

# The Heritage Foundation **Backgrounder**

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**UPDATE**

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## **CHANGING THE SUBJECT AT THE U.S.-JAPAN SUMMIT: SECURITY IS NOW MORE IMPORTANT THAN TRADE**

(Updating Asian Studies Center *Backgrounder* No. 124, "Reshaping the National Spirit of Japan, June 26, 1992.")

Prime Minister of Japan Morihiro Hosokawa arrives in Washington this week for an important trade summit meeting with President Bill Clinton on February 11. Clinton's objective is to force Japan to increase its purchase of such American manufactured products as automobiles, auto parts, and telecommunications equipment.

Japan agreed last year to buy \$19 billion of U.S.-made auto parts by the end of March 1995. Clinton now wants to expand this commitment by approximately 20 percent for each of the next three to four years. The Clinton negotiators also want Japan to increase its imports of foreign telecommunications equipment to the approximate levels of other major industrialized Western nations, or about 25 percent. Japan now imports only five percent of its telecommunications equipment.

For the American service industry, which in 1992 enjoyed a multi-billion trade surplus with Japan, the Clinton trade negotiators are trying to calculate indices by which to measure foreign penetration of Japan's market. Unfortunately, the Clinton Administration effort to manage trade is ill-advised with regard to the politics and economies of both America and Japan.

Instead of trying to force Japan to buy a specified amount of goods and services from particular sectors of the American economy, Bill Clinton should use the summit to reach agreement with Japan's Prime Minister on the biggest challenge that today should unite Washington and Tokyo: North Korea's nuclear weapons program. America and Japan have a greater immediate interest in agreeing on how to face this threat together than they do in disagreeing over trade.

As Director of Central Intelligence James Woolsey told the Senate Select Committee on Intelligence last month, "North Korea could already have produced enough plutonium for at least one nuclear weapon. North Korean [builds] 1000 kilometer range missiles which can be made capable of carrying nuclear weapons.... Potentially at risk is most of North East Asia...."

Japan falls within range of these missiles. As America's second largest trading partner and the keystone of the U.S. military's stabilizing presence in Asia, Japan's security is far more important to America than the trade issues which divide the two nations.

### **BOTH JAPAN AND AMERICA ARE CHANGING**

Although the theme of Bill Clinton's campaign and presidency has been change, his Administration's policy toward Japan has overlooked the significant changes that have taken place in both countries since Clinton was inaugurated.

The U.S. is now clearly in the midst of an economic recovery. Housing starts, automobile sales, consumer confidence, and factory orders are all up. Were it not for a change in the reporting of federal statistics, unemployment figures for January would show the decrease that has characterized them steadily for the past twelve months. Indeed, so strong is economic activity that, to prevent the possibility of overheating and inflation, the Chairman of the Federal Reserve Board, Alan Greenspan, last week announced an increase in the prime rate for the first time in five years.

**Economic Funk.** Japan, by contrast, is in a real economic funk. The Nikkei Stock Average wallows around in the high teens, less than half the 39,915 figure reached on the last day of December 1989, which marked the high-water mark of the Japanese bubble. The long-term value of commercial property in Tokyo, according to Kenichi Ohmae, director of McKinsey & Co.'s Japan operations, is less than 70 percent of where it stood five years ago. Ill economic omens arrive daily: In the autumn of 1993, Tokyo area department stores' sales fell more than 10 percent from the previous year and registered their twentieth monthly drop.

Last month, Japan's Labor ministry summoned executive officers of a machine tool manufacturer, the Okuma Corporation, to justify why the company's mandatory retirement age had been lowered from 60 to 56. The company wanted to make ends meet, and the ministry was trying to sustain retirement standards that were set in better times. According to the Japan Automobile Manufacturers' Association, the country's auto production fell by 10.2 percent in 1993, the largest single decline in 46 years. The government's Economic Planning Agency warns that a recovery may not occur until the middle of 1995.

The political landscape has changed, too. Most important, the Liberal Democratic Party (LDP), which had ruled Japan for 38 years, lost power in July. It was replaced by a coalition headed by current Prime Minister Morihiro Hosokawa. He came to power calling both for an end to the widespread corruption that has characterized Japanese politics for decades, and for political reform that would offer the Japanese people real choices in elections.

At the root of Hosokawa's political reforms are measures that will increase democracy by ensuring that each representative district elects a single member to the national legislature. Under the old system, the election of several members from each district suppressed political differences, and encouraged bribes as the principal means to influence elections. The reforms also will reduce the excessive power of rice growers who, until now, have commanded three times as much representation in the Diet as city-dwellers.

The LDP's fall from power, and Prime Minister Hosokawa's success in attacking corruption and increasing democracy do not change Japan overnight. They do not in the twinkling of an eye make Japan hospitable to foreign products. But they do indicate a new direction for Japan following its successful fifty-year post-World War II effort to rebuild the nation into a great commercial power.

**Problem of Success.** Japan's problem today is its success: the government's mercantilist policies encouraged its people to put their hard-earned money into savings, and it assisted Japan's great companies in accumulating tremendous wealth. But the same policies also made the prices of Hondas and Toyotas cheaper for Chicagoans by making them more expensive for the citizens of Osaka. An unholy alliance between entrenched bureaucrats and big business kept low-cost American rice out of Japan to succor the powerful domestic rice lobby. And the same cozy relationship between powerful bureaucrats and LDP politicians also drove up the price of Tokyo real estate and enabled Japanese industry to go on its famous international dumping expeditions of the 1980s.

The Japanese people have had enough of these policies, and those who live in the 45 percent of homes that lack flush toilets would like to improve their lives. Prime Minister Hosokawa's predecessor, Kiichi Miyazawa, who fell from power when the LDP was defeated, knew that Japan was ready for change when he came to office in November 1991. In his maiden speech, he told the Diet that he wanted to make Japan "a lifestyle superpower." But Miyazawa was not the politician to take the long steps needed to make that happen.

Hosokawa is taking these steps. But as the head of a fractious coalition that includes Japan's unrepentant Socialists, he is hanging on to political life by the fringe of a summer kimono. Last week, for the second time in as many weeks, his government narrowly survived a crucial parliamentary test. Hosokawa's proposal to cut indi-

vidual income taxes to stimulate the economy nearly resulted in the government's fall last week when the Socialists threatened to walk out.

## **BOLSTERING HOSOKAWA'S REFORMS**

The Clinton Administration is trying to take advantage of Japan's political upheaval and economic weakness to force a regimen of managed trade on Tokyo. This is a major mistake in the Administration's handling of foreign affairs. But, unlike in Bosnia, Somalia, and Haiti, the problem is not weakness. It is ignorance and inexperience.

Hosokawa's efforts to change Japan offer the best hope that Japanese consumers rather than its bureaucrats will start to shape Tokyo's policy. Consumers do not want to pay four times as much for domestic rice as they would for imported rice. Hosokawa ended Japan's ban on rice imports in December. And, as Bill Clinton himself noted in a speech last July at Waseda University in Tokyo, "the average Japanese family pays more than twice as much of [its] income for food as the average American family." Japanese consumers want to see the amount of money they have to spend on food and other goods come down. Prime Minister Hosokawa's reforms are empowering Japan's consumers.

Bill Clinton and his advisors should understand the intention of Hosokawa's policy. Clinton's policy should seek to strengthen Hosokawa, and ensure his success. A prime minister who returns to Japan having been forced to buy specified amounts of particular American products will be weaker. He will find it more difficult to survive and continue to make the changes that promise more jobs for Americans who export to Japan, and a better standard of living for the Japanese.

## **CHANGING THE SUBJECT AT THE SUMMIT**

The most diplomatic way to get out of a bad situation is to change the subject. Clinton can steer clear of the situation his advisors have placed him in with Japan by changing the subject from managed trade to the threat posed by North Korea's nuclear weapons program. There is excellent reason to shift the focus of the February 11 meeting to this serious issue.

The most important reason: Washington and Tokyo have a clear and shared interest in preventing Northeast Asia from embarking on a nuclear arms race. North Korea's ability to threaten Japan with nuclear bombardment would pressure Japan to consider building its own atomic weapons program—especially if because of deteriorating trade relations, Tokyo fears the loss of American defense protection. A nuclear-arming Japan would dismay the Asian nations that still remember Japanese aggression in World War II; it also would induce China to redouble its effort to expand its defenses, add to the pressure on South Korea to develop its own unconventional weapons, and initiate similar pressures in such places as the Republic of China on Taiwan.

All of this, in turn, would hurt the entire region's rosy economic future. Money spent on weapons does create jobs. But it also generates legions of defense procurement bureaucrats and forces otherwise competitive private companies into a debilitating dependence on government work and military contracts. Such an occurrence in Asia would take the economic wind out of the western Pacific rim's sails. And, the U.S. would suffer too as the fastest growing market for its goods and services shifted its attention to weapons, as well as the means to deliver and defend against them.

Bill Clinton should use this week's summit with Morihiro Hosokawa to discuss America and Japan's common interest in addressing North Korea's nuclear ambitions. Specifically, Clinton should:

- ✓ **Urge Hosokawa quietly to cut off as much as possible the flow of cash from people of Korean ancestry living in Japan to their relatives in impoverished North Korea.** This infusion of hard currency provides North Korea with at least \$600 million per year. Its unpublicized reduction would be a signal of Japanese resolve to North Korean ruler Kim Il-Sung that he, in turn, can respond to without appearing to lose face;

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- ✓ Discuss before U.N. action takes place what measures the U.S. and Japan need to take if international pressure fails to open North Korea to international inspection of its nuclear facilities;
- ✓ Conclude the summit with a smile, a handshake, and a joint statement that tells the world that the U.S. and Japan stand together as allies in the face of the serious problem raised by North Korea's nuclear weapons program.

By acting like statesmen, both leaders will appear as statesmen. Hosokawa will be able to go home without having been weakened by submitting to a managed trade regimen. And Clinton, having strengthened Hosokawa so that he can continue his reforms, will advance America's interest in a Japan that welcomes American products. The rest of Asia is likely to benefit as well: a strong U.S.-Japan relationship is the region's most powerful bulwark against whatever danger the future holds.

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