.

On June 9, Russia's Interfax News reported that a Russian Foreign Ministry source, in discussing North Korea's nuclear test and Japan's response said, "... naturally we are getting worried about a certain trend in Japan where there are increasingly loud voices calling for a building up of [the country's] own potential at an accelerated pace." Interfax noted that the official was referring specifically to nuclear weapons.

And in a prominent semi-monthly journal published under the auspices of the Chinese Ministry of Foreign Affairs, a featured article said that, "Some people believe that the DPRK's possession of nukes will trigger a nuclear arms race, with Japan and

[then] the ROK following; if that is so, East Asia will become the region most threatened with nuclear war.”

Chinese, Russian and South Korean concerns about Japan’s nuclear ambitions may well be overstated. But sometimes perceptions play a crucial role in policy decisions.

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Moreover, Japan’s bureaucracy seems to have lost its way, and few, if any, politicians of either major party have demonstrated any ability to successfully lead Japan toward meeting current challenges.

Nevertheless, Japan will likely hold general elections by this September. With the Aso cabinet’s approval rate at 20% and public support for the DPJ ahead of the LDP by 10-20% (depending on the pollster), the ruling party faces the real prospect of losing control of the government for only the second time in post-war history.

How the DPJ might govern, especially on foreign policy, however, remains an open question. The DPJ’s draft 2009 policy statement, which will form the basis for its campaign pledges, will include “proposals that may give rise to friction between Japan and the United States, such as a drastic review of the Status of Forces Agreement and the withdrawal of the Maritime Self-Defense Force from its mission in the Indian Ocean,” according to the Asahi Shimbun.

That said, predicting what policies the DPJ would actually implement if in power is particularly difficult since the DPJ’s Diet Members cover the spectrum from former socialists to former conservative LDP members.

In previous periods of Japanese history, when faced with the enormous challenges of catching up with the West or rebuilding Japan’s war-torn nation, Tokyo rose to the occasion by forging a durable consensus on how to respond.

Forging consensus regarding the construction of a modern state or rebuilding after war, however, is likely far easier than reaching broad agreement on accommodating relative economic – and real demographic – decline.

I believe the U.S.-Japan alliance should remain a pillar of strength for both countries. And I sincerely hope that Japan rises to the challenges it faces by drawing on its many inherent strengths.

Whether that is likely and how Japan can define its changing role are the subjects of today's hearing.

Mr. FALCOMA. I want to note with interest that we have a panel of some very distinguished scholars and former leaders who have worked in previous administrations, and at this time I would like to introduce our distinguished members of the panel. We have with us Dr. Joseph Nye, the university distinguished service professor and former dean of the Kennedy School of Government at Harvard University. He received his bachelor's degree summa cum laude from Princeton University in 1958, did postgraduate studies at Oxford University on a Rhodes Scholarship, and has a doctorate in political science from Harvard University.

He joined the Harvard faculty in 1964, and last year, a poll of 2,700 international relations scholars listed him as one of the six most influential of the past 20 years, and the most influential in American foreign policy. It's a tremendous honor and opportunity for this subcommittee to host you, Professor Nye. He's an author of several books and has written well over 150 articles in just about every noted national magazine, and of course our national newspapers. He is a fellow in the American Academy of Arts and Sciences, the British Academy, American Academy of Diplomacy, and just a whole range of things. Welcome, Professor Nye.

Michael Green is a senior advisor and holds the Japan chair at the Center for Strategic and International Studies, as well as being an associate professor of international relations at Georgetown University. He served as Special Assistant to the President for national security affairs and senior director for Asian affairs on the National Security Council from January 2004 to December 2005.

He joined the National Security Council in 2001 specializing in Asian affairs, responsible for Japan, Korea, Australia and New Zealand. Assistant professor of Asian studies at Johns Hopkins University. Received his bachelor's degree from Kenyon College with highest honors, received his master's and doctorate from the Johns Hopkins University, and did graduate work at Tokyo University on a Fulbright, and a whole wealth of experience I must say.

Mr. Calder currently is the director of the Edwin Reischauer Center for East Asian Studies at SAIS. Received his bachelor's degree with honors from the University of Utah, both his master's and doctorate from Harvard University. Expertise on Japan's domestic politics and Asia Pacific security relations, and Japan's political economy. Of course, he also published a lot, articles both in periodicals and newspapers, and also several books. Also was special advisor to the U.S. Ambassador to Japan, advisor to the Assistant Secretary for East Asian Affairs, including Korea. And I think I will stop at that.

Arthur Alexander's experience includes 10 years as president of the Japan Economic Institute, specializing in Japanese economics. Was a staff member at the Rand Corporation, advisor and consultant to a wide range of industry and government clients, teaching in major universities, and publications in academic journals, magazines and newspapers. His most recent books on the Japanese economy include, "In the Shadow of the Miracle and the Arc of Japan's Economic Development."

Dr. Alexander joined the Japan Economic Institute as president in 1990. He has conducted research directly for the American and Japanese Governments and the World Bank and private compa-

nies. Graduated from MIT, or the Massachusetts Institute of Technology, with a degree in engineering and industrial management. Had a stint with the U.S. Army. He then received his master's degree in economics from the London School of Economics and his doctorate from the Johns Hopkins University.

Gentlemen, I really appreciate your presence, and I am sure that my colleagues will be joining me shortly. As you know we have had some very interesting votes in the past couple of days. We haven't reached 100 votes yet, but we will be getting there between now and tomorrow. But I would like to have our panel now offer their statements. And by the way, without objection, all of your statements will be made part of the record. So maybe we could start with Professor Nye.

STATEMENT OF JOSEPH NYE, JR., PH.D., UNIVERSITY Distinguished SERVICE PROFESSOR, SULTAN OF OMAN PROFESSOR OF INTERNATIONAL RELATIONS, HARVARD UNIVERSITY (FORMER DEAN OF THE JOHN F. KENNEDY SCHOOL OF GOVERNMENT)

Mr. NYE. Thank you, Mr. Chairman. As you know, next year marks the 50th anniversary of the U.S.-Japan security treaty that has been a central feature of stability in East Asia for half a century. And the current domestic political uncertainty and realignment in Japanese politics that you describe could last for several years and cause friction in the alliance.

Indeed, some people might even ask if this could be the beginning of the end of the alliance. I think not. In fact if one looks back and compares the situation today with 15 years ago, the alliance is stronger rather than weaker. As you mentioned, in the early 1990s many Americans regarded Japan as an economic threat, many Japanese considered a United Nations rather than a United States-centered approach as an alternative to their national security. Some people in both countries saw the security alliance as a Cold War relic to be discarded.

These trends were reversed by the Clinton administration's 1995 East Asian Strategy Report, which invited China's participation in international affairs but hedged against uncertainty by reinforcing our alliance with Japan. In 1996, the Clinton-Hashimoto declaration stated that the U.S.-Japan security alliance was the foundation for stability that would allow growing prosperity in a post-Cold War East Asia. As I said when I was then serving in the Pentagon, we wish to see a stable triangle with good relations on all three sides between the United States, Japan, and China. But the triangle would not be equilateral because our relationship with Japan rested on alliance.

That approach has continued on a bipartisan basis in the United States, and despite electoral maneuvering, polls show that it still has broad acceptance in Japan. Most close observers of the relationship agree that the U.S.-Japan alliance is in much better shape now than it was 15 years ago. Nonetheless, the alliance faces three major challenges in a new external environment that could create problems in the next few years.

One is the violation by North Korea of its promises and its withdrawal from the nonproliferation treaty and now from the Six-

Party Talks. Second is China's economic growth at over 10 percent per year, slowing to 6 or 7 percent in the current crisis, but its even more rapid growth in military expenditures of nearly 17 percent a year. Third is the rise of new range of transnational threats to vital national interests such as climate change and pandemics.

Let me describe briefly each of these in turn. North Korea's recent behavior has been clever, deceptive, and outrageous. It has violated its agreements, realizing that China, the country with the greatest potential leverage, is concerned about the potential collapse of North Korea regime and chaos on its borders. Call that the power of the weak. At the same time, Pyongyang realizes that the United States and Japan are not well placed to use force against it.

Japan is concerned that it not be subject to nuclear blackmail from North Korea or China, and relies on the American extended nuclear deterrent. Ironically, Japan is internally torn between its desire to see a non-nuclear world, and thus its endorsement of that objective, and the concern of the defense experts that if the United States decreases its nuclear forces to parity with China the credibility of American extended deterrence will be weakened and Japan will suffer the consequences.

It is a mistake, however, to believe that extended deterrence depends on parity in numbers of nuclear weapons. Rather, it depends on a combination of capability and credibility. During the Cold War, the United States was able to defend Berlin because our promise to do so was made credible by the high stakes, the NATO alliance, and the presence of American troops, that made the coupling of a Soviet attack from American casualties impossible.

The best guarantee of American extended deterrence for Japan remains the presence of nearly 50,000 American troops, which Japan helps to maintain with generous host nation support. Credibility is also enhanced by joint projects like the development of regional ballistic missile defense. Equally important are American actions that show the high priority we give to the alliance and the guarantees that we will not engage in what Japan fears will be Japan passing in our relations with Asia. That is why it is so important that the Secretary of State Clinton's first trip, as you mentioned, was to Asia, and the first stop in Japan. It is also why it is mistaken to speak of a formal G2 with China rather than multilateral cooperation.

The second point I want to address is the dramatic rise of the Chinese power. The Chinese economy has provided an important trade partner for Japan, but the concurrent growth of Chinese power makes Japan nervous. When we were renegotiating the U.S.-Japan security alliance in the 1990s, Japanese leaders would sometimes privately ask me if the United States would desert Japan in favor of China. I responded then, and continue to hold the belief today, that there is little prospect of such a reverse of alliances for at least two reasons. First, China poses a potential threat while Japan does not. Second, we share democratic values with Japan, and China is not a democracy.

Moreover, China's internal evolution remains uncertain. While more Chinese are more free today than any time in their history, political evolution has failed to match economic progress, and

China is far from free. Unlike India, China has not yet solved the problem of political participation. There is always a residual danger that China will slip into competitive nationalism in the face of domestic problems.

At the same time, it is in the interest of the United States, Japan, and China that China's rise be peaceful and harmonious, in the words of Chinese leaders. That is why the strategy of integration plus a hedge against uncertainty makes sense for both the United States and Japan. In the words of Robert Zoellick, now World Bank President, it is in our interest to welcome the rise of China as a responsible stakeholder.

If by some mishap, China does turn aggressive, we will find that Asia contains other countries, such as India, Australia, as well as Japan, that would balance its power. But it would be a mistake to turn to containment under current circumstances. As I have said over many years, if we treat China as an enemy, we guarantee enmity. Integration plus a hedge against uncertainty is a better approach. Indeed, there are strong grounds for the United States, Japan, and China to engage in areas of trilateral and other region cooperation.

The third problem or challenge I want to address is the challenge of new sets of transnational problems such as health pandemics, terrorism, and outflows from failed states. But chief among these challenges is the damage that can be wreaked by global warming, where China has now surpassed the United States as the leader overall, but not per capita, as a producer of carbon dioxide. Fortunately, this is an area that plays to Japan's strengths.

Some Japanese complain about the unequal nature of our alliance in the traditional security field because of the limits that Japan has accepted on the use of force. But in these new areas, Japan is a more equal partner. Japanese overseas development assistance in places ranging from Africa to Afghanistan, Japanese participation in global health projects, Japanese support of the United Nations, Japanese naval participation in anti-piracy operations, and Japanese research and development of more efficient uses of energy are all at the forefront in dealing with these new transnational challenges.

In April, Prime Minister Taro Aso outlined three goals in what he called Japan's strategy—future. One, Japan should devote to use its technologies to lead the world in a low-carbon emission revolution. Two, Japan should be a global partner in creating a society of vitality, good health, and longevity. And three, Japan should exercise its soft power. Others such as Asahi Shimbun editor Yoichi Funubashi have called for a strategy in which Japan becomes a global civilian power.

Fortunately, these attitudes fit closely with the priorities that have been articulated by the Obama administration. In conclusion, it is important that the United States and Japan, the world's two largest economies, not turn inward at a time of crisis. Even though domestic political realignment in Japan may cause a period of minor frictions in the traditional security agenda, our common interest is overwhelming, and the alliance is likely to prosper unless we handle things very poorly.

This will require greater patience and even closer consultation between Washington and Tokyo than in the past. On the new agenda there is enormous potential for an equal partnership working with others in the provision of global public goods that will be good for the United States, good for Japan, and good for the rest of the world. In short, I am optimistic about the future of the U.S.-Japan alliance. Thank you.

[The prepared statement of Mr. Nye follows:]

House Foreign Affairs Committee
Subcommittee on Asia, the Pacific and the Global Environment
Hearings on "*Japan's Changing Role*"
Thursday, June 25, 2009

Testimony by Joseph S. Nye, Jr.
Kennedy School of Government, Harvard University

Japan is going through a period of uncertainty and realignment in its domestic politics. An election is expected before September, and current public opinion polls suggest that the long ruling Liberal Democratic Party may be replaced. The opposition Democratic Party of Japan has expressed skeptical positions about a number of measures that the current government has proposed to reinforce the Japan-U.S. security alliance. In addition, North Korea's detonation of a second nuclear device and launching of rockets over Japan has created anxieties that lead some observers to wonder whether Japan will reverse its long standing decision not to seek a national nuclear deterrent capability.

Next year marks the 50th anniversary of the U.S.-Japan Security Treaty that has been a central feature of stability in East Asia for half a century. The current domestic political uncertainty and realignment could last for several years, and cause friction in the alliance. Could it be coming to an end? I think not. In fact, if one looks back and compares

the situation today with 15 years ago, the alliance is stronger rather than weaker.

In the early 1990s, many Americans regarded Japan as an economic threat, and many Japanese were considering a United Nations rather than a United States centered approach to their national security. Some people in both countries saw the security alliance as a Cold War relic to be discarded. These trends were reversed by the Clinton Administration's 1995 East Asia Strategy Report which invited China's participation in international affairs, but hedged against uncertainty by reinforcing our alliance with Japan.

In 1996, the Clinton-Hashimoto Declaration stated that the US – Japan security alliance was the foundation for stability that would allow growing prosperity in a post-Cold War East Asia. As I said when I was then serving in the Pentagon, we wished to see a stable triangle with good relations in all three sides between the US, China, and Japan, but the triangle would not be equilateral because our relationship with Japan rested on alliance. That approach has continued on a bipartisan basis in the United States, and despite electoral maneuvering, polls show that it still has a broad acceptance in Japan. Most close observers of the relationship agree that the U.S. –Japan alliance is in much better shape today than it was 15 years ago.

Nonetheless, the alliance faces three major changes in a new external environment that will produce challenges over the next few years. One is the violations by North Korea of its promises and withdrawal from the Nuclear Non-Proliferation Treaty (and now from the Six Party Talks). Second, is Chinese economic growth at over 10 per cent per annum (slowing to 6 or 7 percent in the current crisis) and even

more rapid growth in military expenditures of near 17 per cent. Third, is the rise of a new range of transnational threats to vital national interests such as climate change and pandemics.

North Korea's recent behavior has been clever, deceptive and outrageous. It has violated its agreements, realizing that China, the country with the greatest potential leverage, is concerned about the potential collapse of the North Korean regime and chaos on its borders. Call it the power of the weak. At the same time, Pyongyang realizes that the United States and Japan are not well placed to use force against it. Japan is concerned that it not be subject to nuclear blackmail from North Korea (or China) and relies on the American extended nuclear deterrent. Ironically, Japan is torn between its desire to see a non-nuclear world (and thus its endorsement of that objective), and the concern of defense experts that if the U.S. decreases its nuclear forces to parity with China, the credibility of American extended deterrence will be weakened and Japan will suffer the consequences.

It is a mistake, however, to believe that extended deterrence depends on parity in numbers of nuclear weapons. Rather it depends on a combination of capability and credibility. During the Cold War, the United States was able to defend Berlin because our promise to do so was made credible by the high stakes, the NATO alliance, and the presence of American troops that made decoupling of a Soviet attack from American casualties impossible. The best guarantee of American extended deterrence over Japan remains the presence of nearly 50,000 American troops (which Japan helps to maintain with generous host nation support). Credibility is also enhanced by joint projects like the development of regional ballistic missile defense. Equally important are

American actions that show the high priority we give to the alliance and guarantees that we will not engage in what Japan fears will be "Japan-passing" in our relations with Asia. That is why it was so important that Secretary of State Clinton's first trip was to Asia, and her first stop in Japan. It is also why it is mistaken to speak of a formal G-2 with China rather than multilateral cooperation.

The dramatic rise of the Chinese economy has provided an important trade partner for Japan, but the concurrent growth of Chinese power makes Japanese nervous. When we were re-negotiating the U.S. – Japan security alliance in the 1990s, Japanese leaders would sometimes privately ask me if the United States would desert Japan in favor of China. I responded then (and today) that there is little prospect of such a reversal of alliances for two reasons. First, China poses a potential threat while Japan does not. Second, we share democratic values with Japan and China is not a democracy.

Moreover, China's internal evolution remains uncertain. While more Chinese are more free today than any time in their history, political evolution has failed to match economic progress and China is far from free. Unlike India, China has not solved the problem of political participation. There is always a residual danger that China will slip into competitive nationalism in the face of domestic problems. At the same time, it is in the interest of the U.S., Japan, and China that China's rise be peaceful and harmonious (in the words of their leaders). That is why the strategy of integration plus a hedge against uncertainty makes sense for both the U.S. and Japan. In the words of Robert Zoellick, it is in our interests to welcome the rise of China as a "responsible stakeholder." If, by some mishap, China does turn aggressive, it will find that Asia

contains others such as India and Australia as well as Japan that would contain its power. But it would be a mistake to turn to containment under current circumstances. If we treat China as an enemy, we guarantee enmity. Integration plus a hedge against uncertainty is a better approach. Indeed, there are strong grounds for the U.S., Japan, and China to engage in areas of trilateral and other regional cooperation.

Third, the U.S.-Japan alliance will have to face the challenge of a new set of transnational challenges to our vital interests such as health pandemics, terrorism, and outflows from failed states. Chief among these challenges is the damage that can be wreaked by global warming where China has now surpassed the United States as the leader overall (but not per capita) producer of carbon dioxide. Fortunately, this is an area that plays to Japan's strengths.

Some Japanese complain about the unequal nature of our alliance in the traditional security field because of the limits that Japan has accepted on the use of force, but in these new areas, Japan is a more equal partner. Japanese overseas development assistance in places ranging from Africa to Afghanistan, Japanese participation in global health projects, Japanese support of the United Nations, Japanese naval participation in anti-piracy operations, and Japanese research and development on more efficient uses of energy are all at the forefront in dealing with the new transnational challenges. In April, Prime Minister Taro Aso outlined three goals in what he called Japan's "Strategy to Create the Future:" (1) Japan should use its technologies to lead the world in a low-carbon emission revolution; (2) Japan should be a global partner in creating a society of vitality, good health, and longevity; (3) Japan should exercise its "soft power." Others, such as Asahi Shimbun

editor Yoichi Funibashi have called for a strategy in which Japan becomes a global civilian power. Fortunately, these attitudes fit closely with the priorities that have been articulated by the Obama Administration.

It is important that the U.S. and Japan, the world's two largest economies, not turn inward in a time of crisis. Even though domestic political realignment in Japan may cause a period of minor frictions in the traditional security agenda, our common interest is overwhelming and the alliance is likely to prosper unless we handle things very poorly. This will require greater patience and even closer consultation between Washington and Tokyo than in the past. On the new agenda, there is enormous potential for an equal partnership, working with others, in the provision of global public goods which will be good for the United States, good for Japan, and good for the rest of the world. In short, I am optimistic about the future of the U.S. – Japan alliance.

Mr. FALEOMAVAEGA. Thank you, Professor. Before we hear from Dr. Green, I would like to acknowledge the presence of one of our senior members of the Foreign Affairs Committee, my good friend, the gentleman from California, and I would like to ask him if he has an opening statement that he would like to make.

Mr. ROHRABACHER. Is this microphone on? I guess it is. I will make this very brief. I apologize for being late, two hearings at the same exact moment, one on Afghanistan, one on Japan, and so you can imagine that this is back and forth.

Mr. FALEOMAVAEGA. Well, we appreciate your coming.

Mr. ROHRABACHER. I was down at the Afghan hearing. Let me just note that I lived in Japan as a young boy. I was 9 years old, I lived there with my father who was a Marine pilot, flew out of Ivukuni, and I traveled throughout Japan. And at that time Japan was just a poverty stricken country and people were basically living in the rubble of World War II, that was back in the mid-1950s. Japan has since built itself up into a world power again, as they were before the Second World War.

And I think that none of us should ever ignore the fact that this was such a huge accomplishment for these people, to have taken a country that was totally destroyed in the mid-1940s, and build an economy that is just a shining example of enterprise and productivity to the entire world. What unfortunately I think has happened, the Japanese while just absolutely committed to being friends with the United States and never going through this type of horrible war that they had, that the Japanese have become totally so committed that they have been taken for granted by the United States.

Their prosperity has been taken for granted, and the fact that every time we get involved in a problem, although they are not providing military support, Japan is the number one country to back up the United States when we are engaged in different conflicts and different projects around the world. And over and over and over again the Japanese have stood with us, but yet I think decision makers in Washington take that for granted.

Well, we shouldn't take that for granted and we should make sure the people of Japan and the Government of Japan knows that we deeply appreciate their friendship and that we admire them as a people for what they have done and the incredibly peaceful job they have done in rebuilding their country and building up a peaceful force in the world. Because when they get involved, they basically send aid. They send aid, I remember in Cambodia right after the Khmer Rouge were thrown out and during the time period when they had their first election, that was about 20 years ago, the Japanese sent in \$1 billion worth of aid to Cambodia. And it was tremendous.

So with that said, one last note, I think any American strategy for the future has to be based on a partnership with Japan, and perhaps with India as well, and perhaps with Russia as well. And I would hope that we use our good offices to bring about a better relationship between Russia and Japan, which I would be very interested in hearing the opinions of the panel on that. So thank you, Mr. Chairman, I am looking forward to hearing the rest of the testimony.

Mr. FALEOMAVAEGA. I thank the gentleman from California. I might also note with interest that I too have a tremendous love and affection for the Japanese people, I guess primarily because I have a relative who was a sumo wrestler in Japan. He wrestled under the name Konishiki. And you probably have heard of Konishiki. He only weighed 560 pounds and attained the second highest ranking as an ozeki. And of course I also knew other fellow Polynesian sumo wrestlers like Akebono, who became yokozuna, and also Musashimaru, who also became yokozuna.

Unfortunately, they are not recruiting Polynesian sumo wrestlers now. They are going to Mongolia now to get sumo wrestlers. But I hope that maybe in the future we might have a change. I also want to note that growing up in Hawaii, I have a tremendous love for Japanese samurai movies. My favorite hero is Zatoichi, the blind swordsman who can kill 200 people all by himself. But I just wanted to note that.

Mr. ROHRABACHER. Mr. Chairman, if you would indulge me for one moment, I would have to admit that Godzilla is my favorite Japanese character, but it is more important than that in terms of the culture that we are talking about that I would like to brag about the many Japanese surfers that are surfing in California. We actually have more sushi chefs in California than they do in Japan, and they all come to my district, and they are sushi chefs at night, which we are grateful for, and they are surfers during the day.

And they are great surfers I might add as well, Japanese surfers are terrific. So there are a lot of cultural ties that bind us together today. But of course our relationship again goes beyond appreciating that culture and appreciating these people and their hard work and their striving for excellence, which is something that I admire deeply. But it goes beyond that, it goes to the fact that they are incredibly important partners of the United States, partners that sometimes are taken for granted.

Mr. FALEOMAVAEGA. I thank the gentleman from California. And in another note of interest, just last week a special ceremony was held in Japan for the retirement of the first foreign sumo wrestler to have had his own stable, the famous Hawaiian wrestler Takamiyama Daigoro, who just retired last week. I tried very hard to go to Japan and to pay my respects because he was the one who trained all these other Polynesian sumo wrestlers who followed him.

Takamiyama's American name was Jesse Kuhaulua, a native of Hawaii, a fellow from Maui. But at any rate, I am sorry, I didn't mean to digress, but I just wanted to let the panel know we know something about Japan besides Aikido and Karate.

Professor Green, please.

**STATEMENT OF MICHAEL J. GREEN, PH.D., SENIOR ADVISER
AND JAPAN CHAIR, CENTER FOR STRATEGIC AND INTER-
NATIONAL STUDIES, ASSOCIATE PROFESSOR, GEORGETOWN
UNIVERSITY SCHOOL OF FOREIGN SERVICE**

Mr. GREEN. Thank you, Mr. Chairman. Thank you, Congressman Rohrabacher. I actually first discovered Japan as a small boy from my dad who went there as a Marine, and last week I took my 2-year-old son for the first time to Japan, and we went to a sumo

beya, and since we have been back he has been crouching around the house trying to wrestle the dogs. My wife and I are unsure now whether he is going to be a Marine, a professor, or a sumo wrestler when he grows up, maybe all three.

I appreciate what Congressman Rohrabacher said about the importance of Japan, the impressive accomplishments of Japan. Polling data in the U.S. suggests the American public gets it. The most recent poll, about 2 weeks old, shows 80 percent of Americans say Japan is a reliable ally. That is right up there toward Australia, Britain, and much longer standing alliance relationships, and really quite remarkable considering that 20 years ago those polls had the American public more afraid of Japan than of Soviet nuclear weapons. So we have come a long way in 20 years.

And in Japan, 78 percent of the Japanese in a recent poll said that the alliance with us is important to them, which is the highest number in three decades. So the public gets it. I think they get it because of common values and interests, and they get it because the rise of Chinese power for both of us makes this alliance more important, not less important. One more reason I think we are in strong shape is because we have had bipartisan support and efforts to strengthen this alliance. Enormous credit should go to Joe Nye, who as Assistant Secretary in the mid-90s started this process of revitalizing the alliance.

When I was in the Bush administration, 5 years in the NFC, we very self consciously modeled what we did on that start, and I am pleased to see that Secretary Clinton and the State Department are continuing that bipartisan tradition of strengthening the alliance at a time of uncertainty in the region. All of that said, there are a lot of voices out there arguing that Japan is a wasting asset, that perhaps we should stop asking so much of Japan, maybe Japan should just be a middle power, whatever that is.

And I would argue this is not the time to be lowering our ambitions or dialing down our sense of the strategic importance of Japan, and in my brief comments I want to try to highlight some of the strengths that are apparent in Japan's world role, in spite of the many complications that the chairman talked about in economics, in security, and in what we might call soft power.

In the economy, the numbers are dire. I expect Arthur Alexander will go through some of them. Exports in February were down almost 50 percent from the year before. GDP growth figures for the first quarter of 2008 were the worst in 35 years, and Japan has a debt-to-GDP ratio of 170 percent. That is pretty bad news, and compared to where Japan was 10 or 20 years ago, it is delicious headlines for the press to describe how the mighty have fallen.

But I think you need to peel beneath that and look at some of the core strengths. For example, Toyota still has cash reserves of \$34 billion, and that is after posting a loss. Their new Prius which went on sale last month has 180,000 orders, that is 18 times what they originally projected for the first month. Sharp, which makes liquid crystal displays, opened a new factory, and in the midst of this recession they still can't keep up with all the demand. Robotics in Japan, the market is expected to grow to \$30 billion by next year and to double every decade after that.

So there are problems to be sure, but there are some real core strengths, especially in technology, that make Japan a valuable ally and player in the world. And the issue of debt is also important to put in perspective: \$170 billion debt-to-GDP, we are heading in that direction ourselves, but in Japan's case, the vast majority of that is bond debt issued to the Japanese people. In terms of external debt, they rank much, much lower.

On the security side, as the chairman noted, the diet is a mess, the political realignment process as Professor Nye said could take years, there is an election coming up this summer. I could spend 20 minutes spelling out for you the scenarios; we don't know what a Democratic Party would actually do, would it follow through on its pledges to have a review of our Status of Forces Agreement? I doubt it. But how they get out of those campaign pledges will be messy.

Even if the LDP wins, they will lose the two thirds majority they have needed in the lower house to push bills through, so they are going to be on weak ice, and there is a very good chance we will need to have another election in a year to sort this all out. But if you look at what Japan is doing on the ground in security, there are some very impressive and unprecedented developments.

In March, Japan stood up the first joint operational command under a three-star Air Force general to deal with potential incoming North Korean missiles. He had authority to shoot, he didn't have to go to the diet, he didn't have to go to the Prime Minister, first time ever. And then in April the Japanese set up the first joint operational command overseas, this time in Djibouti to assist with anti-piracy operations.

And just last week the diet passed a bill which allows the Japanese ships to fire on pirates, not only to protect their own ships but to protect third country ships, which close observers see as a very important step toward what we call collective defense, which would mean that Japan could actually do a lot more in a coalition with Australia or with us. And all of this is happening in spite of the confusion in the diet.

Finally, there is a lot of discussion, and maybe we will get into it, about Japan's difficult problems on history, not only the Bataan Death March but issues with China, with Korea. It is difficult, there is no question about it, but it would be a mistake to argue that because of this Japan is isolated. The poll numbers are pretty clear, the BBC has surveyed people around the world every year for 3 years, and they have asked, What country do you respect the most in the world? Japan has come in first or tied for first every year.

Recently there was a poll on the soft power, the Chicago Council on Global Affairs took Joe Nye's concept and found a way to measure in Asia, you know, how much influence countries have diplomatically, culturally, economically. We won, we came in first in every category, the United States, and Japan came in second across the region. So there are some real core sources of good will for Japan, not only around the world but in Asia, despite the difficulties over history.

As a whole, what this says to me is, Don't underestimate Japan. Don't do what we did 20 years ago when we thought Japan would

overtake the United States and become an enemy, don't now underestimate them. There are enormous potential sources of power and influence that will continue to make Japan an important partner. We need to take Japan seriously, we need to keep building our alliance and keep expectations high, because that is how we are going to continue building on the successes that began with Joe Nye and have continued for three generations. Thank you.

[The prepared statement of Mr. Green follows:]

Japan's Changing Role

Testimony before the House Foreign Affairs Subcommittee on Asia

By

Dr. Michael J. Green

Senior Advisor and Japan Chair, Center for Strategic and International Studies

Associate Professor, Georgetown University

June 25, 2009

Room 2200

Rayburn House Office Building

Mr. Chairman and Members of the Committee, thank you for inviting me to testify today on the state of our alliance with Japan. By almost any indicator, the state of the U.S.-Japan alliance has never been stronger. In the most recent polling, 76% of Japanese say that the alliance with the United States is useful to Japan – the highest level since 1978. Meanwhile, 80% of the American public say that they consider Japan a reliable ally. That is a remarkable contrast to twenty years ago when Americans told pollsters they were more afraid of the Japanese economy than Soviet nuclear missiles, and when pundits published books with titles like “The Coming War with Japan.”

We weathered those difficult years of “Japan-bashing” because Americans came to understand how important our military bases in Japan are to peace and stability in Asia, and how much the international community depends on Japan’s active role as the second largest contributor to international institutions from the IMF to the United Nations and as a leading provider of overseas development assistance. The Japanese people also came to appreciate the centrality of the alliance and of shared values with the United States in the face of North Korean nuclear and missile provocations and uncertainty about China’s rising power.

It also has to be said that our alliance is stronger today because of efforts in both Democratic and Republican administrations to ensure that Japan remain the cornerstone of our broader engagement in Asia. Rather than decreasing the strategic significance of Japan to the United States, China’s growing power has made the U.S.-Japan alliance even more important. It was this central strategic insight that led Joe Nye as Assistant Secretary of Defense in the Clinton administration to revitalize the U.S.-Japan alliance in the mid-1990s and then inspired Rich Armitage and those of us in the Bush administration to continue building on that momentum as we used the confidence of a close U.S.-Japan alliance to build a more productive relationship with China. As Rich and Joe put it in a report we published at CSIS in February 2007, “to get China right, you have to get Asia right” –beginning with Japan. And I am encouraged to see signs that this bipartisan strategic insight continues to guide foreign policy under President Obama, judging from the fact that Secretary Clinton’s first trip overseas was to Japan and that President Obama’s first official working visit in the Oval Office was with Prime Minister Aso.

Yet even with these strong early signals of confidence in Japan from the Obama administration, there has also been a growing chorus of doubt in the media and think tanks about whether we are making the right bet about Japan’s future. Some people argue we should instead shift to a “G-2” in which China would become our most important partner. Other critics warn that Japan’s economic malaise will only get worse. We have also heard arguments that Japan’s failure to come to grips with difficult historical legacies has left Tokyo isolated in Asia, or that political turmoil in Japan should lead the United States to look

elsewhere in the region for help on difficult issues like Afghanistan. Within Japan itself, some scholars are arguing that it is time for Japan to downgrade its ambitions to those of a "middle power" in the international system.

These predictions of irrelevance, paralysis and doom are as uninformed as predictions two decades ago that Japan's economy would surpass the U.S. economy by 2005 or that Washington should prepare for a future war with Japan. In some respects it was those inflated overestimations of Japanese power that make stories about the "fall of Japan" so tempting for the media today. The reality is that the United States and the international community need Japan as much as ever and Japan has the national power – and the will – to deliver. However, the sources of Japanese power and the nature of Japanese efforts will not be exactly what they were a generation ago; nor will Japanese expectations of us remain the same.

The state of the Japanese economy is a good example of the need for perspective. It is true that exports in February 2009 were down 49.4% compared with February the year before. It is also true that GDP figures for the final quarter of 2008 were the worst on record in 35 years. Even powerhouses like Toyota are suffering, with the car company registering a \$4.9 billion operating loss for the first quarter of 2009. Add on top of that record Japanese unemployment figures and a debt-to-GDP ratio of 170% and Japan truly looks to be in deep trouble.

But then consider some other facts. For example, Toyota still has cash reserves of \$34 billion dollars and received orders for 180,000 of the new Prius when it went on sale last month – 18 times the original sales projections. Sharp has opened a brand new LCD factory and still cannot keep up with demand, even in the current economic crisis. The Japanese robotic market is expected to grow to \$30 billion by 2010 and double each decade after that. In short, Japanese hi-tech companies went into this economic crisis with enormous strengths and most are poised to come out in even stronger competitive positions.

Moreover, while Japan ranks second in the world in terms of debt to GDP, it is only seventh in terms of *external* debt since the vast majority of bonds are issued to the Japanese people themselves. In addition, unemployment, while a wrenching new social problem in Japan, is still only 5% -- by far the lowest of the major industrialized economies.

We also need perspective on Japanese foreign and security policies. The Japanese Diet has been tied in knots since the opposition parties took control of the Upper House in July 2007 elections and the Aso administration has seen its support plummet in advance of Lower House elections expected this summer. Yukio Hatoyama and the Democratic Party of Japan have said that they support the U.S.-Japan alliance, but have also made noises about demanding a more "equal" or "independent" status for Japan. The DPJ opposed the government's decision to dispatch Japanese ships to the Indian Ocean in support of counterterrorism operations, as well as a U.S.-Japan agreement that would move about half of the U.S. Marines from Okinawa to Guam and build a new helicopter base to replace MCAS Futenma.

Frankly, I expect a DPJ government would walk away from many of these positions because management of the alliance is so central to the credibility of any Japanese government. However, the party has made no transition plans for taking power because of their internal divisions on security policy and it is not clear how long they would stay in power even if they could take the government given those internal contradictions. On the other hand, even if the ruling Liberal Democratic Party survives elections this summer, they are virtually certain to lose the 2/3 majority they have needed to override the opposition-controlled Upper House.

Japanese politics are a mess, in other words. However, on the broad parameters of security and foreign policy, there may actually be more consensus among individual politicians in Japan than ever before. The evidence is not in the political fights and positioning in Tokyo, but instead in the operations of the Japan Self Defense Forces. This March, for example, Japan stood up its first joint operational command to prepare for the North Korean Taepodong missile launch. The Japan Air Self Defense Force General in command was given full authority from the Prime Minister to engage targets that threatened Japan – without having to go through tedious Diet debates. That may sound like an obvious move to us, but it was the first time since the war that the Japanese military was given this authority. The SDF and U.S. forces also operated with virtual jointness throughout that entire episode, by the way, another important development that signals the strength of the alliance.

Then in April, the JSDF established their first independent joint operational command abroad – this time in Djibouti to oversee Japanese anti-piracy operations in the Gulf of Aden. And last week legislation passed in the Diet that authorizes Japanese ships to use force to protect not only Japanese personnel and property, but also those of third countries. This is also a first; and it represents a significant step towards the kind of collective defense operations that would make Japan a far more effective ally and partner in the future, not only to the United States, but to other partners in coalition operations as well. Sixty three percent of Japanese citizens polled last week expressed strong support for taking the fight to the pirates. We also see greater evidence of Japanese strategic outreach in new bilateral security agreements reached with Australia and India and in the U.S.-Japan-ROK defense ministerial held in Singapore earlier this month.

The lesson here is that although Japan's economic situation may lead to decreasing relative resources, Japan also has untapped capabilities that can make a significant contribution to regional and global security. Another lesson is that the Japanese public is far more acutely aware of security threats than ever before. In fact, in a recent poll 69% of Japanese respondents said they thought their nation could be involved in a war in the near future. That is why the Japanese press and politicians are watching nervously to see whether the Obama administration will keep a firm line with North Korea after two years of unilateral U.S. concessions to the North that sparked unprecedented debate in Tokyo about the credibility of the U.S. extended nuclear deterrent.

Finally, we need to keep in perspective the question of Japan's own "soft power." This committee has had hearings in the past about Japan's difficulty addressing historical issues that have caused particularly problems for Tokyo's relations with Beijing and Seoul. However, it is worth noting that in three years of worldwide polling by BBC, Japan has consistently come out as the most respected country in the world. It is also worth citing the June 2008 Chicago Council on Global Affairs "Soft Power" survey that found the rest of Asia sees Japan as second only to the United States in the degree of its influence in the region. In short, Japan has good standing in the international community; the kind of soft power that provides the basis for a more active Japanese foreign policy not only in Asia, but also in places like Africa where Japanese aid and diplomacy has become newly energized over the past year.

We could spend a good deal of time discussing the specific challenges and tasks before Japan, including things like the need for agricultural and immigration reform, greater women's empowerment, the history issue, more efficient defense spending, and so forth. But my primary purpose here is to leave the committee with the right overall perspective on Japan's power and standing in the international community. This is not the time to "dial down" our expectations for Japan or the U.S.-Japan alliance. There will be greater fluidity in Japanese politics and tough challenges with North Korea and China in the months and years ahead. But the bipartisan strategy championed by Joe Nye, Rich Armitage and now Secretary Clinton and her colleagues in the Obama administration is the right strategy for the United States, for Japan, and for Asia and the world as a whole.

Thank you.

Mr. FALDOMAVAEGA. Thank you. Dr. Calder.

Mr. CALDER. Thank you very much, Mr. Chairman. Your talk about Akebono really rang a bell. When I was working with Ambassador Foley we actually helped with arranging the details on his wedding, which was really quite something and occurred while I was in the Embassy.

Mr. FALDOMAVAEGA. You mentioned Akebono, I was at Konishiki's marriage when he got married. And the entire country was watching this very unique wedding. I think the cake was bigger than this whole table you have got there.

Mr. CALDER. It was certainly big for Akebono too.

Mr. FALDOMAVAEGA. Well, he was only 6 foot 8, weighed 450 pounds, you know. So I know what you mean, Professor Calder.

Mr. CALDER. Those sumo weddings really are something. I should also say, Congressman Rohrabacher, what you were saying about Japan in the 1950s rang a bell. I was there briefly as a kid in the 1950s as well. My father had been in the Navy, not in the Marines, but I remember those days, and of course a lot of the bases around Japan also.

Mr. ROHRABACHER. That was when Kobe steak cost \$1.50.

Mr. CALDER. There has been a little bit of change, hasn't there?

STATEMENT OF KENT CALDER, PH.D., DIRECTOR, EDWIN O. REISCHAUER CENTER FOR EAST ASIAN STUDIES, DIRECTOR, JAPAN STUDIES, JOHNS HOPKINS UNIVERSITY

Mr. CALDER. I would like to just summarize my remarks in the interest of time, and highlight about five points relating to the politics, particularly that people haven't talked about as much. The first point, which really strikes me graphically in light of what you have said and what I remember, is that Japan is not static. To the contrary, it is changing, it is changing in policy terms and it is changing in political terms as well.

On the policy side, to look to the bright side of some of that, I think we have to look at things like energy efficiency. And since the Oil Shocks of the 1970s Japan has increased its efficiency unit of GDP by about 30 percent, which is something of course that could well be very relevant to us today. In terms of defense responsibilities, Professor Nye and my colleague Mike Green have also alluded to this, but I think we have to remember the tremendous distance that we have come since the Nye initiatives of the 1990s, the guidelines, and then also after 2000 as well, after the 9/11 of course the way Japan responded.

Today, I remember when I was a student one just really couldn't imagine the idea of Japan at the Straits of Malacca or any Japanese responsibilities. As you may remember in the early 1980s there was a tremendous controversy about the 1,000-mile perimeter. And of course not only are they at the Straits of Malacca, the Marine Self Defense forces are in the Arabian Sea, U.N. peacekeepers on the Golan Heights. So there has been a very substantial change there.

Japan, while changing already in policy terms, is also I would argue on the verge of potentially historic and transforming political change. As Mike suggested, of course there is a good deal that we can't really tell for sure, but Japan has to hold one general election

by mid-October for which most polls assign a plurality to the largest opposition party at this point.

Japan will also hold a second scheduled election around July 25th of next year for the Upper House, the House of Councillors, and many people predict there could well be a dual election, a double election, at that point. It may take several elections to sort this out, but the political scene potentially is dynamic as well. My assessment would be that, and I am sure we will get into this in the discussion, that political change and policy changes relating to it will be protracted. The sorting things out will take at least 1 year and possibly longer.

Another point that hasn't been made that I think is crucial, it cuts perhaps in a slightly different direction than what we have heard, is that change is being driven in Japan by rather powerful global forces and also regional forces. Many of them in the economy, and Arthur Alexander I am sure will speak to this, but globally of course China and India are the big beneficiaries of globalization. The impact on Japan of globalization has been more mixed. Both of those countries, and Korea as well which has also been rising or in the same neighborhood, there are changing regional dynamics.

The process of change regionally since 2006, Japan's trade with China has been larger than its trade with the United States. The economic context is in some ways shifting significantly, although one area where our ties of course remain very, very strong is technology, and of course as has been said on the security side as well. Now, this process of change I think will generate a new sort of policy process in Japan, probably more open and transparent yet also less predictable, and these things have policy implications that I think, obviously there is much that is uncertain, but I think need to be considered.

Obviously we have to take crises as they come. Responses to financial crises won't wait, and responses to North Korea should not wait. And in many crises Japan's record has been good. On the economic side in '73, for example, the energy crisis, in several of the financial crises, since 9/11 in many respects on the security side. Of course there have been, even in the Gulf War they didn't change their security orientation sharply in terms of deployments, but they did contribute \$13 billion.

Longer term, I think the imperative, flowing from what I have said about a protracted period of time, is a need to be attentive and patient with a relatively long time horizon. I wouldn't be overly optimistic. I wouldn't contradict much of what was just said about positive views on both sides. I do think the crucial point though is that globalization and the rise of alternatives, sharply different from the pattern that we had in the 1950s when Japan and the United States were basically alone as major powers in the Pacific and Korea was in turmoil and China was under embargo, the world is sharply different.

There are different pulls, which will mean a more proactive and a more attentive sort of process. I think that probably means the symbolic element is important, cultural relations, more American centers, there is no NDFL for the Japanese language, as I understand it, now. We have it for Chinese and Korean but not Japa-

nese. Mr. Chairman, you pointed out the decline of foreign study; it seems to me on both sides of the Pacific something has to be done about that.

And then finally, in terms of functional cooperation in the areas that would balance the playing field that would create some degree of symmetry, energy efficiency, the environment, possibly mass transit, and certain areas of vocational education. There are many areas where we can share ideas, both at the public level, domestic policy dialogue, but also track two or track one and a half. So in conclusion, I think we have to see the potentially problematic element. We have to see that the U.S.-Japan relationship and Japan itself are changing, and that we have to be attentive in responding to that change. Thank you.

[The prepared statement of Mr. Calder follows:]

KENT E. CALDER
DIRECTOR
REISCHAUER CENTER FOR EAST ASIAN STUDIES
SAIS/JOHNS HOPKINS UNIVERSITY

JUNE 25, 2009

“JAPAN’S CHANGING ROLE”

TESTIMONY BEFORE THE
HOUSE COMMITTEE ON FOREIGN AFFAIRS
SUB-COMMITTEE ON ASIA, THE PACIFIC, AND THE GLOBAL
ENVIRONMENT

Much is Changing: The World, Asia, and Japanese Domestic Politics

Neither Japanese politics nor the U.S.-Japan relationship today are static. Indeed, Japanese politics may well be on the verge of historic change. Understanding and coping with that prospect of historic change in Tokyo is the distinctive, unusual challenge that American policy-makers confront today—one that they have not faced with such intensity in nearly half a century. Japan remains America's most important ally in the Pacific, and the strategic logic of our continued partnership is strong. Yet powerful political-economic forces, inspired by globalization, regional developments, and domestic change, threaten a quiet crisis in our bilateral alliance, all too poorly understood, which could deepen seriously over the coming year, if we do not act astutely to contain it.

The current structure of both Japanese politics and our trans-Pacific alliance were born in the 1950s, more than half a century ago. The current ruling Liberal Democratic Party of Japan was founded in 1955, and has dominated domestic politics in Tokyo almost continuously ever since. Our bilateral security treaty was originally signed in September, 1951, and will celebrate the fiftieth anniversary of its latest revisions only a few months from now.

When our trans-Pacific alliance was founded, and the ruling Liberal Democrats came to power, America's GDP was nearly half of the world's total, and Japan's was little more than 3 percent. China was under embargo, Korea was in ruins, Europe was rebuilding from a disastrous war, and Southeast Asia was largely colonialized. The United States and Japan were alone as major powers in the Pacific, confronted with a Soviet global challenge. And their alliance, despite bitter war-time memories, was a natural choice, un-complicated by third party diversions.

Both the global and the regional equations are radically different today. The economies of the U.S. and Japan are somewhat closer in scale, with the US comprising a quarter of global GDP, and Japan roughly a third of that magnitude. Yet China, Korea, and India have rapidly emerged, as major beneficiaries of globalization, and all are in Japan's neighborhood. It is much harder for Tokyo and Washington to systematically focus on each other's concerns than it used to be. Japan's domestic stagnation, since the collapse of its financial bubble in the early 1990s, has only made "Japan passing" all that much easier, even for Tokyo's friends and allies abroad.

Why Japan Matters

Substantively, there is much in Japan today that needs to command the attention of America's policy-makers, that country's remarkable talent

for remaining invisible notwithstanding. Japan's economy is the second largest in the world, and Japanese hold more than a tenth of global savings. Japan's public and private sectors together are by far the largest purchasers of American debt on earth. Japan is technologically much more advanced in most dimensions than China, and could easily go nuclear if it had the political inclination to do so.

There is much in Japan's low security profile that is distinctive, but could prospectively be changed. Tokyo's "no-war" constitution, in prevailing interpretations, bars offensive power projection, with no aircraft carriers or long-range missiles. In place of off-shore deployments, Japan has traditionally contributed to the common defense by offering extensive basing facilities to U.S. forces, including support for the only U.S. aircraft carrier home-ported on foreign soil, and long-term facilities for the only one of the three Marine Expeditionary Forces, III MEF, that is routinely deployed abroad. Japan also provides substantial host-nation support (HNS) payments, currently totaling over \$4 billion, which represent over 40 percent of the total bilateral host-nation support that U.S. forces receive from all of our allies combined.

A Growing Japanese Security Role

This traditional defense equation—that the United States provides security beyond Japan’s shores, while Japan supplies bases within Japan, and generous financial support for maintaining them—has slowly begun to change, generating short-run solidarities that ultimately give rise to long-run tensions. Within a month of the attacks on the World Trade Center and the Pentagon on 9/11, Japan committed to support American forces in the Arabian Sea, under new anti-terrorist legislation, and later deployed also to Iraq. Japan today provides over 30 percent of the fuel consumed by U.S. and allied forces in the Arabian Sea, that operate in support of anti-terrorist operations in Afghanistan, and interdict illicit flows into Pakistan as well.

Despite these new commitments, Japan has also maintained its traditional “burden-sharing” activities at home, in support of American bases there. Among other things, it pays most salaries of the 25,000 Japanese employees at U.S. military installations, pays the rent on land provided to the United States by private land-owners, and supports base utility costs. Additionally, the U.S. and Japan also concluded, in 2006, a \$26 billion agreement to support redeployment of 8,000 U.S. Marines to Guam, close the existing U.S. Marine Corps Air Station at Futenma, redeploy affected troops to Henoko in the northern part of Okinawa, and improve bi-national

coordination with respect to anti-terrorism and air defense at Camp Zama and Yokota Air Force Base respectively.

Lingering Regional Uncertainties

Regional developments—principally North Korean provocations, coupled with the rise of China—introduce one new set of uncertainties regarding the security future. Broadly speaking, these help to strengthen the alliance, particularly in the short-run. Japanese are almost universally critical of North Korea, with nearly 80 percent supporting the toughening of sanctions against Pyongyang, and generally apprehensive of a rising China. This apprehension is, however, mixed with attraction, including an urge to interact closely with a rapidly growing Chinese economy that since 2006 has been Japan's largest trading partner.

With the economic importance of Asia for Japan rising, regional architecture that brings Japan into more systematic contact with Asia is attractive for Tokyo. US-Japan-South Korea mini-lateral dialogue, following the pattern of the Clinton years, is especially welcomed, as that triad is a grouping of allies especially well-equipped to respond to the North Korean challenge. The US-Japan-China mini-lateral is also positively regarded by most Japanese, especially for cooperation on energy and environmental issues, where China's deepening problems directly affect Japan as well.

Japan is, however, highly conscious that it, unlike China, is a formal U.S. ally, so naturally expects a degree of prior bilateral consultation appropriately reflecting its alliance standing.

Northeast Asia is the one major global region with a pronounced “organization gap”: no well-developed, region-specific security or political-economic architecture. The closest that Northeast Asia as a whole currently comes on the security side is the so-called “six-party talks”, involving the two Koreas, China, Russia, Japan, and the United States. On the political-economic side, the East Asia Summit, the “ASEAN plus Three” process, and, most recently, the Northeast Asia Summit, involving Japan, China, and South Korea, are alternatives.

Japan’s experience with the six-party process has not been an easy one. The major problem, in Japan’s view, has been the failure of the other regional partners to consider seriously the issue of Japanese citizens abducted to North Korea. Since 2006 that so-called “lachi mondai” (abduction issue) has had considerable domestic political salience in Japan. The Japanese conservatives have traditionally felt much more at home with the US-Japan bilateral alliance than with the six-party talks or any other multilateral formulations. Japan has participated in a range of mini-lateral meetings, but has not so far emphasized new Northeast Asian regional

architecture, despite the serious potential problems impending—refugee flows, humanitarian assistance, disarmament, and reconstruction among them—should major political-military transition occur on the Korean peninsula. DPJ leader Hatoyama Yukio has, however, recently stressed the notion of an East Asian Community, and made his first international visit as party leader to Seoul.

Dealing with the Prospect of Political Transition in Tokyo

Japan's future orientation on the entire range of issues considered here—North Korea, regional organization, U.S. bases in Japan, and the configuration of the U.S.-Japan alliance, to name a few—could be profoundly affected by the political changes now impending domestically in Japan. A general election must be scheduled by September 10, 2009, to be held by October 20. And the chances are strong that the major Opposition party, the Democratic Party of Japan, will win at least a plurality, possibly provoking broader political transformation. Newly configured parties would then have an opportunity to consolidate their positions next summer, when Upper House elections are scheduled for around July 25. Many observers speculate that a double election of both the Lower and the Upper Houses of the Diet might well at that time be held, consummating the most substantial political re-alignment since 1955, potentially within a year from now.

Some might ask why, after Japanese politics has been stable for so long, that it should suddenly grow so fluid and potentially volatile. To understand the likelihood of imminent change, it is important to see Japanese politics in broader socio-economic context. Urbanization and demographic change have been one factor, with a new generation alienated from traditional compensation politics only sporadically participating. Changing competitive patterns among re-configured parties could well bring new voters to the polls, helping to accelerate re-alignment and intensifying inter-party competition. Secondly, years of economic stagnation and politically inspired inefficiency, crystal clear in sectors like agriculture, have both consumed the budgetary resources that have kept the ruling party in power, and also created ambivalence among some business leaders about the utility or practicality of sustaining the current political structure. The end of the Cold War, finally, has reduced some geopolitical inhibitions on the emergence of serious competitive party politics, both domestically and on the part of Japan's allies.

The confluence of these domestic and international factors may well lead to a new era of substantially more fluid and competitive party politics than Japan has experienced in over half a century. The future configurations of party competition are uncertain, of course, but electoral logic under the

current electoral system, introduced in 1994, suggests that competition will after a transitional interval evolve on a two-party basis. Issues rather than pork-barrel distributive politics will likely grow more salient, and starker choices will emerge between national security, including the challenges from North Korea and China, and social security, in what is becoming the oldest major nation in the world, with a demographic structure similar to Florida.

Clearly American sensitivity to Japan's national-security straits, as well as its social-security tradeoffs, will be essential to the future viability of the alliance, and to the broader U.S.-Japan relationship. Japan's perceived requirements are complex, and difficult for Americans to readily appreciate, in three major respects. First of all, many Japanese, living in a crowded land with minimal resources, subscribe to a somewhat broader conception of security, including prominent energy and environmental dimensions, than is common in the United States. They also tend to be more sensitive to nuclear-disarmament issues, while retaining a quiet concern about the quality of American extended deterrence. Japan, after all, is the one nation to have been a victim of nuclear warfare, and the shadow of Hiroshima continues to linger, balanced by some foreboding over China's rise.

Japan and the United States also, of course, have different domestic political imperatives. The Democratic Party of Japan, which may well win at least a plurality in the forthcoming general election, has flirted in its past with the concept of an “alliance without bases”. Although it has retracted that notion, it has declared an intention of relocating the Futenma MCAS outside Okinawa, and opposed the SDP deployment to the Indian Ocean, while also seeking to reduce HNS. The DPJ has also proposed revisions to the U.S.-Japan SOFA, in order to make the alliance, in its view, more equal. Base issues could easily be a flash point in US-Japan relations over the coming year, and it is in the interest of both sides to keep latent differences muted, especially as China’s regional political-military profile rises.

Although there is broad agreement among Japanese and American leaders of virtually all political persuasions on the importance in the abstract of enhancing the US-Japan alliance, there is much less clear-cut agreement on what operationally that should mean. What is clear is that more “common equities” are needed, given broad cultural differences across the Pacific, and a paucity of direct foreign investment between the U.S. and Japan. To be sure, there are important political-military dimensions to this notion of “common equities”, such as the question of F-22 procurement, and defense-equipment inter-operability. Yet apart from the abstract requirements of

diplomacy and strategy, a domestic-policy dialogue on subjects of grassroots utility, such as pre-school education, computer literacy, vocational training, energy efficiency, rapid transit, and high-speed intercity transportation, is also needed, so as to broaden and strengthen the political foundation of the alliance. Many of these fields are areas where Japan has substantial expertise; a domestic-policy dialogue, even on a Track II basis, could thus help to give more symmetry and breadth to the U.S.-Japan relationship—something that the DPJ, in particular, has stressed. High-visibility pilot projects, such as low-energy use buildings that pool state of the art American and Japanese technology, should also be pursued, in connection with a prospective domestic-policy dialogue.

In the period of prospective political uncertainty that is impending in Japan, symbolism and personal diplomacy will be especially important. It will be useful for leaders to re-affirm the symbolic importance of the US-Japan partnership through high-level personal diplomacy and gestures of mutual respect, as Secretary of State Hillary Clinton and President Barack Obama did in their early meetings with Japanese leaders this year. Appointment of a “Wisemen’s Group”, such as functioned during the Carter Administration, to plan for the future of the bilateral relationship in apolitical fashion, could also be useful. Due to the uncertainty and fluidity,

personal diplomacy and consultation will need to extend more broadly across Japanese society, and across its political world, than has typically been true, and the symbolic role of the Ambassador, as well as the U.S. Embassy and U.S. Consulates General in Japan will be central. Serious thought should be given to restoring the network of American Centers in Japan to at least the dimensions that it enjoyed a generation ago, and to providing NDFL funding status for Japanese-language study.

Broad-based engagement with Japanese society is crucial to American interests in Japan. It is equally important, however, for America's representatives to avoid being drawn into partisan alignments, given the manifest uncertainties on the local political scene. U.S. policy should focus, at least in the short-run, on issues where Japanese, and indeed most Americans, broadly agree, such as re-assurance vs. North Korea, together with lowest-common denominator issues such as cultural relations, energy, and the environment. In those two latter areas, in particular, Japan also has substantive policy initiatives under way, flowing from the 2008 Toyako G-8 Summit, and considerable technical expertise, in both the private sector and in an elite, highly efficient bureaucracy. Those capacities should allow it to continue to effectively cooperate with the United States and other major nations, even in the face of domestic political uncertainty.

A final major issue that inevitably looms in the coming transitional era is nuclear energy, in both its civilian and military dimensions. Given the prospect of rising worldwide energy demand, driven by the simultaneous rise of China and India, as well as Japan's total lack of domestic oil and gas, civilian nuclear power is an attractive option. A quarter of Japan's electric power is already generated by nuclear plants, and the prospect is that that ratio will move steadily higher, to as much as 40 percent by 2030. Japan has also pioneered the closed fuel cycle. This generates plutonium as a means to assure energy security in a high-cost energy world, and has generated, under strict global supervision, a plutonium stockpile of over 13,000 pounds. Japan has been fully cooperative with the IAEA, but new and more comprehensive regional arrangements, with American participation, may well be needed, should neighboring China and South Korea—with similar energy challenges to those of Japan—also begin considering the closed fuel cycle's merits, and as the geopolitical equation in Northeast Asia evolves. Needless to say, ending North Korean WMD, missile development, and arms-trade programs also loom as crucial future challenges to both the United States and Japan.

In Conclusion

Mike Mansfield two decades ago termed U.S.-Japan ties “the most important bilateral relationship in the world, bar none.” That trans-Pacific

partnership remains vitally important not only in strategic terms, and because it helps crucially in stabilizing the world economy, but also for the role it has historically played, and continues to play, in broadening America's horizons culturally, and in making us so much more than an Atlantic power alone.

For more than half a century, U.S.-Japan relations have moved forward remarkably smoothly, on momentum from the remarkable diplomatic achievements of the 1950s, based on the conservative, yet enduring political edifice erected in Japan during those days. Over the coming year, our two nations could abruptly confront a profoundly different era—one potentially marked by major political transformation in Japan, and the need for new strategic vision, even as the impact of our new, dynamic Administration here is just becoming manifest in new policy initiatives and confirmed personnel appointments. This coming year will doubtless be a time of challenge, but also of opportunity. It may at last provide a chance to finally overcome the broken dialogue with Japan that Edwin O. Reischauer confronted as Ambassador half a century ago, and to broaden the Pacific alliance with Tokyo, to the benefit of all our people.

Mr. FALEOMAVAEGA. Thank you, Dr. Calder.
Dr. Alexander.

STATEMENT OF ARTHUR J. ALEXANDER, PH.D., ADJUNCT PROFESSOR OF ASIAN STUDIES AND ECONOMICS, GEORGETOWN UNIVERSITY (FORMER PRESIDENT OF THE JAPAN ECONOMIC INSTITUTE)

Mr. ALEXANDER. Yes, batting clean up here, I think I am going to be actually supporting, reinforcing some of the points that have already been made. The first one is the point that Japan is a rich country. As a rich country, it possesses the habits, the institutions, the policies of successful nations, and these kinds of institutions that make countries rich do not vanish, they don't disappear.

So what we can look at for Japan's economic future over the long run, abstracting away from what is going to happen the next quarter, is that Japan's economic future ranges from 1–2 percent real growth of GDP per person. Now 1 percent growth would be a comparative failure, 2 percent, a considerable achievement. And this in general is the range that rich countries, including the U.S., operate within over the long term.

From 2002 to 2008, Japan experienced its longest postwar expansion building on Chinese and other Asian demand: It wasn't just China. The share of exports and GDP rose to the highest level in Japan's entire postwar history, about 18 percent. However, contrary to many popular views in Japan as well as the United States, Japan's economy has not generally been driven by exports either in the post-World War II period or earlier. Actually quite the reverse is true. Imports rather than exports are associated with growth and productivity improvements. That is true in the United States as well.

Last year high energy and materials prices, global financial turmoil, and collapsing exports plunged the economy into recession. It deepened in the first quarter of this year as real GDP fell over 15 percent in annual terms, the steepest decline since figures were first produced in 1955. However, in the last 4 months we are beginning to see a turnaround. Excess inventories are falling, manufacturing output is up, exports are turning around, consumer confidence is building, and we are even seeing household buying itself turning up in the latest data. So things are beginning to look good.

When we turn to the demographic problems, the Japanese population is becoming older and smaller. Low fertility rates below the break-even level plus the longest life expectancy in the world mean that fewer babies are being born, older people are becoming a larger share of the population. Population actually peaked about 3 years ago. Current projections put the 2040 numbers 15 percent below what we see today, going back to the level of Japan's population in 1973.

Japan is not unique here. European nations experience almost the same sort of low fertility, but Japan is getting there first. Because of the shifting age structure, the working age population will fall about 1 percent annually over the next 40 years. Two things can ameliorate the effects of a falling labor force. First, older people need not stop working at the age of 65. Actually, higher wages draw people back into the labor force. Just in the last 4 or 5 years,

0.5 million Japanese between the ages of 65 and 69 reentered the labor force because there was a demand for them. If we get labor shortages in the future, I expect the same thing will happen.

The second thing has been mentioned, which affects the quality as well as the number of workers, is the better use of women. They make up a smaller share of the labor force than in many other advanced countries. The ratio of female to male wages is the lowest in the developed world. The proportion of females in management is 8 percent in Japan compared to 45 percent in the United States. As I look around the room and look around Washington, I see there are probably more competent, intelligent, hard working Japanese women working here than in Tokyo. When half the labor force is underutilized, the potential for greater productivity gains is obvious.

Turning to the regional effects of demographics, and I think this is my main message, demographics need not be destiny. Japan will remain the third or fourth largest economy for the foreseeable future. Although not growing as fast as its neighbors, it will retain the scale, the resources, the competencies, the capabilities to engage fully in regional and global areas. Even though more resources may be devoted to aging citizens in the future, Japan's role will be dependent more on its choices and preferences than on its absolute size or rate of increase.

The size of an economy imposes only the roughest constraints on military or diplomatic efforts. Many countries punch well above their economic weight. Just think of North Korea or Israel. Economics by itself will not constrain Japan's future roles. Talking about United States and Japan economic and trade relations, as has been mentioned, when I testified I think in this very room 20 years ago, the hearings were on the Japanese threat. A few years later during the Clinton administration the trade representative could say, we negotiate and negotiate and nothing happens.

Professor Nye helped end that period as we changed our relationship, but one of the things that we have seen over the past 15 years is that many of the industries that suffered directly from Japanese imports have adjusted to the intense competition either by getting smaller or becoming more competitive. Whether in steel, automobiles, machine tools, or other products, the challenges have faded into the past.

In addition, Japan is no longer the only, or sometimes even the chief, protagonist. We have Korea, China, Russia, Brazil. Others have often taken the role that had been played by Japan in earlier decades. Japan is now the fourth largest source of American imports, behind Canada, Mexico, and China, accounting for less than half the flow from either Canada or China. Thus the salience of Japan in the eyes of business and political leaders is considerably reduced from earlier decades. The old animosities and emotions have been replaced by a more cooperative approach that we have already heard about. And I think the same thing as far as we can see is continuing under the current administration.

I was asked to comment on Japan's role in addressing the global financial crisis. The first thing that is really remarkable is that Japanese financial institutions have suffered only mild losses. The losses from derivatives and subprime assets add up to only about

\$25 billion. This is minuscule compared to the losses we have seen in American and European financial institutions. Because of their lack of exposure, the financial authorities have not had to bail out Japanese banks, which have buttressed their capital by raising funds in financial markets.

Japan has loaned the IMF an additional \$100 billion from foreign exchange reserves to be used to make loans to emerging markets and other economies. In addition, Japan invested \$2 billion in the World Bank to help recapitalize banks in smaller emerging market economies. In cooperation with other countries and central banks, they provided currency swaps and other arrangements for countries that might face shortages of foreign exchange.

And until last year, Japan was the largest holder of American Government assets. China has now taken over that role, but just barely. In recent months Japan has been acquiring American Government bonds and other securities at a \$25-billion annual rate, about half the flow from 3 years ago when it was very heavy in the market for Fanny Mae and Freddy Mac assets, and that no longer is the case.

What is going to be happening to its regional role? And what will the election do? We have already talked about the election. I think what we are likely to see, and I fully agree with my colleagues here, a new party would enter with support from different constituencies than the current web of political relations that have been built over half a century. Although the Democratic Party of Japan would feel bound to support its own backers, the important thing is they are different from the old gang.

And I think we are likely to see more deregulation, more opening, more reform in many of the areas that have been tied to the Liberal Democratic Party. The other thing is that the ties to the bureaucracy in the ministries are likely to break down. This has been one of the major factors that has restrained change in Japan: The linkage between the Liberal Democratic Party and government officials. That will be changing as well.

Can the DPJ bring new leadership? I may be sued here for practicing political science without a license, but when we look around Japan we see that there are plenty of reformers down at the local levels, at the prefecture levels. Prime Minister Koizumi demonstrated that we could have charismatic leadership in Japan. I don't think it is going to happen, as was said, in the short term. But enough change has occurred in political, economic institutions, and new people, that bold leadership can emerge from the confusion of a new party, new people, and new institutions. On the other hand, as economists like to say, no one has lost money by betting against the conservative nature of the Japanese people, at least not in the last 60 years. So the future is up for grabs. Thank you.

[The prepared statement of Mr. Alexander follows:]

Arthur Alexander
Professor (adjunct), Georgetown University
Economics Dept. and Asian Studies

June 25, 2009

House Committee on Foreign Affairs
Japan's Changing Role

Japan's Changing Role: Economic Affairs

Economic Trends

Long-term view: Japan is a rich country that possesses the habits, institutions, and policies of a successful nation. The institutions that make countries rich do not vanish. Japan's economic future ranges from mediocre to good: 1%-2% real growth of gross domestic product (GDP) per person. The lower bound would be comparative failure; the upper, a considerable achievement.

All fast-expanding countries are poor, although not all poor countries achieve rapid growth (figure 1). Rich nations grow more slowly than the high-flying, poorer countries. Focusing on Japan, China, India, Korea, and the United States, the U.S. is at the high end of the rich-country range (figure 2). Japan approached 2% growth in the 1990s, and then fell below. China and Korea lie on the upper envelope of the 121-country experience plotted in figure 1. India started in the middle of the distribution and has shifted upward toward the high-fliers.

Many observers, including most Japanese, thought that the country's post-World War 2 experience indicated special or even unique national qualities. With the benefit now of more than a half century of experience and analysis, we can note that Japan's economic miracle followed extensive wartime destruction. However, its human capital and institutions remained largely intact. When investment recovered in the 1950s, returns to investment and overall growth were high. By the 1970s, the capital stock approached equilibrium levels, returns declined to values appropriate to the mix of human, physical, and institutional capacities, and growth decelerated. Japan was lucky enough to approach economic maturity.

Recent experience: From 2002 to 2008, Japan's exports were the main positive component of GDP as Japan experienced its longest postwar expansion, building on Chinese and other Asian demand. The share of exports in GDP rose from 10.5% in 2002 to more than 18%, the highest in Japan's entire postwar history. However, contrary to popular views, Japan's economy has not generally been driven by exports, either in the post-World War 2 period or earlier. An accumulating body of research demonstrates quite the reverse: imports rather than exports were associated with growth and productivity improvements.

High energy and materials prices, global financial turmoil, and collapsing exports plunged the economy into recession in 2008. Japanese financial institutions, however, were saved from the worst excesses of their overseas peers by their conservative stance, bred from the decade it took to dig themselves out of a nonperforming loan hole and over-leveraged balance sheets in the 1990s; that, plus weakness in the skills of complex derivatives trading made them wary of the dodgier assets.

The recession deepened in the first quarter of 2009 as real GDP fell 15.2% (annual rate) from the previous quarter—the steepest decline since the figures were first produced in 1955. Nearly every sector participated in the downturn. Perhaps the most positive sign was that private inventory accumulation slowed from the end of 2008 as producers began to bring output into line with demand.

Glimmers of hope: Although GDP has fallen 9% from year-ago levels, three fiscal stimulus packages are beginning to strengthen demand while exports, especially to Asia, resumed their expansion at the beginning of the year. Producers' inventories have fallen sharply; manufacturers' shipments and output started to rise in March, with faster growth projected for coming months.

Consumer confidence bottomed out last December. The Economy Watchers survey of people holding jobs that enable them to observe household and producer activity shows the same strong recovering trend. The survey asks for assessments of both current conditions and the direction of change. From January to May, expectations of future conditions has jumped two-thirds of the way back to its previous peak of early 2006. The sub-indices all shared in the overall strength. Household consumption, itself, turned positive in March from a month earlier, the first rise in more than a year.

As household demand solidifies, especially for durables such as automobiles, I expect GDP to steady in the second quarter and resume growth by mid-year. Absent further severe shocks to the global economic system, 2010 is expected to return to near normal

Japanese consumers' undeserved bad reputation: Japanese consumers have a bad reputation, allegedly being under-paid, under-consuming, and obstinately refusing to become the engine of economic growth. Cultural explanations based on the presumed qualities engendered by rice cultivation, or so-called rabbit hutch homes, have been offered as explanations. Such explanations, however, are not needed. Whereas Japanese households at one time saved almost one-quarter of disposable income, that ratio is now under 3%, less than the notoriously low current American savings rate (figure 3). This dramatic change is due primarily to the country's shifting demographic structure; predictably, as a nation like Japan becomes older, the relatively fewer families in the prime working ages contribute less to aggregate savings, while older, retired people draw down their holdings.

The notion that Japan's consumption is under-powered is belied by comparisons with other rich countries. Table 1 shows the ratio of household consumption to GDP; Japan is in the middle of the pack. It is the U.S. and U.K. that are the outliers.

Table 1: Ratio of Household Consumption to GDP, Selected Countries, 2003-2007 Average (%)

Canada	56.1
France	56.5
Germany	58.9
Japan	57.3
UK	65.3
U.S.	70.4

Source: World Bank

Another allegation is that workers' share of national income is exceptionally low in Japan, thereby starving the nation of consumption. Again, this charge is wrong, as shown in the estimated labor shares in Table 2. Japan is near the average of all countries. Moreover, there is no evidence of a long-term trend in employees' share of national income, although there is considerable cyclical variability, falling in good times as profits soar, and rising when companies protect workers' earnings in recessions.

The conclusion to draw from these data is that Japanese consumers are not a long-term drag on the economy. If confidence remains robust and output continues to expand, households could lead the way to the next expansion, especially considering their year of abstinence from buying items whose purchase could be postponed.

Transition from the 1935-45 system: Over the past two decades, Japan has moved away from the economic system constructed during the 1930s, organized to mobilize the economy for war.

The postwar occupying powers left in place many of the existing economic institutions and structures. Most important were bank-centered finance and the legal structure of corporate governance. In combination, they dethroned shareholders and profitability from their premier positions influencing corporate behavior.

Table 2: Employee Compensation Share of GDP (1994), Including Income of Self-Employed and Proprietors, Selected Countries

Australia	0.67
Belgium	0.74
Finland	0.73
France	0.72
Italy	0.72
Japan	0.69
Korea	0.70
Netherlands	0.68
Norway	0.64
Sweden	0.77
UK	0.78
U.S.	0.74

Source: Douglas Gollin, "Getting Income Shares Right," *Journal of Political Economy*, Vol. 110, No. 2 (Apr., 2002), p. 470.

Despite government's key economic role, any sense of an overall vision quickly lost coherence in the post-war period. As elsewhere, government planners and regulators often became the pawns of politicians and of the industries and companies they were supervising. Internal battles for dominance within the government further weakened any sense of coordinated strategy. Nevertheless, bureaucrats' inclinations to distrust markets influenced regulation and guidance.

Japan's postwar economic system started to change in the 1970s, proceeded over the next 30 years, and is still ongoing. The first moves occurred in the tightly bound financial system. When the government incurred large fiscal deficits in the 1970s, it was forced to relax its interest rate controls to make government debt attractive to financial institutions. As Japanese companies ventured abroad in the 1980s, they found that financial products in London were cheaper and more diverse than in Tokyo.

Tokyo lagged behind financial market innovations in the 1980s, largely because of still remaining regulations. Prime Minister Hashimoto announced a "big bang" scheme of financial market deregulation in 1996, phased in over several years. These changes helped end the system of bank-centered corporate finance, especially for large firms.

Company oversight and monitoring were strengthened in 1993 by reducing the costs to initiate shareholder suits and allowing collection of damages. From 1950 to 1990, shareholders in Japan filed fewer than 20 derivative suits against directors. By 1999, there were 286 such suits before the courts, 95 filed in 1999 alone.

Other changes reduced the shareholding threshold to demand inspection of records, allowed stock options, simplified merger procedures, allowed stock swaps to underwrite mergers, eliminated the ban on holding companies, facilitated the ability to spin off companies, removed prohibitions on treasury stock, and authorized companies to adopt an American style board of directors.

A new corporation law in 2006 embraced a reversal of the regulatory philosophy, shifting from a stance that everything that is not allowed is prohibited to one where everything that is not

prohibited is allowed.

Corporate officers now must consider seriously bids for mergers or acquisition; failure to accept profitable offers could be interpreted as acting against shareholder interests. The number of mergers and acquisitions subsequently increased to levels that would have been unthinkable in the mid-1990s. Moreover, significant foreign takeovers, counted in single digits in the 1980s, hit 100 in 2000 (figure 3). Although successful domestic hostile takeovers remain infrequent, they are increasing, from only a single case in 1995 to 53 in 2005.

Low returns to capital: A consequence of the wartime system was little regard to returns on investment. American output growth required little additional capital deepening whereas Japan's capital, after recovering from wartime destruction, continued to climb as a share of GDP (figure 4). Japan's private sector by 2007 required 60 per cent more capital per unit of output than did the American.

As Japan recovered from wartime losses, returns on investment were extraordinarily high (figure 5); they then declined steadily. The American trajectory also declined following catch-up from the depression and war, converging to a stable long-term level above Japan's.

The downward course of Japan's rates of return resulted from corporate governance that did not emphasize profitability, a banking system that did not adequately monitor borrowers, and government policy that protected insolvent firms from dissolution.

Corporate governance is now increasing the attention to profitability. Returns at the macroeconomic level have started to rise. Business data collected by the Ministry of Finance confirm that, prior to the current recession, the era of dismally low returns may be ending.

The vast private savings held by Japanese families would benefit enormously from higher rates of return. Higher return on investments automatically provide for their own redemptions in later years by generating the resources to pay back savers. If Japanese households were more confident of future returns, they could save less today or draw down their stock of savings at a higher rate. Consequently, higher returns could yield higher consumption, which would produce added aggregate demand, investment, and domestic growth, not to speak of higher incomes for retirees. Therefore, corporate governance policies that encourage a greater attention to the bottom line would, paradoxically, make the future more secure while creating new risks for current managers.

Scientific research: In recent decades, the linkages between basic science and economic output and productivity have intensified in the advanced economies. The practical orientation of much of Japan's R&D and the acknowledged weaknesses of its basic research and university science may retard productivity growth in the future. The business orientation of Japan's R&D was correctly identified in the past as the foundation of the country's technological strength. Now, that slant is a growing problem.

Japan's spending on research and development ranks second globally at 40% of the U.S. level. Its chief feature is neither its scale nor its considerable vigor, but its orientation toward business, especially manufacturing. Since more than three-quarters of Japanese research is funded and performed by industry compared to 60% in the U.S., its focus is on industrial products and processes, whereas American research tends more toward scientific output. The American share of basic research in all R&D spending, for example, is 50% greater than Japan's. (figure 7) Consequently, the scientific content of Japanese efforts is considerably less than the overall spending would suggest. Japanese scientists write only about one-quarter as many scientific

articles as Americans. Moreover, each of these articles is cited by other scientists at less than half the U.S. rate.

Japan would not have to be overly concerned about its relatively weak science base if it could take better advantage of the leading science around the world. However, the diffusion of scientific results has a strong local affinity. It often is asserted that the results of basic research are available at little cost to anyone with access to the latest science journals. This allegation, however, is not consistent with the evidence, which demonstrates that science is transferred via people, not articles. What makes the problem more serious for Japan is that it seems to be more insular than many other countries in its ability to benefit from foreign science. Japanese scientists are weakly connected to global science compared to many other countries, including regional neighbors China, South Korea, and Taiwan.

The increasing role of basic research in advanced industrial technology, the contribution of this type of work to corporate and national productivity, and the links between academic science and high technology industry all speak to the importance of a healthy research base for economic welfare. Japanese companies recognize these issues and have tried to compensate by establishing laboratories abroad. However, these moves have been belated and insufficient, points recognized by industrial leaders.

The comparative weakness of basic research in Japan and the institutional impediments to its use supply a rationale for the government's policy of strengthening the performance and the institutional framework of the Japanese research system. Despite strong policy statements in this direction, implementation has been weak and disappointing. Japan's scientific base could be a future problem.

Alternative paths: The difference between mediocre 1% and energetic 2% growth lies in policies that continue to open and deregulate the economy. For example, when the share of trade doubled between 1994 and 2008, the increased exposure to foreign competition intensified the pressure felt by Japanese businesses, and had measurable effects on productivity and prices. If policies continue to encourage the focus on profitability, trade should increase as companies find it to their advantage to source their inputs globally.

Foreign direct investment is one of the greatest stimulants to productivity. Although it has increased by a factor of 10 since 1996, it remains a tiny fraction of other rich countries' inflows. Further gains will require reducing the barriers to mergers and acquisitions, such as by diminishing unprofitable cross-shareholding of companies and banks (which act as M&A defenses) and by strengthening corporate governance rules that give greater rights to shareholders who can protest refusals to negotiate advantageous transactions.

Entire industries have been thwarted by excessive regulations. An example is health care for older people. Licensing that protects incumbents constrains the development of new combinations of health and retirement services.

Immigration reform is part of the solution to caring for an aging population as well as more generally compensating for a declining work force. There have been tiny steps to open immigration of nurses, for example, but these and other moves have been reluctant and halting.

A disadvantage that can benefit Japan's future growth is that its productivity lags the global leaders. Various estimates put the country's manufacturing productivity at roughly 70-80% of the most efficient economies, varying across industry. Productivity in food products was only 30% of

the American level, whereas Japan's metal products producers were 60% more productive and transportation equipment was better by 26%.

Lower productivity can be an advantage because better ways of doing things already have been demonstrated elsewhere. Japanese companies would not have to experiment with uncertain methods or technologies to achieve higher levels of efficiency, but have models on which to base their plans. Having such models, though, does not guarantee their speedy or successful adoption. It took a quarter century for American automobile companies to adopt the Toyota system of manufacturing, which was demonstrably more efficient than the way that Detroit made cars. And it required a similar length of time for Japanese airlines to reach American efficiency levels after deregulation and competition confronted the American industry. Nevertheless, once pressure to change impinges on firms, having others to follow can speed the adjustments.

In short, if Japanese political leaders, parliament, government bureaucrats, and businesses adopt such policies, growth can be at the high end of the projections. Otherwise, plodding growth can be expected.

Demographic Trends

The Japanese population is becoming older and smaller. Low fertility rates below the breakeven level plus the longest life expectancy in the world mean that fewer babies are being born and that older people are becoming a larger share of the population. (See figures 8 and 9.)

The population peaked around 2005 with 127.8 million people. Current mid-range projections put the 2030 and 2040 numbers at 117.6 and 109.3 million. That is, 30 years from now, Japan will have 15% fewer people than it does today, about the same number as in 1973.

It should be noted that Japan is not unique. European fertility rates are similar to Japan's. What makes Japan notable is that its life expectancy is driving the age structure faster than in Europe and forcing Japan to cope with the consequences first.

Many of the consequences of the changing demographics are obvious:

- Declining population
- Proportionately more older people
- Smaller share of working age population
- Slower aggregate economic growth
- Challenges to pension and social security systems
- Greater health care resources devoted to older people

I do not label the above items as negative consequences, but as changes that require adaptation. Indeed, another list of what might be labeled positive consequences demonstrates the ambiguity of assessing population decline:

- Reduced pollution
- Lower expenses for schooling and education
- Less crowding
- Smaller environmental impacts

Because these changes are occurring gradually and are clearly forecast, adaptation can be

smoother than might be the reaction to sudden and unexpected events. For example, relatively modest changes to the social security system could make it sustainable over a long horizon. Some of these changes, such as delayed retirement, have already been implemented.

The population is projected to decline 0.5% annually over the next 30 years. However, because of the shifting age structure, the so-called working age population (16-64) will fall at twice that rate, or about 1% annually. Economic growth arises from the changes in the quantity and quality of the labor force and capital stock, as well as from productivity improvements separate from these inputs such as those that come from science or simply doing things more efficiently. Even though the quantity of labor inputs will decline, all the other contributors to economic growth will continue to increase.

There are two things that can ameliorate the effects of a falling labor force. First, older people need not stop working at the age of 65. Although the labor force participation of older people has declined steadily since the 1950s, there is a notable counter-cyclical effect in the other direction. The implication of long-term decline with upturns during expansions is that older people are responsive to two different incentives. As incomes rise in general, they tend to use some of that income to reduce their labor force contributions (an income effect). However, when demand conditions raise the wages that they can earn by remaining in or returning to work, they respond to these incentives (relative price effects). As recently as the expansion that ended last year, a half million people age 65-69 returned to employment. If labor shortages were to arise in the future, this cohort as well as others would face incentives to swell the job market.

The second thing that could drastically affect the quality as well as the number of workers is the better use of women. Women make up a smaller share of the labor force than in many other advanced economies. At 60% participation, it is more than 10 percentage points below countries such as Sweden, the U.S., and U.K. Moreover, women are used in inefficient ways; they are more likely than are men to be part-timers and they find it even more difficult than men to reenter the labor force if they temporarily withdraw, as they are likely to do when they have children.

The ratio of female to male wages in the late 1990s was 0.64, the lowest among 13 countries studied. Moreover, the proportion of females in private sector managerial positions rose from only 5 per cent in 1990 to 8.3 per cent in 2001; the entry of women into higher paying jobs compares poorly with other countries such as the United States, where women hold some 45% of managerial positions. Personal observation suggests that there may be more competent, intelligent, and hard-working Japanese women working at higher level jobs in New York or Washington than in Tokyo. It is no accident that such competent people leave their country to find opportunities elsewhere. When half the labor force is under-utilized, the potential for greater productivity gains is obvious.

Japan's Regional Role

Japan is the world's third largest economy, after the United States and China. When measured in purchasing power parity (PPP), the only adequate way to assess relative economic scale, China overtook Japan around 2000 and is now more than 50% larger. India is coming up fast, but remains about 30% smaller, according to the World Bank's PPP estimates. (Although PPP is more appropriate than exchange rates to measure size, enough uncertainties remain that fine distinctions are not warranted.)

As was seen in figure 2, Japan is a rich, developed economy while China and its Asian neighbors

still are in their fast-growing, development stage. Korea could achieve maturity in 10 years; that goal remains a more distant dream for the others.

Japan will remain the third or fourth largest economies for the foreseeable future. Although not growing as fast as its neighbors, it will retain the scale and resources to engage fully in the regional and global areas. More resources will be devoted to its aging citizens in the future, and slower growth will require finer choices. However, Japan's role will be dependent more on its choices and preferences than on its absolute size or rate of increase. The size of an economy imposes only the roughest constraints on military or diplomatic efforts. Many countries punch well above their economic weight: think North Korea or Israel. Others are less involved internationally. Economics will not by itself constrain Japan's future role.

It has been argued that Japan is bound to decline relatively and perhaps even absolutely regionally and more widely. It will be even harder to justify defense spending to an older society that is possibly more conservative and risk averse. New and expensive weapons systems will compete with more immediate social needs. There could be greater reluctance to send an increasingly precious resource, younger, productive members of society, into military service. A military career has never been popular in postwar Japan; it will be harder to compete with the private sector in the future.

These arguments are valid, but they presume past values and political judgments continuing into an uncertain future. Changing international environments could easily shift Japan's perceptions and choices. Consider that a single North Korean missile test that flew over Japan altered domestic psychology in a way that hundreds of deployed Soviet nuclear warheads targeted on Japan failed to do. It is not possible to speak with confidence about potential scenarios that could include either a pacified North Korea or an increasingly belligerent and nuclear one, not to speak of other regional scenarios.

My main point is that economics is not determinant if situations change drastically. However, given the more likely alternative that events proceed in an incremental, gradual way, then the arguments given above of a Japan that is declining relatively in the region are more tenable.

China is an important part of Japan's future. It is an expanding customer, supply base, and investment target. Japan will remain a regional financial center even if China's currency is convertible because Japan possesses a large and liquid volume of tradable assets, a sophisticated financial market (even if behind London and New York), a stable economy, an effective criminal and civil justice system, and experience. The appearance of a rich neighbor can only be beneficial to Japan, although it could cause disruptions and reallocations as resources shift within the economy to meet new demands and depart no-longer competitive activities.

Economists dislike speaking about nations as economic competitors. However, China does compete with Japan in one sense. China's trade agreements with many Asian countries have spurred Japan to make internal changes so that it could compete better with the Chinese brand. The main impediment to trade deals has been Japan's protected agricultural sector. Government officials in non-agricultural ministries as well as political leaders such as former Prime Minister Junichiro Koizumi noted that domestic changes were necessary to allow agriculture's inclusion in future trade negotiations. Consequently, reforms to agriculture were started under the threat of a China competing for Asian hearts and minds.

United States-Japan Economic Relations

Twenty years ago, Congressional hearings on the “Japanese threat” were a common feature in Washington. Fifteen years ago, the U.S. trade representative, as one element of his president’s reelection campaign, could proclaim, “We negotiate and negotiate and nothing happens.” Those days are past.

Many officials in earlier administrations held mercantilist views of international trade. The same was even more true of members of Congress and the public. The allegation is that exports are good and imports are bad. Such ideas seem to be based on the very direct (but partial) observation that exports create jobs and higher profits while imports compete with domestic producers and raise unemployment. Such beliefs are deficient because they do not go far enough in completing the loop of cause and effect. An additional export will tend to crowd out some other export or lead to more imports (probably a combination of both). Unless the economy ends up with greater savings, any jobs gained in one company will be lost elsewhere in the economy. However, the power of direct personal experience often overwhelms the indirect arguments and evidence of economic analysis.

In addition to their mercantilist theories, several people in and out of the Clinton administration held a “Japan is different” view, asserting that Japan played by different rules of capitalism. According to this theory, Japanese markets are managed or guided by government bureaucrats and politicians working closely with business leaders. Under such conditions, it is fruitless to negotiate market opening measures; the intertwined groups will simply find new ways to keep outsiders from entering their protected realms.

Unfortunately for American trade negotiators, their demands to open Japanese markets by assigning import targets confronted a “never again” mentality among Japanese government officials that was born in the semiconductor agreements of the late 1980s when Japan had agreed to a specified foreign share goal of the Japanese semiconductor market. The result of these Clinton-era trade talks was severe tensions in American relations with Japan that spilled over into broader security and diplomatic affairs. It required the dedicated attention of skilled participants on both sides to overcome these frictions.

Over the past 15 years, significant changes have occurred in the trade and investment relations between the United States and Japan. Many of the industries that suffered directly from Japanese imports have adjusted to the intense competition by becoming much smaller or more competitive. Whether in steel, automobiles, machine tools, or many other products, the challenges have faded into the past, if not entirely disappeared. In addition, Japan is no longer the only, or even chief, protagonist. Korea, China, Russia, Brazil, and others have often taken over the role first played by Japan.

Japan is now the fourth largest source of American imports, behind Canada, China, and Mexico, accounting for less than half the flow from either Canada or China. Thus, the salience of Japan in the eyes of business and political leaders is considerably reduced from earlier decades.

Whereas the U.S. used to be Japan’s largest single trade partner, that no longer is true. Japan now imports twice as much from China and from the rest of Asia as it does from the U.S. In the past 12 months, as the United States sank into recession, China became Japan’s largest export market. In the most recent data, Asia loomed twice as large as the U.S. on both sides of the trade ledger.

Americans used to complain about the almost impossible task of investing in Japanese

companies. As of 2007, the value of U.S. direct investment in Japan came to more than \$100 billion, three times the 10-year ago value. Foreigners now own almost one-third of the value of the Tokyo Stock Exchange and accounted for half of all transactions last year.

Because of these substantial changes, the old emotions and animosities have been replaced by a more cooperative approach. According to John Taylor, the former Under Secretary of the Treasury for International Affairs, President Bush and his team developed a new approach to American economic relations with Japan. There would be no Japan bashing. The administration based its policies on respect and cooperation, not antagonism. Taylor thought that lectures from the U.S. government had proven ill-suited to advancing either Japan's prosperity or mutual relations. There was close cooperation with Japan when the Ministry of Finance informed the U.S. that it planned to intervene heavily in foreign exchange markets to hold down the price of the yen as part of its economic recovery efforts. After more than \$300 billion was spent in the final 12-month splurge, the Japanese government ended its attempts to depreciate the currency when it appeared that the economy was on its way to a solid recovery. There have been no further interventions since the end of 2003.

That same cooperative approach appears to be continuing under the administration of President Obama.

Japan and the Global Financial Crisis

Japanese financial institutions have suffered only mild losses in the ongoing financial crisis. According to the most recent data from the Financial Services Agency, losses from subprime assets have amounted to approximately \$10 billion, and total losses from derivatives trading add up to \$25 billion. Because of their lack of exposure, the financial authorities have not had to bail out Japanese banks, which have buttressed their capital by raising funds in financial markets.

Many financial and nonfinancial firms have sufficient cash to acquire companies around the world, including many in the United States, especially because of the fall in stock market values. Recent examples include the \$8.4 billion offer from Japan's biggest bank, Mitsubishi UFJ Financial Group, for up to 20% of Morgan Stanley and the \$3.5 billion paid for the remaining 35% of UnionBanCal, a California bank, that it did not already own. Mitsubishi UFJ's security subsidiary entered merger negotiations with the Japanese subsidiary of Morgan Stanley. Nomura, Japan's biggest broker, bought the Asian, European, and Middle Eastern divisions of Lehman Brothers, for a reported \$225 million. Meanwhile, the insurer Tokio Marine Holdings paid \$4.7 billion for property and casualty insurance company, Philadelphia Consolidated, to gain access to the American market.

Domestically, the Japanese government was not expecting as sharp an economic decline as actually occurred. It had prepared two stimulus programs that turned out to be insufficient for the scale of the downturn. In early 2009, though, the government was shocked when it discovered that the growth rate had fallen an annualized pace of -12.1%. The government's third stimulus package amounted to about 3% of GDP and was larger than the new spending of the previous two packages. As this spending shows up in the economy, it seems to be having the desired effect.

At the international level, Japan has helped to provide funds for countries and institutions. In particular, it has loaned the International Monetary Fund an additional \$100 billion from its foreign exchange reserves to be used to make loans to emerging market and other economies. In addition, the country invested \$2 billion in the World Bank to help recapitalize banks in smaller,

emerging market economies. In cooperation with other countries and central banks, it has provided currency swaps and other arrangements for countries that might face shortages of foreign exchange.

Until late 2008, Japan was the largest holder of American government assets, according to Treasury Department reports. China then took over the top position. In recent months, Japan has been acquiring American government bonds and other securities at a \$25 billion annual rate, about half the flow from three years ago when it was heavy in the market for Fannie Mac and Freddie Mac assets.

The Political Capacity for Economic Reform

Political change is likely coming to Japan. Mandated parliamentary elections must be held no later than September 10. The opposition Democratic Party of Japan (DPJ) is favored to win according to recent surveys of its popularity compared to the ruling Liberal Democratic Party (LDP). A change in electoral fortunes, the first major one in 55 years except for a brief period in 1993, could have a major effect on economic policies.

First, a new party would enter with support from different constituencies than the current web of political relations built over a half century. Although the DPJ would feel bound to support its own backers, the important point is that they would be different from the old group. Among the LDP's constituencies that may be given less weight in a DPJ government are small shopkeepers, small firms, and small farmers, all of which have sharply dwindling numbers.

The second reason for expecting change is that the ties to personnel in the government bureaucracy would be broken. The LDP has ruled through an alliance between the politicians, their supporters, and the ministerial administrators, who have considerably more power than American government staff. Breaking these links would reduce the impact of bureaucrats' preferences.

The DPJ's published policy proposals include tax cuts and transfer payments to individuals to stimulate consumer spending. Part of the financing of this stimulus would come from shifting expenditures on favored LDP projects involving large construction projects. In addition, the DPJ platform calls for cutting business taxes on smaller firms.

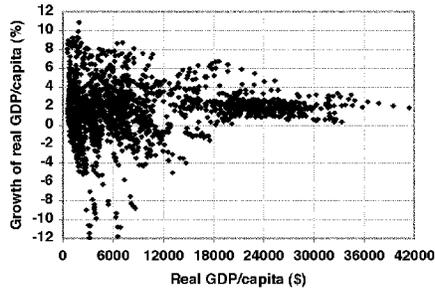
Nonregular employment has risen dramatically in the past decade, reaching almost one-third of all workers. This growth has been based on deregulating the temporary employment system at the same time that companies were searching for ways to increase workforce flexibility. However, the nonregular employees earn very low wages, have few fringe benefits, and remain outside the main unemployment compensation schemes, which were designed for the prevailing concept of so-called lifetime employment. The DPJ proposes reducing the disparities between types of workers as well as increasing the minimum wage in several installments. However, it has no plans for overhauling the social safety net. Moreover, many DPJ members had been in the old socialist parties and have strong commitments to unions and workers' rights. They would like to retain many of the current protections that create labor market rigidities.

Can the DPJ bring new leadership to Japan? It is unlikely in the first iteration of forming a new government. However, the appearance of a political leader like Prime Minister Koizumi as well as the rise of many innovative governors at the prefectural level show that true reformers are not absent in Japan. Mr. Koizumi's problem was that he was trying to break old norms from within

the traditional governing party. He was like Mikhail Gorbachev who tried to transform the Soviet Union from within the Communist Party. It required the disestablishment of the Communists and transformation of political life to achieve lasting reform.

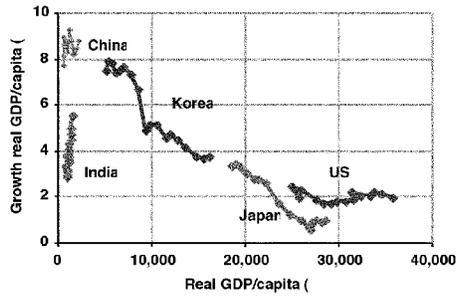
Nevertheless, enough change has occurred in political and economic institutions that bold leadership could emerge from the confusion of a new party, new people, and new institutions. However, no one has lost money by betting against the conservative nature of the Japanese people, at least not in the last 60 years.

Figure 1: Average Growth Rate, Real GDP/Capita Over Preceding 10 Years and GDP/Capita, 1980-2007



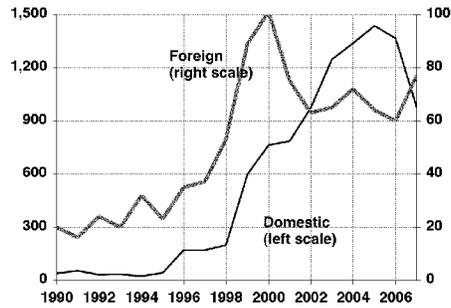
Note: National currencies converted into 2005 dollars at purchasing power parity. Excludes oil-dependent countries, those with fewer than 1 million population, and less than \$1,000 GDP/capita.
 Source: World Bank

Figure 2: Japan, China, Korea, India, and United States: 1980-2007; Average Annual Growth Rate of Real GDP/Capita Over Preceding 10 Years and GDP/Capita



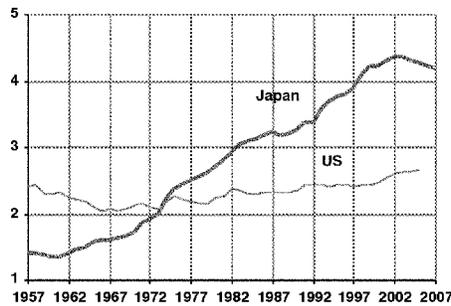
Note: National currencies converted into 2005 dollars at purchasing power parity.
 Source: World Bank

Figure 3: Mergers and Acquisition in Japan, 1986-2007 (number of transactions)



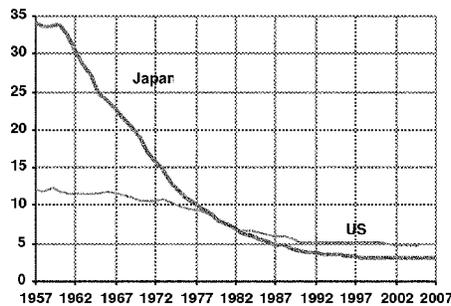
Source: Thomson Reuters

Figure 4: Ratio of Capital Stock to GDP



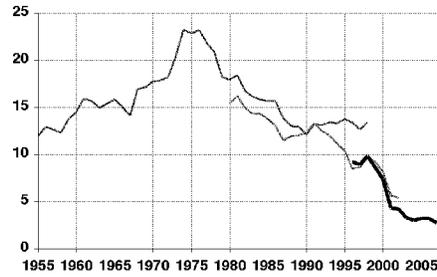
Source: Arthur Alexander, *The Arc of Japan's Economic Development*, Routledge, 2008, p. 107.

Figure 5: Real Returns on Total Aggregate Nonresidential Capital



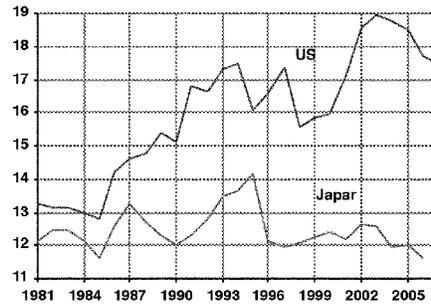
Source: Arthur Alexander, *The Arc of Japan's Economic Development*, Routledge, 2008, p. 108.

Figure 6: Ratio Household Savings to Disposable Income (%)



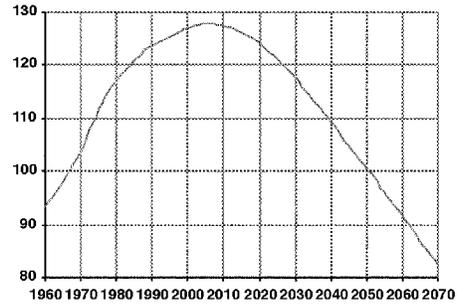
Note: Separate lines reflect changes in national account definitions.
 Source: Cabinet Office, Economic and Social Research Institute

Figure 7: Basic Research Expenditures as Percentage of Total National R&D Spending



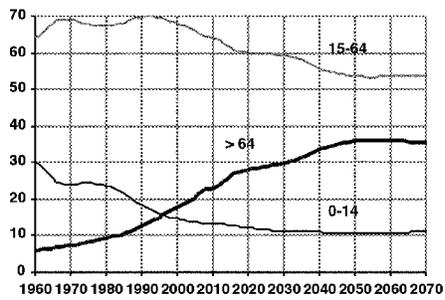
Source: OECD, Main Science and Technology Indicators

Figure 8: Japan's Actual and Projected Population (million)



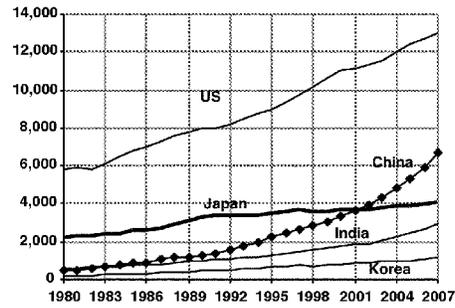
Source: Statistics Bureau, Ministry of Internal Affairs and Communications

Figure 9: Japan's Population Share by Age Group (%)



Source: Statistics Bureau, Ministry of Internal Affairs and Communications

Figure 10: Real GDP (billion 2005 constant purchasing power parity dollars)



Source: World Bank

Mr. FALEOMAVAEGA. Thank you, Dr. Alexander. I have just been handed a note that Professor Nye has to catch a flight. So if it is all right with our other three friends, Congressman Rohrabacher and I will want to focus on a couple of questions before Professor Nye has to leave for home. So my friend from California, first questions?

Mr. ROHRABACHER. Well, let me just ask this in terms of Japanese positioning, and this might be good for the whole panel however, with China versus the United States, I personally see China as America's greatest potential adversary. Potential, I mean they are a power we deal with now and perhaps even an enemy in the future. What do you see in terms of what is going on with Japan and China? Do you see that the United States, for example the Chinese just proclaimed a territorial limits in terms of their offshore territorial limits that seem to threaten Japan. And maybe you would like to comment on that, Dr. Nye?

Mr. NYE. When we were looking at the future of East Asia 15 years ago, the most important thing was the rise of China. And that raised a question which is, how should we deal with the rise of China? One school of thought said treat it as an enemy, try to contain it now. We decided to reject that on the grounds that that guaranteed that you would have an enemy.

Mr. ROHRABACHER. Right.

Mr. NYE. On the other hand, if we invited China to participate, for example in the World Trade Organization and what Bob Zoellick called being a responsible stakeholder on a range of issues, you weren't guaranteed that China would always be a friend, but at least you kept open that possibility. So what you needed was a hedge against uncertainty. Even if today's generation of Chinese leaders may have good intentions, who knows in 10 or 20 years what the next generation will be.

So the policy we designed was one in which we reaffirmed and reinforced the U.S.-Japan security treaty, so that in the three major powers of East Asia, United States, China, and Japan, we and Japan would be tightly tied as the two, China would be the one. That was the hedge against uncertainty. Subsequently, as Bill Emmott has pointed out in his recent book, *The Rivals*, if you look at the rise of Asia not just as the rise of China but also the rise of India, you find that there is a balance within Asia.

And the important thing for us is not to contain China or to treat China as an enemy, but to hedge against the possibility that at some time in the future we would face what you described. And that policy, as Mike Green said, has worked on a bipartisan basis. It has good bipartisan support, and I think it is the right policy. It gives us the best options for a better future, and it also is good for Japan. Because if we have a problem thinking about the rise of Chinese power, Japan has it immediately, it is right next door.

And that is why I think the U.S.-Japan alliance, despite the frictions that are bound to occur if we see this political change that my colleagues have been described, I think that is not going to threaten the alliance because it is so strongly in the interests of both Japan and the United States. So this is why I concluded my testimony by saying I am relatively optimistic, not just about the

U.S.-Japan alliance, but about the potential for a stable East Asia, if we play our cards right.

Mr. ROHRBACHER. Well thank you very much for your insights. I have to say that bringing that into focus also with India I think is really an important understanding that we have to have if we are going to as you say chart our future, that hedge against the possible bad outcomes but at the same time charter a very positive future. Thank you very much.

Mr. FALEOMAVAEGA. I just wanted to ask Professor Nye, there seems to be a correlation on our traditional deterrents closely tied to our nuclear capabilities, and I wanted to ask you and maybe even the other members of the panel, is deterrence still relevant today given the problems of nonproliferation? Or is there a double standard given that the way the nonproliferation concept has been employed has not been very successful?

Mr. NYE. Well, having once worked on nonproliferation way back in the Carter administration, it is worth recalling that we are not doing quite as badly as the daily headlines would imply. John F. Kennedy expected there to be 25 countries with nuclear weapons by the 1970s. There are nine. That is better than was expected. So the nonproliferation regime, the treaties and so forth, have had some beneficial effect, though they are now severely challenged by both North Korea and Iran.

I think the important thing to realize is that there is an inherent dilemma in nonproliferation, which is that as you approach zero nuclear weapons, things may become more unstable rather than more stable, because a little bit of cheating can go a long way, whereas when you have larger numbers the little bit of cheating probably doesn't matter as much. And this raises the following paradox, which is that part of the reason that there hasn't been more proliferation is because we have been able to extend guarantees of our nuclear umbrella over others.

Japan obviously has the capacity to go nuclear if it so wished. It hasn't felt the need because we have extended deterrence. So the dilemma is that if we were to go too fast too hard too close to zero, we would bring nuclear extended deterrence into question. And I think that is why I said in my testimony, it is important to focus on the fact that extended deterrence rest very heavily on credibility, not just capability. In other words, the fact that there are 50,000 American troops based in Japan is tremendously important just like the presence of American troops in Berlin allowed us to defend Berlin in the Cold War in situations when the Soviets had local superiority.

So I think as we try to implement a policy to which we are committed under Article 6 of the nonproliferation treaty of reducing our arsenals and getting to lower numbers, we have to make sure that we do it in such a way that it doesn't call into question the credibility of our extended deterrence, because that paradoxically would actually increase rather than decrease proliferation.

And that central dilemma is one which is going to require very close consultation between Washington and Tokyo. We should not be taking steps whether it is to deal with what I call the outrageous behavior of North Korea or whether it is to deal with the implementation of the long term desire to reduce the numbers of

nuclear weapons, we should not be taking these without very close consultations with Tokyo.

Mr. ROHRBACHER. But, and Chairman if you would indulge me, the missile defense of course is playing an important in what you have just outlined. And the Japanese I think that you will agree have been tremendous partners with us in the development and even actually the deployment of a missile defense system.

Mr. NYE. Absolutely. The joint cooperation we have in ballistic missile defense with Japan is an important part of our extended deterrence relationship.

Mr. FALEOMAVAEGA. There is also the concern, at least the perception of the fact that the current administration, as with the Bush administration, wants to denuclearize North Korea. And of course this has serious implications toward Japan's own security. My question is, how do you denuclearize North Korea when it already has in its possession nuclear bombs?

Mr. NYE. Well, I think the strategy that we need to take toward North Korea is to realize that this regime is not going to last forever. That is different from saying that we have a policy of regime change, I don't think we can change the regime. I think it will change with time. But we don't have to accept the legitimacy of the North Koreans having violated their nonproliferation treaty agreements and exploded two nuclear devices. And that means we hold open the prospect that over time there will be a non-nuclear Korean peninsula. We shouldn't give up that prospect just because the North Koreans have continually lied to us and violated their agreements.

Mr. FALEOMAVAEGA. And I suppose the most serious question of all is what the Obama administration ultimately will have to do in making its decision if North Korea does continue not only to test its nuclear capability but even its missile testing program. It has come to the point where there has been a lot of rhetoric, but where do we stop and say enough is enough? And I suspect that we have to get some kind of a multilateral agreement, especially with principals like Russia, China and Japan to say that we are going to have to put a stop to this. Otherwise, I think we are not going to encourage North Korea even to do that. And it also has deep implications for Iran's efforts as well.

Mr. NYE. Well, let me give you a quick answer but then turn to my colleagues on this since it is a very important point. I think the administration is right to have tried to maintain the multilateral framework. I doubt the North Koreans will come back to the Six-Party Talks, but having five parties talk about stability in northeast Asia is in itself valuable. Maintaining a framework where the North Koreans have to antagonize not just the United States but others is a point in our favor.

In other words, if we think of this as a longer term process of keeping open the potential of a non-nuclear Korean peninsula, containing the North Korean threat is I think a valid objective. And from that perspective, we shouldn't accept any more of these false promises. We shouldn't negotiate bilaterally with the North Koreans for the sake of negotiating and get another scrap of paper which turns out to be worthless. We should in fact be using U.N. sanctions, which we have already got some progress on, and a five-

party framework to try to contain the North Korea situation while waiting for political change inside North Korea. But I would be interested to see what my colleagues think.

Mr. FALCOMA. Please.

Mr. GREEN. Mr. Chairman, we the United States did enormous damage to the credibility of our extended nuclear deterrent in Japan in the way we handled North Korea the last 2 years. I think the Obama administration has corrected course in an important way. We promised in 2003 publicly that we would not lift tariffs and sanctions on North Korea unless there was progress, and these were the exact words in a State Department and speeches by Secretary of State and others, we promised we would not lift tariffs and related sanctions on North Korea unless there was "progress" on the issue of Japanese abductees.

And in October 2008, we unilaterally lifted those sanctions, there had been absolutely zero progress on abductees, and we did it in exchange for a verbal pledge from the North that they would verify what they had done. The reaction in Japan from left to right was incredibly negative. Extended nuclear deterrents as a matter of capability where I think every expert would agree we are in very strong shape with missile defense, with our other capabilities. As a matter of credibility, I think the North Koreans have no illusions about what we would do if they ever used weapons of mass destruction.

But it is also about the credibility of our nuclear umbrella and the allies who depend on it. And we have a bit of digging out to do now. Because in the minds of I think many Japanese strategic thinkers, our word was questioned, are we really ready to stand up to North Korea? So we now have a credibility deficit in Japan that we need to be very careful about. I think Secretary Clinton has made the right moves initially. But how we structure the diplomacy with North Korea, whether or not our Japanese allies think we are watching their interests, coordinating with them, whether they think we are making too many concessions, those will all be critical.

We have to be a bit careful about talking about containment. I agree with Joe Nye, there is a concern among many in Tokyo that our only concern is making sure that North Korean nuclear capabilities don't go to terrorists and that we would be very satisfied to just keep the nuclear weapons in North Korea. That is a very dangerous, it is not the U.S. policy, but it is a very dangerous line of thinking for us to allow. So we have a lot of work to do on this, and as I said I think the administration is off to the right start and I hope they keep it up.

Mr. NYE. Could I just add, because Mike and I agree on most things, to make sure that my point was clear. I was not talking about containment pure and simple, I said containment while we kept open the prospect of denuclearizing the Korean peninsula.

Mr. FALCOMA. Professor Calder?

Mr. CALDER. If I might just add a couple of points. First of all, on the public diplomacy, the handling of these issues, we are talking about the strategic side of this, and I would agree totally with my colleagues on those points. But I think we also have to realize we are moving into an era now when security policy is probably

going to be more politically salient than it has been. Of course we saw this on the abductees issue, and I agree with them on that. I think we have to have sensitivity on the abductees issue because this is so important to the Japanese public, and I think the Obama administration has been taking the right course.

And the other question of architecture, five-party, I think it really is crucial. We should in some form continue those issues, reconstruction, possibly disarmament at some point, refugee related questions, there are many things looming as the Korean peninsula changes. One last thing, also minilateralism. The United States-Japan-Korea dialogue hasn't been mentioned, but it seems to me one thing that the Obama administration has done that is quite valuable is reviving a process that was quite vigorous under Secretary Perry in the last part of the Clinton years and in some points in Bush as well, namely the trilateral, down at Shangri La, Secretary Gates and Minister Hamata and the Koreans. This one I think needs to be revived, and we have particularly the North Korean issue gives us a chance to do that.

Mr. FALEOMAVAEGA. Dr. Alexander, did you?

Mr. ALEXANDER. No.

Mr. FALEOMAVAEGA. Professor Nye, you had indicated also these three basic concerns about the U.S.-Japan alliance. But don't you think there is ever a possibility that China could be part of a trilateral arrangement in that respect, even though China is not a democratic country at this point?

Mr. NYE. Well, I think what we are going to see is potential for United States-China-Japan trilateral cooperation on a number of issues. I doubt security will be the primary one. Though notice that if you develop a five-party talks as a northeast Asia security dialogue, this would mean a general discussions and confidence building which would include China and Japan. But I was thinking more concretely of the issue of climate change. With Japan's pioneering work in energy efficiency, and China now becoming the superpower of CO2 production, you can see a situation where the United States, Japan, and China would have a common interest in working together on increasing energy efficiency, particularly in the consumption of coal in China.

China has enormous reliance on coal. It is a resource within their sovereign boundaries. It is also one of the dirtiest contributors. Chinese are often producing coal plants which are not at the latest level in terms of clean use of coal, sometimes this is affected even when the government prefers it by local issues of corruption and so forth.

But a cooperative framework of United States, Japan, and China working on improving energy efficiency, with particular emphasis on coal, has a great deal of promise. So I think we are going to see a variable geometry in East Asia. It is not going to be a set of old 19th century alliances all on one dimension, we are going to see some areas where we will be competing and some where we will be cooperating.

Mr. FALEOMAVAEGA. You had indicated earlier—I am sorry. We are also joined by another valued member of our subcommittee, Congressman Inglis. Did you wish to make an opening statement?

Mr. INGLIS. No, thank you.

Mr. FALEOMAVAEGA. All right, I appreciate your coming.

I like the way you use the phrase, Professor Nye, about integration plus a hedge, given the example that we have in our alliance with Japan and then with whatever other joint efforts that we make with countries like China. What is the total GDP that China now has as compared to the United States and with that of Japan? I think we have \$15 trillion total GDP or something like that, with Japan right behind us.

Mr. NYE. We should let Arthur Alexander give the definitive answer.

Mr. ALEXANDER. I do have a chart on that.

Mr. NYE. But there is something worth noticing, before he gives the answer, be very wary about whether the numbers you see, whether from CIA or elsewhere, are purchasing power parity or are at current exchange rates. It makes a huge difference, and there is much to be suspected about the purchasing power parity comparisons. Any time you can change something 40 percent with the click of a mouse, as the World Bank did for China's GDP 2 years ago measured in purchasing power parity, you know you had better look at additional measures.

Mr. FALEOMAVAEGA. I might also raise another question.

Mr. ALEXANDER. Dispute that, sir.

Mr. FALEOMAVAEGA. Our total defense expenditure now is well over \$500 billion a year, and I don't know, somehow I keep getting this information that Japan is second only to the United States in terms of its budgetary allocations for its defense structure. Is that correct?

Mr. GREEN. It depends on whether or not you count personnel costs and things like that.

Mr. FALEOMAVAEGA. If you use the abacus or some other?

Mr. GREEN. That is right, whether, yes. It is in the top five. But Japanese defense spending has not increased in 5 years, it has been flat or even slightly decreasing. What you see instead as the budget remains flat is, the Japanese Government is trying to do more with what they have got, hence these anti-piracy operations, a new security agreement with Australia and with India, they are making new strategic partnerships.

Mr. FALEOMAVAEGA. I am aware of the constitutional restrictions, but do you think at some point in time, because Japan is a democracy, should it also have offensive capabilities as far as its defense military structure is concerned? You know, if you want to be a permanent member of the Security Council, don't you think that maybe we also need Japan's assistance militarily, peace-keeping forces and other things being in the front line? I mean, it is very easy to build bridges and all that, but when your lives are on the line, then you really know if you are really giving assistance in that respect.

Mr. GREEN. In the 1980s, during the Reagan administration, as the Soviets were building up their military power in the Far East, the United States and Japan made one of the first really important integrating and tightening exercises in our alliance. And we agreed that Japan would be the shield and the United States would be the spear. And that division of roles and missions has essentially held ever since.

But you are seeing even this week debates in the diet in Japan about whether, maybe because of North Korea and China, Japan ought to have some counterstrike capability, whether it is missiles or jet fighters. I think we are going to see more of that, and as we look at managing alliance, we are going to have to decide on our side how we adjust our roles and missions as Japan takes a look at a dangerous neighborhood and thinks about perhaps having a slightly fuller kit of capabilities.

Mr. NYE. I agree with Mike on that, but I also apologize to Arthur for having interrupted him. So he should get a chance to answer your prior question.

Mr. FALEOMAVAEGA. There was also a perception, and as I recall there was a tremendous debate in the Philippines about whether we should continue to have our Navy in Subic Bay and also forces at Clark Air Force Base. And as I recall, this was one of the big debates in the Senate in the Philippines saying, hey, we don't want you here because your presence is really not to defend the Philippines but to defend Japan. Professor Nye, can you correct me on that if that sentiment was true?

Mr. NYE. Well, again I will defer to my colleagues, but I think there is a particular relationship between the United States and the Philippines going back to colonial times which raised nationalist issues about American presence. And I think it became then a football within domestic Philippine politics. Fortunately, that is not the case with Japan. With Japan, while there are some complaints here and there about host nation support and their problems in Okinawa about who bears the burden of the noise and the congestion and so forth, by and large American troop presence is welcomed in Japan. So I think the analogy with the Philippines is quite different.

Mr. FALEOMAVAEGA. There is also a perception that if there is a war, which is something that we are all trying to prevent here, let us say North Korea, and it is believed in some circles that if there is ever an attack, North Korea's initial attack will be toward Japan and not toward the United States. Is there any relevance or truth in that belief?

Mr. GREEN. The North Koreans have somewhere around 200 NoDong missiles which have the range to hit Japan.

Mr. FALEOMAVAEGA. But they don't have the capability to put a nuclear weapon on that missile?

Mr. GREEN. Probably not yet. And then—

Mr. ROHRABACHER. Yet being the operative word.

Mr. GREEN. Yes, exactly. And then they have roughly 11,000 missiles and artillery tubes aimed at South Korea. So it is a bad news story for Japan and South Korea, and of course for us because we have so many troops and civilian personnel in both countries.

Mr. FALEOMAVAEGA. Professor Calder?

Mr. CALDER. If I might just add, one question on the Philippine analogy that you asked about.

Mr. FALEOMAVAEGA. Well, it was not an analogy. This is what I understand was debated among the Senators.

Mr. CALDER. Yes. I would agree largely with what Professor Nye said. Historically if we look across the world, however, when there are regime changes, when there are major political shifts in a coun-

try where we have bases, there are major issues that arise subsequent to that. Sometimes those nations support it, sometimes it is Status of Forces Agreements, it could be base rentals. In the Philippine case of course it escalated into things that were larger in many ways, and ultimately of course toward our leaving. But I think one does have to at least realize that one has to think about those questions and be prepared for the political side as, if there are political shifts, some shifts in base relationships.

Mr. FALEOMAVAEGA. So would you say, gentlemen, that there is consensus among our good friends here that we maintain the umbrella that we currently have with Japan strategically and militarily, and give absolute assurance that we will use nuclear weapons if necessary to defend Japan. We can all talk about hypotheticals, but maybe we shouldn't get into the hypotheticals, and instead be realistic.

Mr. NYE. Well, that is our stated policy, and I believe it.

Mr. FALEOMAVAEGA. Yes.

Mr. GREEN. I may be an outlier, I would agree, yes maintain, but I think we may need to look at ways to enhance, this is a time in my view when we should be spending more on missile defense, not less. And I think we are going to have discussions in Tokyo about whether we need to rethink some of our nuclear doctrine. There are some quite responsible people in Japan asking whether Japan should now consider something like what we did in the 1980s in Europe when the Soviets deployed SS-20s and we put in our own capabilities. I am not sure that is the right answer in the case of Japan, but there are more and more questions in Japan about maybe how our force posture or force structure and doctrine look given the fact that the threat from their perspective, and they are right, is increasing.

Mr. FALEOMAVAEGA. And I suppose in the minds of the Japanese people and their leaders, I guess as Professor Nye had alluded to earlier, can the U.S. be trusted when the chips are down? I think that is the bottom line question.

Mr. CALDER. Yes, I think that is right. But it is an interactive process. Here once again we come back to the importance of treating this alliance seriously, understanding what is happening on the ground in Japan, and responding to it. It isn't just something that happens automatically in terms of their political process.

Mr. FALEOMAVAEGA. Professor Alexander, did you?

Mr. ALEXANDER. We could go back and answer the question on your—

Mr. FALEOMAVAEGA. Yes, the GDP. Total U.S. GDP, I think it is \$15 trillion, but I may be wrong.

Mr. ALEXANDER. Comparing GDPs across nations as Professor Nye says, there are a lot of problems because we measure things in different ways, yen, dollars, euros. The appropriate way to do it when you can get the numbers is through purchasing power parity, because that really tells you how much stuff you are producing, the volume of stuff. We price things out in each country's currencies and make these comparisons.

The problem that Professor Nye alluded to with China is that we had very old prices that were something like 15 years old, and it took the World Bank and others several years to put together in

a massive effort a new set of prices. As he said, overnight all of a sudden the Chinese economy looked a lot smaller. Yet that is the correct way to do it. It turns out that China became larger than Japan around 2000. And I say around because the numbers don't allow us to really be finer than that.

So Japan today is roughly, depending on whose base you use, a third smaller than China, or China is 50 percent bigger than Japan. India is coming up fast, but is still 30 percent smaller than Japan. As we look to the future, Japan is number three in terms of output. China is growing fast, as has been alluded to. India is coming up fast. So Japan will be number three or number four for as long as we can look out into the future. I don't foresee a collapse of China as happened to the USSR.

India is coming up fast and could overtake Japan in say 5 years. But still Japan is going to be big, it is going to be rich, it is going to be powerful. When I look at Japan I think of Switzerland. Switzerland is a country with a very low growth rate, but it is rich. If you go to Switzerland you don't get a sense of a collapsing country, of poverty. You can't afford most of the things. And Japan is like Switzerland but many times bigger than Switzerland—a rich, stable, slow growing country.

Mr. ROHRABACHER. Mr. Chairman, let us note with those figures was we are trying to cope what this means Japan, and this is what I learned as a young boy when I lived there as two of our panelists lived there as well, is Japan in terms of natural resources is a very poor country. And the very basic natural resource, which is the amount of territory and land available to the people is limited, which should cause us to reflect on how countries do succeed, how a country can become a rich country.

When I lived there, the Japanese people lived in rubble, and from the aftermath of World War II, my father did fight in the Second World War, and let me just note that during my lifetime my father would always come to me until the time he passed away and say, you know the Japanese people are the people you can trust to keep their word. And he became a businessman after he left the Marines, and said, when you shake hands with a Japanese businessman, you can count on it, and he is not going to try to find little loop holes to get around the agreement that he has made, which as a lot of other people in that region try to do.

I think that integrity level among the Japanese and their again striving for excellence and striving for perfection, these elements in their culture has permitted them to succeed with very strong limitations where they don't have energy and they don't have land and they don't have the natural resources that you think of as some other countries do in that area. So we should note that and promote, knowing that if other countries are to succeed, perhaps those are the types of things in the future, rather than just giving away resources, foreign aid, et cetera, we should be focusing on some of the more basic things that permitted countries like Japan to succeed.

Mr. FALEOMAVAEGA. Professor Nye, I know you have an airplane to catch, and we cannot thank you enough for coming all the way here to offer us your insights and tremendous help to the members.

Mr. NYE. Thank you, Mr. Chairman, and I am sorry to have to leave, but it is an unfair world, while I often wait for airlines, they never wait for me. Thank you.

Mr. FALEOMAVAEGA. Thank you again, Professor Nye.

I am sorry, Professor Alexander. When you mentioned one-third, from a layman's point of view, can you help us with the real numbers in terms of trillions of dollars?

Mr. ALEXANDER. Yes. What is real?

Mr. FALEOMAVAEGA. Well, with some symbolism I think.

Mr. ALEXANDER. I am looking at World Bank figures that I have here for 2007. The U.S. has something like—

Mr. FALEOMAVAEGA. \$19 trillion?

Mr. ALEXANDER. More like \$15 trillion.

Mr. FALEOMAVAEGA. \$15 trillion.

Mr. ALEXANDER. According to these World Bank records, this is 2007.

Mr. FALEOMAVAEGA. Okay.

Mr. ALEXANDER. China is less than half that, a little over 6.

Mr. FALEOMAVAEGA. \$6 trillion.

Mr. ALEXANDER. So we are talking about the Chinese economy, even growing at the rate it is, say 10 percent a year and the United States growing say 3 percent a year, it is going to take 10 to 11 years for China to catch up if China continues that kind of growth rate. But, there is nothing that assures us that it will. It is still undeveloped. It is still on the average a poor country, although if you go to Shanghai it might not look that way, but it is a poor country but growing very rapidly. It has to keep together its political, its economic institutions, it has to live with increasing pollution as has been mentioned, that will have a negative effect over the long run. So it is hard to say when China might catch up in absolute scale with the United States.

Mr. FALEOMAVAEGA. I want to add on to what my good friend from California said earlier. I think, with a sense of amazement, how a people with no resources, a population somewhere between 100–125 million, from rubble, developed a democracy and to the extent now it is the second most powerful economy in the world. And I think that really speaks well for the industry and the creativity of the Japanese people and how they are able to come this far or this high in terms of their industry. And I think I could not agree with my friend from California more in saying this.

Mr. ALEXANDER. You have emphasized what Congressman Rohrabacher said on this: From that rubble in the Second World War, the thing that survived was what economists like to call the human capital, the capabilities, the knowledge, the technical abilities, the education, the skills and management abilities that they had before and during the war; there was vast physical destruction but the human capital survived, and the habits and the institutions and the way they did things.

So with American help and with even more of their own contributions, they started investment going, rebuilding going, they could build on that basis that was not destroyed—the human element and the human capital and the enormous sacrifice and effort that they put into it. And it wasn't really much of a surprise to economists when things then slowed down in the 1970s. They

caught up with their potential. There was that miracle, and it truly was a miracle, but when they caught up with that potential, with the physical infrastructure, the investment, the human capital, and they all started growing together, we got the deceleration of growth down to this long range trend of rich countries of about 2 percent a year.

Mr. FALEOMAVAEGA. My apologies, I am sorry. I didn't mean not to give my good friend time for his line of questions. Mr. Inglis, you are welcome.

Mr. INGLIS. Thank you, Mr. Chairman. Actually, this ties in exactly with what I, it may sound like an opening statement now but it is really in the form of a question is that, what we have just been talking about I think illustrates a wonderful opportunity for the United States to participate with Japan in the reinvention of energy sources. Because Japan is a country with so little resources but yet has the human capacity to innovate.

This is our great strength too, so it seems to me there is a tremendous opportunity for us to collaborate and to figure out a way to break this addiction to oil. Because what I see is a collision course that we are on with China, we and Japan, really the whole world is on a collision course if we are going to continue to be dependent on oil. And so what a fabulous opportunity for us to figure out that, we have got a lot more resources than Japan does, and there is this false hope that many have that we can drill in our dirt and solve our problem.

Well, we won't do it with OPEC having 70 percent of the world's known oil reserves and us having 3 percent of the world's known oil reserves, we really need to drill here in our heads rather than in our dirt. Sure, we have got to drill in the dirt in short term, but it is really not a very bright thing to do. It doesn't take much to do it, you just stick a pipe in the ground in the Middle East and up comes a bubbling crude, and the people stay generally under oppression because it enriches somebody at the top and everybody else stays sort of poor and not very educated.

So Japan has a completely different strategy, and it is one that I think that we should be pursuing, and what a fabulous opportunity. So here is the question finally. You know, we are talking cap and trade and it is very interesting that we are here in the Subcommittee on Asia, Pacific, and Global Environment, it is very appropriate I suppose to ask this question here. Cap and trade, I am going to predict for you, is in some trouble in the Senate, and may get through the House but it won't get through the Senate.

If that happens, then what about a replacement? And the replacement that I would love to get your comments on is this thought of something that really can bring left and right together, reduce payroll taxes, in an equal amount impose a tax on carbon dioxide. It is a revenue neutral tax swap. And then apply, this is a crucial thing for us and Japan vis-à-vis China, apply the mixture to imported goods as well as domestically produced goods. It is a border adjustment that we are working to make WTO compliant.

That would make it so that then, China sort of needs to join us at that point, needs to join countries like Japan and the United States, it might be interested in taking this action because it doesn't behoove them to have a downstream application of a carbon

dioxide tax when they could enjoy the administrative efficiency of an upstream application. So, anybody want to comment on that kind of concept?

Mr. FALEOMAVAEGA. Gentlemen, I just want to add one thing to what my good friend is saying. We are currently having to import over \$700 billion worth of oil every year from foreign countries, so I appreciate the gentleman's question.

Mr. ALEXANDER. Professor Nye did comment on this, and Professor Calder is one of the world experts on this question. I will make a few very brief points. First, economists love the idea of a carbon tax or carbon dioxide tax, and then giving people back the money in payroll taxes. So you increase the price of one thing but give the people back the money to spend and it does everything economists would like to do.

Japan itself is one of the most energy efficient advanced countries. It uses less energy per unit of GDP than any other rich country, it has tremendous technology. Now the United States has the science. Japanese science is not really up to the mark in terms of what it needs for the future. American science and basic research is at the forefront. So with this combination of Japanese technology and experience, something like a carbon tax which would give the incentive to really look for those technologies and look for those means, I think is a good combination. I am certainly not a politician to say how that is going to—

Mr. INGLIS. And by the way, before we hear from Dr. Calder, in fairness to the people who are advancing cap and trade, they would say it attaches a price to carbon and I would agree with that. It is just that it doesn't do it in as elegant a way and as transparent a way as what we are talking about. Besides, the bill that I am talking about, it is Inglis, Flake, Lapinsky Bill, is 15 pages long. As compared to I think Waxman Markey now is over 1,000 pages. So you can do ours in 15 pages. Dr. Calder?

Mr. CALDER. I think this is a very interesting idea. I am not familiar with the details of your proposal, so I am hesitant to respond to it categorically, but the notion of forcing China toward greater energy efficiency through some kind of a competitive process it seems to me is a positive one. It could actually help to catalyze some of the cooperation, this trilateral cooperation that Professor Nye was talking about.

If I might also just add on resources, as you have mentioned and the chairman and Congressman Rohrabacher, the lack of resources and the differences in the energy circumstances of the United States-Japan relationship is going to be extremely important. It is something that the Japanese are deeply concerned about. Of course they have been very effective in improving efficiency, they have pursued safe applications of nuclear power, of course we haven't solved the storage problems and so on.

But broadening the relationship to include more consideration of energy along the lines we have discussed, you know, all of it, alternative dimensions to oil, to me it is one of the most important potential ways of strengthening the alliance and also speaks to some of the security concerns that are arising in northeast Asia as well. I think it is definitely a win-win area and we need to think much more seriously about specific proposals.

Mr. INGLIS. Yes.

Mr. GREEN. As you probably know, Congressman, the Japanese Government has committed to Kyoto, to cap and trade, they just announced very ambitious targets, and they have introduced an experimental emission trading scheme that, since there is no cap is kind of a game, but just to see how they would trade emission credits. I have actually talked to a number of Japanese CEOs and executives, it is a project I am working on and I have been interested in their views, privately they all would prefer a green tax.

And the reason they say, it is because they don't want in their case the Japanese bureaucrats meddling or the diet or others getting involved. I mean the 15 pages versus 1,000 pages would really resonate with a lot of Japanese company executives. But it is not where the government is, the government is moving ahead with cap and trade scheme. I would also, I think we need to look more seriously at what we can do with Japan on this.

Japan I think it actually is the most energy efficient country in the OECD by quite a significant margin, and I have been watching the new Energy Department leadership and others talk about what they want to do in Asia, and they have very ambitious and impressive plans for cooperation with China and dialogue. I have yet to hear anything of any significance from the White House or State or DOE on what they want to do with Japan, which has all of these enormous capabilities that would really help us help China work through their problems. So I am glad you asked the question because, I don't mean this as a criticism, the action is with China in many ways, but people are forgetting how much Japan has to offer in cooperation with us to get that done.

Mr. INGLIS. And, Mr. Chairman, if I could just extend a little bit longer just to say this, that another challenge of cap and trade is the uncertainty of the price of the credits. And so I would think that a reason that some of those CEOs may be more interested in a clear and transparent tax is then you can see the line of taxation, you can see what rate it is going to be, and you can predict the point at which your new technology can defeat the incumbent technology. As it is with cap and trade, the price of the credits will fluctuate, so when do you bring the plug-in hybrid to market? Well, it is a big question.

But if you have a revenue neutral tax swap and you can see the trajectory of that tax line which we propose to start at \$15 a ton and end over 30 years at \$100 a ton, then you know the point at which you can compete. And it gives certainty to the marketplace. And I think that is an advantage that business types see and frankly I think that a lot in the political world have sort of fallen in love with the concept of the girl rather than the girl when it comes to cap and trade. They really want a girlfriend, they want to believe in this concept of girlfriend, but if they really take a look at her.

Mr. FALCOMA. It depends if the girl is good looking.

Mr. INGLIS. I think what they can look at there, is that when they see cap and trade with all of her warts, they are going to say, Gee she isn't quite as beautiful as we thought she was. But we will see as this process goes on. I hope though that we can work in a cooperative way with our partners like Japan to produce something

that is very clear, very workable, that doesn't punish trade, but rather applies it equally to imported and domestically produced goods and that works here in the United States on both the left and the right.

The two people that are very big on this concept that I am talking about here are Art Laffer, Ronald Reagan's economics adviser, and Al Gore. And so that is a broad spectrum. They may actually have gotten together in Nashville where they both live and talked about this concept, and it is pretty exciting when you can get people that divergent together in saying, gee we can work together on this. So thank you, Mr. Chairman, for the opportunity.

Mr. FALEOMAVEGA. No problem. I guess on the issue of climate change and global warming and with implications on energy resources, the major issue that is now being debated and discussed even in the Congress at this point in time, I guess it will come down really to three countries that will have to take the lead on this whole question of what my friend was saying—India, China and the United States.

With Japan, I would say we should follow the lead that Japan has taken with its initiatives in addressing some of these environmental problems coming out as a result of what we are faced with, as my friend from Illinois would say, man-made pollution.

One other issue that I wanted to share with you gentlemen concerns nuclear waste. For years this exchange has been going on between France and Japan, and most recently there was a shipment of MOX, a kind of a nuclear oxide. It is very, very lethal, and a shipment was sent from France going around the Cape of Good Hope in Africa through the Indian Ocean through southeast Asia all the way up to Japan. The amount of this MOX was sufficient to build 200 nuclear weapons. It is the biggest shipment ever. Do you think that Japan and France should continue to make these kinds of shipments?

If something happens, let us say due to pirates or some accident, realizing people say, "Well these things don't happen." Well we said the same thing about the Valdez in Alaska regarding the oil spill there. I am very concerned. We can't even figure out how we are going to get rid of our nuclear waste. Of course Yucca Mountain in Nevada was the chosen state.

And to this day not one ounce of nuclear waste has been shipped to Nevada, because here is the question—whose states, whose towns, whose cities are going to be traveled through whether by truck, by train, by airplane or whatever, that will eventually end up in Nevada? Nevada doesn't want it. And it seems to me if you are going to produce electricity as a result of using nuclear energy, don't you think that a given country or state should store its own nuclear waste? Well, do you think it is right that Japan and France continue to do this? Dr. Calder?

Mr. CALDER. Just very briefly, the one thing I could add on that point is of course domestic reprocessing is one way to reduce this. I agree with you that it is dangerous and should be reduced or eliminated. Over time, I think the Japanese plans certainly are to stop this kind of transfer, but then to do a domestic reprocessing within Japan itself.

Mr. FALEOMAVEGA. Dr. Green?

Mr. GREEN. For the reasons that Kent just said, I think it is appropriate Japan and France are doing this because the aim is to create a cycle that would be sustainable and reduce dependence on fossil fuels and other things. And the security is good. I would add one footnote though, since you raised it, and this is getting in the weeds, I apologize, but there is a new organization being formed by the Nuclear Threat Initiative called WINDS, which is I think the World Institute for Nuclear Security.

Mr. FALCOMVAEGA. By Senator Sam Nunn?

Mr. GREEN. That group. And they are very keen to have Japan be a core member. And the purpose of this group is to have government and business come together and improve security for nuclear power plants for these kinds of shipments. Japan hasn't joined yet, and they should. And it is not for any substantive reasons, it is just bureaucratic wrangling in Tokyo. So there are things, for the concerns you raised, Congressman, there are reasons why Japan really needs to step up and show it is taking security of nuclear fuel and facilities more seriously. It is good, but it is probably not good enough in the age we live in.

Mr. FALCOMVAEGA. Dr. Calder?

Mr. CALDER. If I might add just one point, I think the issues that we are talking about here show exactly why a United States-Japan bilateral energy dialogue, we have had these as Mike said with China, with Korea, with all sorts of other countries, we don't have a bilateral energy dialogue with Japan. In some form or other, it does seem to me that that is important, because often our views can help to provide the kind of important input into Japanese decision making on exactly the kind of issues he is talking about.

Mr. FALCOMVAEGA. I don't know if this question was answered, but for the record I am going to restate it since maybe I didn't state the question properly. We all know that under Japan's constitution the whole framework of its defense structure is strictly to defend the country, not to take offensive means to attack another country. We all understand that. But given the realities of the world that we now live in, do you think that it is time that Japan needs to change that, that its military should take a more offensive posture in terms of being an active participant like other countries that conduct peacekeeping operations under the auspices of the United Nations?

If you really want to be a real participant, you have got to be willing to spill your blood too in the process. Anybody can print money, but to bring somebody back after being killed, it is nothing like that. We all know the realities of that. But Japan is a democracy, Japan has all the military capabilities like any other, with an economy second only to the United States. Should Japan's military be more offensive in its operations in concert with whatever alliance agreements or whatever operations with the United States or even with United Nations peacekeeping forces, whether it be in the Middle East or other troubled areas of the world?

Mr. GREEN. I recently had the privilege of speaking to the Japanese National Defense Academy, and these young men and women were eager to demonstrate that Japan could carry its full burden in international society, and I think you find among diet members, almost regardless of party, that diet members in their 30's and 40's

and 50's feel strongly the same way. So I think the trend, perhaps incrementally, but the trend is going to be toward Japan doing more. For example this new law that passed on anti-piracy, which is really quite significant in many ways because it allows the use of force to save other ships, not just Japanese ships.

So there is movement in that direction. I think there should be more movement. I think that it is unfortunate that Japan has only several dozen peacekeepers abroad right now doing U.N. peace-keeping operations when China has thousands. Whether or how those constraints are lifted and Japan plays that larger role really is up to the Japanese people. It is a democracy, and I am personally quite confident that as these issues of the constitution or collective defense are addressed, it will be transparent and it will be for the right reasons. And it is not really for us in many ways to say. The question of offensive capabilities is a little bit different.

And for our entire alliance the United States has had the responsibility for taking the fight to the enemy if there is a threat to Japan. As I said earlier, there are debates in Japan about whether Japan ought to have a little bit of that capability themselves. If there is an operational reason, if it strengthens defense, deterrents, dissuasion, makes Asia more stable, in my view we ought to consider it, we ought to talk about how we do that in the alliance. If it is just for the sake of having offensive capabilities, perhaps it doesn't make as much sense. But I do think that is going to be an area where this administration and subsequent ones are going to have to talk to our Japanese allies about how we define our roles and missions.

Mr. FALEOMAVAEGA. Dr. Calder?

Mr. CALDER. I think there are two additional points that have to be made. First of all, the issue of interoperability and cooperation with the United States. I think those are both quite fundamental. For us the most important change I would say is some change in the understanding of collective self defense, so that Japan could cooperate more flexibly with our forces. Interoperability is another element.

The second point, I think Japanese transformation of their defense capabilities, it is for the Japanese people to decide, but they are divided internally, and particularly given the tangents in the region and history, there is a possibility that Japan could go further than would be stable for the region as a whole I think. And so from that perspective, some appreciation, not any direct intervention on our part, but respect for the other tradition in Japan, of namely the sufferings that Japanese people went through in relationship to the war and so on, I think somewhere in a nuanced way, that also has to be a piece of our approach since these issues are going to be quite debated domestically in Japan.

Mr. ALEXANDER. Just one quick issue here. I was doing some research on the use of civilian technology in Japan for defense purposes and wanted to talk to companies like Sharp about LCD displays; they wouldn't talk to me because I wanted to talk about potential military uses. The company at first flatly refused to speak to me. After a lot of cajoling and discussion, they finally did it, but at a restaurant. Finally it looked as though I was okay, and we had meetings at their corporate headquarters.

But it was an indicator to me, it was not only Sharp but Sony, other companies as well, about how strong some of these ideas written into the constitution are among the Japanese public. And I was actually quite surprised that as much as we know has gone on in the developments in the political military sphere, still among the people and among corporate leaders, these feelings of the pacifist constitution are still very powerful.

Mr. FALDOMAEGA. Dr. Calder, you had indicated earlier in your statement that you say that Japan is changing, is not static. I consider the changes going on with the two major parties and the ups and downs no different from our own political system. But there seems to be concern in some circles saying that Japan is going down the drain because its politics have become so bad. And I don't know, after going through with our own sense of politicking the last 20 years, I certainly wouldn't say this is a point of admiration in our own political system as the pendulum swung from one end to the other. Can you elaborate a little? I would like to think of it more positively: The up and coming Democratic Party versus the Liberal Democratic Party, I think is great.

Mr. CALDER. Well, you present an extremely important question. On the face of it, it does seem to me there is no big difference between the ups and downs that we have and possibly two-party competitive politics, which in the longer run I think Japan is headed for. But the important contrast, and I think the key point, is that this pattern would be sharply different from the past 50 years of Japanese politics, which has fundamentally been one-party dominance, preeminent role for the bureaucracy, not a great deal of debate on security issues.

But particularly in the context of a security system, which is somewhat unusual in comparative perspective. We have the peace constitution; we have all kinds of constraints on deployment of forces, and so on. So that the shift is not in a sense totally parallel to what would be the case here because there is a different embedded history. I think what that means, the bottom line, and fortunately the Japanese people I think are becoming more and more sophisticated and sensitive on security issues, is again, it is a very interactive American diplomacy with Japan including and on-the-ground element, the embassy, the consulates, the American centers I think are going to be much more important in the future.

Because security with two parties and the kind of debates, you know, that more transparent than we have here, is probably what will begin to emerge more in Japan. And presenting the American point of view not only to bureaucrats or not just dealing with things behind doors, you know, between the ministries or at the White House level, but also dealing with the public side of this, I think that is really the big change that is going to occur. That is why the focus of a lot of my testimony has to do with public diplomacy and the way that we are organized and what we do on the ground in Japan.

Mr. FALDOMAEGA. Whose phone is that? Turn off your cell phone please. Somebody's cell phone is on.

Nine thousand Marines are going to leave Okinawa with about a \$15 billion price tag on it in terms of transferring the Marines to Guam with some 20,000 dependents. We have Members of Con-

gress who say, enough is enough, why should we continue having military forces in other countries? Why don't we just bring our soldiers back home whether it be in Europe or the 50,000 in Japan? Why should we continue having 50,000 soldiers in Japan? Do we need our soldiers there? Japan is capable of defending itself, are they not?

Mr. GREEN. Of course, Members of Congress, the American public have been asking those questions since 1945, whether we have to have so many troops abroad, and the numbers have come down considerably over the past 60 or 70 years. The answer in the region is, absolutely they have to be there. We recently did a survey at our institute of strategic elites in nine Asian countries, and they in spite of economic integration, in spite of increasing summits and cooperative efforts, they fundamentally do not trust security in the region absent the American presence. And that goes for Japan, Korea, Australia.

Mr. FALEOMAVAEGA. And why is that?

Mr. GREEN. Well, part of it is we are, as Secretary Madeline Albright once said, the indispensable power. We are the onus broker. Relations among Asian states are complex; in most cases they have better relations with us than they do with their neighbors, so that is part of it. Part of it is because they are focused on economic growth. Success for a leader in China, Korea, Thailand, anywhere except basically Burma and North Korea, depends on providing growth and opportunities for their people.

And they can't do that if they have to start looking over their shoulders and worrying about a possible war with their neighbors. So they want to keep focused on economic growth which is good for everyone. And then of course you have all these big, big questions. What is China going to do with its increasing power? What is North Korea going to do with its nuclear weapons?

So for a pretty small investment at the end of the day, we buy ourselves stability in the region, access for economic relations, good will frankly in spite of some of the issues around local bases. And we manage the changing power dynamics in a way that means we can, you know, live up to Joe Nye's strategy of integrating China and not having to worry as much about the hedging piece of the equation.

Mr. FALEOMAVAEGA. Professor Calder?

Mr. CALDER. I agree with that very much. I do think our foreign deployment is important and its role goes far beyond the military. One could add as well the humanitarian side of this. For example the tsunami in 2005, the United States was the only, by far the first nation and the main nation that responded to that tragedy across the Indian Ocean because of its global presence. So it is a diplomatic role, it is military, of course in an age of terrorism we can't forget that aspect of it. But it goes really far beyond that. That said, having just done a book in that area, I do think that it is politically contingent. We have to be sensitive to the local politics in the key countries, and that includes Japan, in thinking about the stability of our basing network.

Mr. GREEN. I should add briefly if I could, the one other reason it is a good deal for us, frankly, is because our Japanese and Korean allies pay billions and billions of dollars a year, and if you did

the math it would be a lot more expensive for us to actually station them at home. That is how much they value our presence, and Kent is right, there are challenges at the local level with bases, but there is no ground swell in Japan or Korea for us to go home. I think there is a pretty broad consensus at a national level that our presence is critical for their national interest as well.

Mr. FALEOMAVAEGA. And if our presence really has the right decision or the right reasons for it, we paid a dear price in Vietnam. For 10 years we couldn't even figure out what our foreign policy should have been, at the cost of almost 60,000 lives of our men and women in uniform. That was not a very pleasant experience for me as a veteran who served in Vietnam. And it seems that we didn't learn our lesson from Vietnam, and look what we have done in Iraq.

We have expended over \$900 billion supposedly to go after Saddam Hussein who never attacked us in 9/11. So we have got some real serious problems here—and I say at least in our relationship with Japan overall from your testimonies, gentlemen, the relationship is sound. I deeply appreciate your coming and sharing with us and with the American public. I don't know how far this television broadcast is going, but I hope we have given better insight, better understanding, and helped better relations between our two countries. And with that, gentlemen, thank you again for coming. The hearing is adjourned.

[Whereupon, at 12:21 p.m., the subcommittee was adjourned.]

A P P E N D I X



MATERIAL SUBMITTED FOR THE HEARING RECORD

SUBCOMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT
Eni F. H. Falcomavaega (D-AS), Chairman

June 24, 2009

TO: MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

You are respectfully requested to attend an OPEN hearing of the Subcommittee on Asia, the Pacific, and the Global Environment to be held in Room 2200 of the Rayburn House Office Building:

DATE: Thursday, June 25, 2009

TIME: 10:00 a.m.

SUBJECT: Japan's Changing Role

WITNESSES: Joseph Nye, Jr., Ph.D.
University Distinguished Service Professor
Sultan of Oman Professor of International Relations
Harvard University
(Former Dean of the John F. Kennedy School of Government)

Michael J. Green, Ph.D.
Senior Adviser and Japan Chair
Center for Strategic and International Studies
Associate Professor
Georgetown University School of Foreign Service

Kent Calder, Ph.D.
Director, Edwin O. Reischauer Center for East Asian Studies
Director, Japan Studies
Johns Hopkins University

Arthur J. Alexander, Ph.D.
Adjunct Professor of Asian Studies and Economics
Georgetown University
(Former President of the Japan Economic Institute)

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee as noted above.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF SUBCOMMITTEE ON ASIA, THE PACIFIC AND THE GLOBAL ENVIRONMENT

Day: Thursday
Date: June 25, 2009
Room: 2200 Rayburn House Office Bldg.
Start Time: 10:07 a.m.
End Time: 12:26 p.m.
Recesses:

Presiding Member(s): Chairman Eni F.H. Faleomavaega

CHECK ALL OF THE FOLLOWING THAT APPLY:

- Open Session [X]
Executive (closed) Session []
Televised [X]
Electronically Recorded (taped) [X]
Stenographic Record [X]

TITLE OF HEARING: "Japan's Changing Role"

COMMITTEE MEMBERS PRESENT: Rep. Rohrabacher, Rep. Inglis

NONCOMMITTEE MEMBERS PRESENT:

WITNESSES: Same as meeting notice attached? Yes [X] No [] (If "no", please list below and include title, agency, department, or organization.)

ACCOMPANYING WITNESSES: (Include title, agency, department, or organization, and which witness the person accompanied.)

STATEMENTS FOR THE RECORD: (List any statements submitted for the record)
Chairman Faleomavaega Ranking Member Manzullo, Dr. Nye (witness), Dr. Green (witness), Dr. Calder (witness), Dr. Alexander (witness)

[Handwritten signature of Lisa Williams]
Lisa Williams
Staff Director

COMMITTEE ON FOREIGN AFFAIRS
SUBCOMMITTEE ON ASIA, THE PACIFIC, AND THE GLOBAL ENVIRONMENT
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

Donald A. Manzullo (IL-16), Ranking Member
Opening Statement

June 25, 2009

Mr. Chairman, thank you for calling this important hearing regarding the changing role of Japan in international affairs. I want to underscore my deep appreciation for the long-standing friendship and alliance that the United States shares with Japan. This important partnership between our two countries is stronger now than ever before.

In 2007, I had the honor of hosting Japan's Ambassador to the U.S. at the time, the Honorable Ryozo Kato, in the northern Illinois congressional district that I have the honor to represent. That visit stands out in my mind because it demonstrates just how close our two nations have grown in the past decade.

The U.S.-Japan relationship is even more critical today than ever before because both countries face substantial challenges regarding global economic stability, nuclear nonproliferation, and the fight against terrorists. It is imperative that the U.S. and Japan coordinate closely to ensure that the current economic downturn does not do more harm. The northern Illinois congressional district that I represent has a long and positive relationship with Japan. Foreign direct investments by Japanese companies continue to support countless jobs in the district. For example, Nissan Forklift in Marengo, IL currently employs 350 hard-working constituents.

Mr. Chairman, Japan's more active participation in international affairs is a welcome development especially during a time when North Korea's belligerence is reaching unprecedented levels. It is not beyond the realm of possibility that a hostile attack by North Korea could target Japan. After all, North Korea has already fired several long range missiles over Japan in the past few years. We must work closely with Japan, South Korea, and other partners in the Proliferation Security Initiative to stop Pyongyang from acquiring or selling more weapons. Thus, maintaining America's strong friendship with Japan is indeed vital to the stability of Northeast Asia.

I look forward to hearing the testimony from our panel of expert witnesses.

