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## **REVITALIZING THE U.S.-JAPAN PARTNERSHIP**

### **INTRODUCTION**

The visit of Secretary of State George Shultz to Japan, so soon after the journey of Prime Minister Nakasone to Washington, ensures that the contentious issues in U.S.-Japanese relations will continue to receive high-level and priority attention. Attention itself, however, is not sufficient. What must come out of this intense review of U.S.-Japanese relations is firm agreement on the specific steps to be taken to restore the alliance between these two nations to full vitality.

Secretary Shultz should take guidance from the approach of Prime Minister Nakasone and make his visit to Japan a substantive working visit focusing on ways of resolving the serious trade and defense disagreements that exist.

It is substance, in fact, which needs to be addressed in defense, global burden sharing, and particularly in matters of trade. At times, in recent months, the trade related recriminations that Japan and the U.S. have hurled at each other almost have blurred the fact that the two nations have enormously strong and warm ties binding them to each other. It is the underlying strength of the relationship that makes it so important to resolve the trade differences. If the two countries fail to do so and if progress on this matter is not made, then the postwar, free-trade-based international economic order, which has brought unprecedented prosperity to many nations, including Japan, will be in danger of crumbling under mounting American demands for protectionism.

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The strains caused by growing differences over trade--and defense--threaten the exceptionally close and special relationship that Japan and the U.S. have enjoyed in the post-World War II decades. The roots of the current frictions are outmoded policies and attitudes laid down in the early postwar years when Japan was a minor factor in a world dominated economically and militarily by the U.S.

In the past decade, however, Japan has emerged as a major factor in the global economy, even as the global military balance has shifted alarmingly against the U.S. and its allies. In historic terms, these fundamental changes have come about very rapidly. The adjustments necessary to resolve the current differences are immense, and a satisfactory resolution will require patience, perspective, and understanding on both sides. But the differences can be resolved. It is vital that they are.

Three distinct but interrelated subjects should form the agenda for the Shultz visit to Japan: 1) the question of future U.S.-Japanese commercial relations; 2) the Japanese defense posture; and 3) the Japanese contribution to the enhancing of democratic values and institutions world wide, including ways for the Japanese to share some of the burden of U.S. global responsibilities.

The trade issue is urgent. Influential sectors of the U.S. government and public still endorse the principle of free trade. But there are growing pressures for direct action to alter the U.S.-Japan trade balance, as well as to counter what are perceived to be protectionist policies of the Japanese government. Unless the Japanese address these strongly felt concerns, it is increasingly likely that the U.S. could shift away from the free trade principles that have been the cornerstone of postwar international economic growth. Of course, the U.S. also must be willing to act to meet legitimate Japanese concerns regarding its trade and economic policies.

With respect to defense, the U.S. hopes that a maturing Japan will assume greater responsibilities for its own defense, as well as sharing to a greater extent in an Asian defense perimeter. While Japan has been increasing its defense efforts, there is a widely shared consensus in the U.S. that significantly more can and should be done by the Japanese. The public remarks of Prime Minister Nakasone during his visit are encouraging, but specific actions must follow.

There is also a perception in the U.S. that the Japanese could do well to take a more active international role generally. Without taking a directly confrontational role vis-a-vis the Soviet Union, there is much that the Japanese could do economically and politically to bolster the free world and democratic values. This takes an even higher priority in view of the new U.S. commitment to a "Democracy Project."

The U.S. and Japan must do more than acknowledge that problems exist. They must go further, perhaps by establishing a timetable for American and Japanese working groups to deal with the outstanding issues. Working groups on trade, defense, and global responsibilities should be established with a mandate to report within a certain time with step-by-step measures to alleviate the problems. Only through such specifics can those Americans advocating changes in U.S. policy be persuaded that Japan is making the efforts necessary to resolve the critical U.S.-Japanese differences.

The recent Reagan-Nakasone summit, the upcoming Shultz visit, and the policies pursued by Japan in the following months will determine whether U.S.-Japanese relations will maintain a steady course, whether Japan is moving toward a fuller defense partnership with the U.S., and whether the postwar, free trade international economic system can retain its vitality. Only this can assure continuing prosperity to the Japanese and other free Asian nations. And only this will promote the continuing stability and closeness of the U.S.-Japanese alliance.

#### THE NEW JAPANESE GOVERNMENT

In a totally unexpected move, Prime Minister Zenko Suzuki on October 12, 1982, tendered his resignation as President of the ruling Liberal Democratic Party (LDP).

In the primary balloting, held in late November, over 974,000 rank-and-file members of the LDP (approximately 93 percent of the membership) cast mail ballots. The results indicated a landslide victory for Administrative Management Agency Director General Yasuhiro Nakasone over three powerful rivals. He captured 57.6 percent of the vote (559,673 ballots) compared to 27.3 percent for his closest rival, Toshio Komoto, Economic Planning Agency Director General. With the LDP controlling the Diet, it was assured that Nakasone would be elected Prime Minister to succeed Suzuki (See Appendix I for cabinet profiles).

Now 64, Nakasone was born in Takasaki, a city 70 miles northwest of Tokyo, the son of a leading timber merchant. Though he attended local schools in his youth, his collegiate education was provided at the prestigious Imperial University of Tokyo. While still enrolled in the law department of the university, he passed the higher civil service examination.

Upon graduation, he joined the powerful Interior Ministry, but within a week was inducted into the Imperial Navy, eventually rising to the rank of lieutenant commander. Shortly after the war, Nakasone returned home, entered politics, and won a seat in the Diet on his first attempt in 1947.

Twelve years later, he won his first major cabinet appointment, when Prime Minister Nobusuke Kishi named him Director General of the Science and Technology Agency and Chairman of the Atomic

Energy Commission. In 1967, he took over the leadership of a small LDP faction. The following year, while serving as Minister of Transportation in the Second Sato Cabinet, Nakasone formed his own faction within the LDP, Shinsei Doshikai.

In 1970, he was named Chief of the Defense Agency in the Third Sato Cabinet. In that post, he published Japan's first Defense White Paper. Throughout the 1970s, he held several cabinet seats, including Minister of International Trade and Industry and Minister of State for Science and Technology, serving also as Secretary General of the LDP during the Miki cabinet.

Nakasone is one of the most cosmopolitan and widely traveled members of the LDP. He understands English better than any other postwar Japanese Prime Minister. A man of exceptional ability and sophistication, he is also a rather complicated figure by Japanese standards and something of a maverick. During his early career in the LDP, he was considered something of a "Young Turk" and a hawk on defense issues. More recently, he has been accused of political maneuvering, particularly for shifting his support from Takeo Fukuda to Kakuei Tanaka after the June 1972 resignation of the late Prime Minister Eisaku Sato.

On issues of principle, however, Nakasone has not wavered. His commitment to a strong Japanese defense force has been consistent since the end of World War II. Even then, he was convinced that as he said, "complete independence would only come when Japan was capable of administering and defending itself and of contributing in some measure to the security and well-being of other states." For that reason, he called for an immediate revision of the Constitution following independence and for establishment of an independent defense system under total civilian control. Needless to say, he was branded by some as a "dangerous individual, steeped in rabid nationalism." Yet had Japan and the occupational authorities followed such advice, and demands that Nakasone himself still feels were "eminently reasonable," much of the defense dispute between the U.S. and Japan would not exist.

Most observers expect that initially Nakasone's policies will differ little from those of Suzuki. The latter concentrated on trying to shrink the budget deficit while barely appeasing the United States with modest defense-spending boosts and measures to open Japan's market to U.S. goods. Such an approach sits well with many LDP members in the Diet as well as with major business leaders and a large share of the public. It is for this reason that bold leadership is needed to acknowledge the problems and to take the measures to resolve them before they are resolved for the Japanese by an impatient U.S. Congress with measures not in the long-term interest of either the U.S. or Japan.

## TRADE

No issue poses more of a threat to U.S.-Japanese relations and to the health of the global economy than does trade. In particular, friction has developed over growing U.S. trade deficits with Japan, allegations of Japanese protectionism, and rapid incursions into U.S. markets by Japanese exports, mainly steel, autos, and high technology equipment.

These issues have served to restimulate long dormant protectionist sentiments in the United States resulting in such measures as, for example, the Domestic Content legislation<sup>1</sup> passed in 1982 by the U.S. House of Representatives. At stake are not just specific issues, but rather the broader concept of "free trade" espoused by the Reagan Administration and the Japanese government.

### Trade Deficits

In the period 1976-1981, the U.S. incurred a cumulative merchandise trade deficit with Japan of some \$56 billion. In 1980 alone, the deficit reached \$10.4 billion; a year later it jumped to \$15.8 billion (\$18.1 billion counting shipping costs for imports). Though 1982 figures are not yet available, it is estimated that the trade deficit will soar to nearly \$20 billion.

Most of the U.S. merchandise trade imbalance with Japan is in automotive vehicles and consumer goods (see Table). Market penetration has occurred mainly in textiles, television sets, automobiles, motorcycles, and steel. Japan's market penetration has proved so rapid in some cases that American domestic industry has found it extremely difficult to adjust.

Of course, other factors unrelated to Japanese policies have exacerbated the difficulty American firms have encountered in competing with the Japanese: high U.S. interest rates, rising American wage scales, the unwillingness of U.S. firms to make long-term commitments to the Japanese market, the failure to design products to meet Japanese standards, inadequate language training for American businessmen abroad.

While Japan has made some moves to ease the trade imbalance (e.g., the May 1981 decision to voluntarily restrict auto exports to the U.S. to 1.68 million units per year and the March 1982 decision to extend that ceiling for yet another year) persistent problems still exist over tariff and nontariff trade barriers.

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<sup>1</sup> Domestic content legislation in essence forces car manufacturers to use increasingly more American parts and labor in proportion to their sales in the United States (by 1986 rising scale would demand 90 percent domestic content of companies selling over 900,000 vehicles). For a detailed analysis of this problem, see Catherine England, "Domestic Content Laws: Will They Save the Auto Industry?" The Heritage Foundation Issue Bulletin No. 87, August 24, 1982.

U.S. Merchandise Trade and Balances With Japan by Commodity Group  
1990 and 1981  
[in billions of dollars (F.s.a.)]

<u>Commodity</u>	U.S. Imports		U.S. Exports		Balance	
	<u>1980</u>	<u>1981</u>	<u>1980</u>	<u>1981</u>	<u>1980</u>	<u>1981</u>
Total	30.7	37.6	20.8	21.8	-9.9	-15.8
Foods, Feeds, Beverages	0.3	0.3	5.4	5.9	5.1	5.6
Industrial Supplies and Materials	5.9	7.2	9.5	9.0	3.6	1.8
Capital Goods, Except Automotive	6.6	8.6	4.1	4.6	-2.5	-4.0
Automotive Vehicles, Parts, Engines	11.4	13.0	0.2	0.2	-11.2	-12.8
Consumer Goods (nonfood) Except Automotive	6.2	8.3	1.2	1.3	-5.0	-7.0
Other	0.3	0.3	0.4	0.9	0.1	0.6

Source: U.S. Department of Commerce. Highlights of U.S. Export and Import Trade.

### Trade barriers

Over the past fifteen years, Japan has reduced gradually its protectionist barriers in its industrial sector, though not in agriculture. Japan's tariffs on industrial imports are scheduled to fall from an average of 5.0 percent to 2.5 percent over the first seven years of the 1980s. (Comparable U.S. tariffs are to fall from 6.1 to 4.2 percent) Tariffs on most industrial products, however, are not a serious barrier to imports.

It is quite a different matter for agriculture. These tariffs are serious. Though Japan is America's largest market for wheat, soybeans, and a host of other agricultural products, there are still serious tariff barriers in agriculture. Only since November 1980 have the Japanese agreed to reduce tariffs from 90 percent to 35 percent on cigarettes, 60 to 35 percent on cigars, and from 110 to 60 percent on pipe tobacco. "Authorized" (government-approved) retailers for imported tobacco were increased to 20,000 (out of a total of 250,000). Advertising of American tobacco products was permitted for the first time. In May 1982, the number of "authorized" retailers was increased to 70,000, and the government noted that eventually all outlets would be able to handle non-Japanese brands.

Other areas of the agricultural sector are less open to foreign goods. Though the amount of authorized exports of U.S. citrus and beef to Japan have been increased by 17,000 and 14,000 metric tons respectively, this is very little in terms of the potential demand. With Japan's agriculture noted for its high inefficiency and overproductivity of rice, it would seem that cheap U.S. farm products would be welcome. The agricultural sector, however, is one of the most powerful constituency groups of Nakasone's LDP.

Nontariff barriers continue to be one of the major impediments to U.S. penetration of the Japanese market. Rigid import quotas, approval and inspection procedures, the restrictive distribution system, and special commercial arrangements based on Japanese culture are but a few of the barriers.

Upon assuming office, Nakasone pledged not only to continue measures to open markets but to speed them up. On December 24th the Japanese government announced its decision to lower tariffs on 86 items (see Appendix II), including tobacco, chocolates, and biscuits which figure prominently in its trade frictions with the United States and European nations. The government plans to carry out these cuts beginning in April 1983, together with tariff reductions for 228 other items decided upon when its second package of market-opening measures was devised.

With respect to tobacco, Japan will lower the present rate from 35 to 20 percent. The rates for chocolates and biscuits each will be brought down from 31.9 to 20 percent. The government also announced on January 13, 1983, that further market-opening measures "of an overall nature" (i.e., nontariff barriers) were forthcoming. Some of these changes are expected as early as March 1983.

While specific tariff and nontariff reductions are welcome, a more comprehensive approach to overall trade issues is essential if the fundamental trade problem between the U.S. and the Japanese is to be resolved.

There is no doubt that the trade issue is the single most divisive matter in U.S.-Japanese relations. Should significant agreement be reached in the near future on trade questions, the defense and global burden-sharing issues can be resolved in an amicable atmosphere; should the trade issues not be resolved, the atmosphere could become so discordant that attempts to resolve the other disputes would inevitably fail.

The initial signs under Nakasone are encouraging. Nonetheless, given the record of limited implementation following past Japanese verbal assurances, skepticism and continuing U.S. pressure are justified. Perhaps the most useful approach now would be the establishment of a five-year plan with specific target figures to be reached in terms of reduced trade imbalance, reduced tariff and nontariff barriers, and related measures. Within that five-year plan, specific goals and actions to be undertaken for each year within that period would also be established. Perspectives and guidelines on future trade negotiations (for example, with natural gas, oil, and coal development including Japanese investment in Alaska) could also be set.

All of these specific goals obviously cannot be established immediately, yet agreement in principle to establish a plan could be made, and a joint working group established to develop specific

actions and a timetable for implementation. A firm deadline for both governments to agree on the final working group proposal should be set. In early February, when both Secretary of State Shultz and Trade Representative Bill Brock will be visiting Japan, perhaps the issue of a five-year plan could be broached, and an agreement to establish the joint working group could be initiated. The group could set May 28, 1983, as the deadline so the report could coincide with the Williamsburg economic summit.

Among the specific actions which Japan should pledge for the five-year plan are:

- o further reform of the setting and administration of its standards;
- o further reduction in requirements that importers obtain approval from other ministries prior to clearing customs;
- o reduction and eventual elimination of tariffs particularly on lumber, tobacco, paper, computer parts, chocolate, and leather;
- o phasing out of remaining import quotas and streamlining administration as this occurs;
- o creation of additional opportunities for participation by U.S. firms in procurement by Japanese government agencies;
- o making policies on foreign direct investment fully clear and providing full national treatment for foreign investors;
- o cessation of the shielding of "targeted industries" from import competition, especially beef and citrus;
- o liberalizing Japan's capital markets.

In addition to these specific ways in which the Japanese can contribute to the resolution of the trade balance problem, there is another issue, which was raised during the Reagan-Nakasone discussions that requires study and joint U.S.-Japanese action.

In order to more efficiently use American oil and natural gas from Alaska, exports of both products should be permitted to Japan. This would reduce the balance of trade deficit with Japan by the amount of such sales. In a forthcoming Heritage Foundation study, Dr. Fred Singer, Senior Fellow, estimates Alaska's potential oil reserves at upwards of 47 billion barrels.

Unfortunately, the Alaska pipeline is being underutilized, and even half of the 1.6 mbd now leaving Valdez travels to U.S. Gulf Coast refineries via expensive Panama Canal or Cape Horn routes. Transporting Alaskan oil to Japan would cost an estimated 50 cents per barrel, contrasted to \$5 a barrel via these routes. It is estimated that the U.S. could ship as much as .8 mbd of oil



to Japan (worth about \$9 billion a year) and possibly 3.2 billion cubic feet per day of liquefied natural gas to markets in Asia. Thus the U.S. Congress should remove export restrictions on the sale of oil and natural gas from Alaska. Besides benefitting U.S.-Japanese trade, it would also provide more energy security for Japan by diversifying their suppliers away from the Middle East.

### Defense

American sentiment has been increasing that Japan is not doing enough to protect itself militarily or to defend East Asia from a mounting Soviet threat. With big U.S. federal deficits forcing Americans to look hard at their own defense needs, there is growing attention to ways in which America's allies can assume more of the costs of defending the free world.

Though Prime Minister Nakasone had stated that he favored increasing Japan's defense expenditures by 7 percent in FY 1983, the actual figure approved by his government is 6.5 percent.

Japan's national budget for FY 1983 is expected to be around \$210 billion, up only 1.4 percent from 1982--the lowest increase in twenty-eight years. The defense budget will be \$11.475 billion, up from \$10,775 billion in FY 1982. The rate of increase is down from the 7.35 percent increase originally requested by the Defense Agency and the 7.75 percent jump in spending for FY 1982. The new defense allotment will be 0.977 percent of GNP, leaving it just below the 1 percent ceiling on defense spending set in 1976. This 1 percent figure is being approached, however, not because of much greater defense spending, but because of economic stagnation making defense a relatively larger share of GNP.

Despite the disappointingly low hike in defense outlays, Nakasone has indicated strongly that he would introduce a supplementary budget this year, which would grant retroactive pay raises to government workers, including members of the military. This would boost overall military appropriations by over 8 percent, adding some \$165 million beyond the 6.5 percent announced increase.

Though this anticipated increase would substantially raise defense spending, it is not really sufficient to deal with the current problems, especially those raised by Prime Minister Nakasone in his January 18 interview with The Washington Post editors and reporters. During those discussions, Nakasone spoke of increasing Japan's air strength to prevent the increasing Soviet penetration of Japan's air space, to secure complete and full control of straits that go through Japan's islands, and to maintain the ocean lines of communication surrounding the islands.

Originally, the Japanese Self Defense Agency requested a 7.34 percent increase, so that it could meet the weapons procurement plans outlined in the Second Mid-Term Program Estimate (Five

Year Program)<sup>2</sup> scheduled to begin in FY 1983. In this plan, the Defense Agency, among other things, planned to procure much modern military equipment, including fighters, helicopters, tanks, missiles, and a large quantity of armored cars, howitzers, and mortars. Under the new defense budget, the procurement program will be slashed.

It now appears, for example, that there will only be enough funds to buy thirteen F-15 fighter-jets rather than twenty, seven P-3C anti-submarine warplanes instead of ten, and two destroyers rather than three. Though these cuts may seem minimal, Washington has been suggesting that the Mid-Term Estimates are themselves inadequate, as is the 1976 Defense Outline on which it is based, to meet the changing military environment in the Pacific.

In June 1981, at the U.S.-Japan Security Conference held in Hawaii, the U.S. suggested that Japan add four squadrons of F-15 fighters to the ten squadrons of interceptors set in the 1976 Outline. Japan's destroyer force target should also increase from 60 to 70, and submarines from 16 to 25. American delegates also suggested that the Japanese build an anti-submarine aircraft force of 100 P-3Cs.

If Japan were to achieve the targets set by its 1976 Defense Outline and the Second Mid-Term Estimate by 1987, which is now virtually impossible, it would have an impressive air defense and a much improved anti-submarine warfare capability. At present, of course, it does not. In fact, there are serious deficiencies:

- o The Air Self-Defense Force consists of over 350 combat aircraft, including ten interceptor squadrons with 150 F-104DJs and 130 F-4EJ fighters. Both are obsolete.
- o Japan's air bases have minimal survivability; they lack modern surface-to-air missile defenses as well as a modern radar system.
- o Within the ASDF, reserves are inadequate;
- o Of the Ground Self-Defense Forces of 910 tanks, 70 percent are of 1960s vintage;
- o Most artillery and anti-tank weapons systems are outmoded;
- o Transport capabilities are generally inadequate;

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<sup>2</sup> The Mid-term Defense Program Estimate charts the future course on major projects of especial importance to the GSDF, MSDF, and ASDF in formulating annual defense programs, budget requests, etc., for an annual defense capability buildup based on the 1976 Defense Outline.

- o Logistics support is generally inadequate;
- o Most of the anti-submarine warfare (ASW) vessels are vulnerable to air attack;
- o There is shortage of air support for ASW vessels;
- o All branches of the Self-Defense Forces (SDF) encounter shortages of ammunition and spare parts;
- o There is no integrated command and control for the services; and

Japan must take account of the continued and unrelenting buildup of Soviet conventional and nuclear military power. Moscow deploys in Asia approximately 460,000 troops formed into 51 divisions; of these, about 360,000 (39 divisions) are stationed in the Far East.

To remedy its defense shortcomings, the Nakasone administration should begin a long overdue assessment of Japan's defenses and its role in the security of the Western Pacific. In particular, the new government should develop:

- o clear definition of "self-defense" and an explicit constitutional framework for the Self-Defense Forces;
- o major revision of the Second Mid-term Estimate and more importantly a major review of the National Defense Program Outline of 1976.

On the issue of Japan's role in "sea lane" defense, the Reagan-Nakasone discussions brought welcome news. Apparently, the U.S. and Japan have agreed to conduct an eighteen-month study on how Japan can take charge of the security of sea lanes in the Western Pacific. Eventually, military responsibility for that body of water "extending between Guam and Tokyo and between the Strait of Taiwan and Osaka" will be transferred from the U.S. Seventh Fleet to Japan.

While Nakasone's comments on increased air and naval expenditures were welcomed in the U.S., the Soviet News Agency, TASS, threatened that such plans would "make Japan a likely target for a retaliatory strike." This is but another attempt by the Soviets to "finlandize" Japan by intimidation and fear. It must be forcefully rejected by both the U.S. and Japan.

#### SHARING THE GLOBAL BURDEN

The need for enhanced cooperation between the United States and Japan extends far beyond the contentious issues of trade and defense spending that have received the most attention. With the

emergence of Japan as a leading economic and political force, Tokyo-Washington collaboration on numerous other issues can contribute substantially to the attainment of the two governments' goals of establishing a more secure, stable, and democratic environment in the world. In fact, perhaps Japan's most important role in world affairs has been and will continue to be her contribution towards the solution of a whole range of international economic problems. Among these:

Assistance in Asia: Japan has played a vital role in encouraging and sustaining the economic development of Asia; 70 percent of Japan's bilateral aid goes to countries in Asia. The rapid economic growth of Korea, Taiwan, and the Association of Southeast Asian Nations (ASEAN) countries in particular have taken place in tandem with Japanese economic expansion. Japanese bilateral and regional assistance programs as well as investment have encouraged this development. Many Asian states, however, suffer from severe economic problems, particularly debt management. Japan should provide more bilateral aid to the ASEAN states, as they are now doing with South Korea. Tokyo also should foster better commercial relations with all the countries by trying to reduce bilateral trade deficits.

International Assistance: Beyond East Asia, Japan should assume more responsibility for assisting countries important to the free world which are suffering from various economic problems. At present, Japan has the fourth largest Overseas Development Assistance program in the world. In January 1981, Japan set a target of disbursing more than \$21.4 billion in ODA between 1981 and 1985. Under Prime Minister Nakasone, the FY 1983 increase is set at 7 percent, the only budget item other than defense to be increased. Japan can thus continue to provide critical aid to countries such as Turkey and Pakistan. Similarly Japan, which imports so much oil from the Middle East, could assist in the reconstruction of Beirut and thereby encourage the creation of a viable government in Lebanon.

Refugee Assistance: Around the world, but especially in Southeast Asia, Japan can contribute much more financially, to aid refugees. Given its enormous population pressures, it is understandable that Japan limits the number of refugees that can settle in Japan. However, Japan can contribute both aid and personnel to mitigate refugee suffering. The December 11, 1982, agreement between the U.S., Japan, and the Philippines concerning support for refugee resettlement programs is an encouraging development. Under this agreement, there are new medical and dental stations, laboratory facilities and equipment, nurses, dental assistants, and medical technologists in the Philippine Refugee Processing Center at Morong, Bataan. Japan has also agreed to help strengthen the job training programs to better prepare the refugees for gainful employment in their country of final destination.

Assistance to Latin America: Japan can also use its economic and other resources to assist in the development of countries in the Western Hemisphere which also share borders on the Pacific Ocean. Just as Japan has developed large markets in this area, the government can help the development of those markets with programs that complement the U.S. efforts under the Caribbean Basin Initiative and other projects. Japan has been helpful in the economic recovery of Jamaica under the Seaga government with a \$10 million program inaugurated under the Caribbean Consultation Group in March 1981. In Jamaica in particular, and the Caribbean Basin in general the U.S. needs more sustained leadership in supporting programs there in order to engender the kind of support that Japan may be capable of providing.

A project of potentially major importance in the region has been seriously examined in Japan: the building of a sea-level canal through Panama. A new sea-level canal would revitalize commerce in the region and especially benefit U.S. domestic and international trade. For example, much of Alaskan oil presently flows through expensive small tankers transiting the canal.

U.S.-Japanese Cooperation: Besides closely coordinating policies dealing with developmental problems, the United States and Japan can engage in numerous other mutually beneficial projects.

1) High technology and joint ventures. Japanese industry should be interested in investing in development of U.S. oil, minerals, and other raw materials. Through joint ventures with U.S. companies, Japan may be able to secure a reliable supply of materials from the U.S., while helping American companies modernize their industrial infrastructure. Exchanges may also be fruitful in the application of some microprocessing techniques to defense. At the time of the Nakasone visit, Tokyo took important steps to liberalize the transfer of defense related technology to the U.S. Another area of cooperation involves the use of space for communication, as well as possible sources of solar power.

2) Democratic Political Cooperation. As two of the world's largest democratic nations, the U.S. and Japan should expand international cooperation and exchanges among democratic countries. The Liberal Democratic Party already is taking important steps towards this by helping to create and promote the Pacific Democratic Union. Japan has also indicated important interest in promoting the ambitious Youth Exchange program being undertaken by the United States Information Agency.

United Nations Cooperation: The United States should propose creating a sixth permanent seat on the Security Council for Japan. This would both reflect the reality of Japan's role in the U.N. and increase Asian representation on the Council.

On various issues that come before the U.N., Japan should more boldly press for realistic means of addressing international

issues. One example of this is the Law of the Sea negotiations. On December 10, 1982, both the United States and Japan declined to sign the United Nations Law of the Sea (LOS) Treaty in Montego Bay, Jamaica. Twenty other nations chose not to sign, including the United Kingdom, the Federal Republic of Germany, Belgium, Italy, and South Korea. But because 117 nations signed the controversial accord, it will take effect with little difficulty. It will not, however, bind those nations that do not sign it. The U.S. has concluded that the treaty is not in American interests nor in those of world economic growth. As a major industrial state, Japan has much to lose by endorsing the concepts contained within the Law of the Sea Treaty.

Japan's desire to protect its ocean resources, to mine mineral deposits in the deep seabed, and to ensure its navigational rights and privileges can all be attained without signing the Treaty. In particular, Japanese ambitions for mining the deep seabed can best be realized within the framework formed by a separate agreement with the United States and its other major industrial allies outside the Law of the Sea Treaty.

## CONCLUSION

Thus, the agenda for the Shultz visit to Japan should be extraordinarily full. Initial discussions held while Prime Minister Nakasone was in Washington must be followed up with more concrete implementation procedures. The fact that Nakasone made the U.S. visit one of his first actions as Prime Minister is encouraging, but time is growing short for follow-through.

U.S.-Japanese relations are tottering on a precipice of misunderstanding and differing priorities in the areas of commercial relations, defense, and global burden sharing. Should U.S.-Japanese relations continue to drift apart, the vital interests of both nations could be harmed. While there remains a consensus in the U.S. that, all things being equal, free trade is the cornerstone of a sound international economic order, there is a rising chorus calling for protectionism. Japan's trade surplus with the U.S. and the penetration of Japanese goods into key U.S. markets are fueling the protectionist sentiments.

Free trade is the best policy. However, unless the Japanese take specific actions, which include a long-term, step-by-step agreement to ease trade barriers and other steps to alter the balance of trade problem, free trade could be buried by a protectionist tidal wave. The long-run impact of this could seriously injure Japan, the U.S., and the free world.

While the fundamental aspects of the defense alliance between the U.S. and Japan are still solid, a continuing unwillingness on the part of Japan to shoulder more of the responsibilities for financing the joint defense effort, as well as a failure to stake out more of a role in the physical defense of adjacent areas,

could unravel the partnership. The U.S. government and a substantial proportion of the American public feel that it is not unreasonable for Japan to contribute to the common defense in roughly the proportion that the U.S. itself and its NATO allies participate. While the U.S. is patient and recognizes that Japan's military growth must take some time, a firm commitment to this goal should be made by Japan.

Finally, a noticeably increased Japanese willingness to take on global responsibilities of a nonmilitary nature, to assist the U.S. in promoting democratic political institutions and economic development, would greatly ease the psychological climate which is the context of trade and defense disputes. Were Japan able to move out of its self-limited international role, it would be a sign of good faith that Tokyo is interested in a serious effort to resolve the trade and defense issues.

In contrast to former Prime Minister Suzuki, Mr. Yasuhiro Nakasone is known for bold and dynamic leadership and as one of a few senior Japanese politicians who consistently has called for Japan to fully accept the responsibilities and role of a mature industrial nation. In his few weeks in office, Nakasone has demonstrated determination to stand by his convictions, particularly by his strong support for defense budget increases. In his opening statement to Parliament, he broke precedent by frankly acknowledging Japan's great debt to the U.S. and the need for Japan to reciprocate by providing greater support for the U.S. now that it can afford to do so. By visiting the U.S. so soon and at a time when bilateral relations are so difficult, he further confirmed his determination to set Japan on a course toward a full and equal partnership in defense and trade with the U.S. which can only be welcome here.

What is required now is a fundamental restructuring of Japan's economic policies and trade relationships as well as a reconsideration of an appropriate and constructive world role commensurate with its economic and technological power and with strategic realities. This cannot be accomplished overnight. Nor can it be accomplished without sacrifices and bold new initiatives. Above all, it is necessary to perceive the current problems in perspective, to strive to establish a framework for laying down guidelines and goals.

Yasuhiro Nakasone visited Washington at a most difficult period in U.S.-Japanese relations. Though no formal communiqué was issued at the conclusion of the visit, all indications are that the talks were productive in lessening the frictions between the states. Still a great deal more needs to be done. It is to be hoped that Nakasone has the wisdom and vision and political courage to continue to do what is necessary to ensure a close U.S.-Japanese relationship for the foreseeable future.

APPENDIX I  
PROFILES OF THE NAKASONE CABINET

o Akira Hatano (71), Minister of Justice

Former superintendent general of the Tokyo Metropolitan Police Department. After retiring from police service in 1970, he ran unsuccessfully for the 1971 Tokyo gubernatorial election against Ryokichi Minobe. Hatano, a graduate of the night college of Nihon University in Tokyo, was the first night college graduate ever to rise to the top police post. Hatano received a certain degree of prominence when he publicly criticized the judge in the Tanaka trial for admitting evidence depositions of American executives of the Lockheed Corporation. As a member of the upper house of the Japanese Diet, Hatano is technically a political independent, though he is generally considered to be allied with the Tanaka faction. This is his first appointment to a cabinet post.

o Shintaro Abe (58), Minister of Foreign Affairs

Abe is a son-in-law of former Prime Minister Nobusuke Kishi and heir apparent to the faction controlled by former Prime Minister Takeo Fukuda. A graduate of the University of Tokyo, Abe was a prominent journalist of the Mainichi Newspapers. In the Suzuki cabinet, Abe served as Minister of International Trade and Industry.

o Noburu Takeshita (58), Minister of Finance

Considered a trusted aide to former Prime Minister Tanaka and No. 3 in the faction (after Secretary General Susumu Nikaido), Takeshita has held several cabinet posts. He served as chief cabinet secretary in both the Sato and Tanaka cabinets, construction minister during the Miki administration, and finance minister under Ohira.

o Mitsuo Setoyama (78), Minister of Education

A senior member of the Fukuda faction, Setoyama managed the unsuccessful campaign for Abe in the latest LDP presidential election. He was previously construction minister in the Sato cabinet and justice minister under Fukuda.

o Yoshiro Hayashi (55), Minister of Health & Welfare

A member of the lower house for the past 13 years, Hayashi has previously served in the Ministry of International Trade & Industry for some 19 years. A member of the Tanaka faction, this is his first cabinet post.



- o Iwazo Kaneko (75), Minister of Agriculture, Forestry & Fisheries

A member of the Suzuki faction, Kaneko hails from the fishing prefecture of Nagasaki and is considered an expert on fishery. Before being elected to the lower house of the Diet in 1958, he had been active in prefectural politics. Considered to be a staunch defender of Japanese farming and fishing interests.

- o Sadanori Yamanaka (61), Minister of International Trade & Industry

A leading figure in the Nakasone faction, Yamanaka is considered an expert in domestic policies. His last cabinet post was director general of the Defense Agency in the Tanaka cabinet. Considered energetic, fast-thinking and very outspoken. Close ties with the Japanese beef industry.

- o Takashi Hasegawa (70), Minister of Transport

A journalist-turned-politician and leading member of the Nakagawa faction, Hasegawa once served as labor minister under both Tanaka and Miki.

- o Tokutaro Higaki (66), Minister of Posts & Telecommunications

A member of the Nakasone faction, this bureaucrat-turned-politician has been elected to the upper house twice. After graduating from the University of Tokyo, he joined the Agriculture and Forestry ministry. Considered quite knowledgeable in agricultural affairs.

- o Akira Ohno (54), Minister of Labor

A son of the late vice president of the LDP, Bamboku Ohno, the new labor minister comes from Gifu Prefecture where he has been returned to the lower house seven times. He has assumed such posts as parliamentary labor and finance vice-ministers, and deputy secretary general of the LDP. He has no factional affiliation.

- o Hideo Utsumi (60), Minister of Construction

A member of the Tanaka faction, Utsumi has successfully been reelected to the lower house six times. A graduate of Chuo University in Tokyo, this is his first cabinet appointment.

- o Sachio Yamamoto (71), Minister of Home Affairs; Chairman of the National Safety Commission

A member of the Tanaka faction, Yamamoto was formerly head of Osaka prefectural police headquarters before his transfer to the construction ministry where he became vice-minister. Member of the lower house.

- o Masahara Gotoda (68), State Minister, Chief Cabinet Secretary

A trusted lieutenant of former Prime Minister Tanaka, Gotoda is a member of the lower house. Before entering politics, he was a former career bureaucrat in Japan's national police force, rising to the post of chief of the agency. Considered by most to be a key figure in Tanaka's brain trust.

- o Hyosuke Niwa (71), State Minister, Director General of the Prime Minister's Office & Director General of Okinawa Development Agency

A member of the Komoto faction, Niwa is considered a top expert on agricultural affairs. Former head of the National Land Agency during the short-lived Tanaka cabinet in 1974. Elected to the lower house nine times.

- o Kinikichi Saito (73), State Minister, Director General of Administrative Management Agency

A close associate of former Prime Minister Suzuki, Saito supervised the Nakasone LDP presidential primary. A graduate of the University of Tokyo, Saito began his government career with the powerful Interior ministry but then switched to the labor ministry following the Second World War.

- o Kazuo Tanikawa (52), State Minister, Director General of the Defense Agency

An American-trained education expert, Tanikawa is a member of the Komoto faction. A member of the lower house, he is considered dovish on diplomatic and defense issues. Fluent in English.

- o Jun Shiozaki (65), State Minister, Director General of Economic Planning Agency

A member of the Suzuki faction, Shiozaki has been playing a key role in tax affairs. After graduating from the University of Tokyo, he spent 26 years with the Ministry of Finance before entering the political arena.

- o Takaaki Yasuta (66), State Minister, Director General of Science and Technology Agency & Chairman of the Atomic Energy Commission

A domestic policy expert in the upper house, especially in finance and taxes. Former vice-governor of the Ishikawa Prefecture.

- o Matazo Kajiki (63), State Minister, Director General of Environment Agency

A member of the upper house, Kajiki has, for the past 2 years, served as chairman of the Diet Policy Committee of the LDP. He has devoted considerable time to land reform projects since joining the Agriculture & Forestry Ministry after his graduation from Kyoto University.

- o Mutsuki Kato (56), State Minister, Director General of National Land Agency & Director General of Hokkaido Development Agency

A member of the Fukuda faction, Kato is acknowledged to have an aggressive personality and to be a leading expert on railway and civil aviation administration. He has been labeled a "gray official" for his alleged involvement in the Lockheed scandal.

APPENDIX II  
DECEMBER 1982 REDUCTIONS IN JAPANESE TARIFFS

INDUSTRIAL PRODUCTS (Present rate/new rate in percent)

- o Items of interest to the U.S.: Cash registers & accounting machines, numbering six items (4.5-10.3/3.6-7.2); parts for calculators, etc. (4.9/4.2); unrecorded magnetic tapes, numbering two items (4.5 and 4.9/3.6 and 4.2); lead storage batteries (6.6/5.8); kraft papers, etc., numbering two items (11.8 and 7.7/9.3 and 5.9); corrugated paperboard, etc., numbering two items (4.9/4.2); paper coated with man-made resin, etc. (6.2/5.1).
- o Items of interest to the European Community: Flax-ramie handkerchiefs (21.5/12.7); land-use internal combustion engines of 500 horsepower or less (5.3/nil); forging-press machines, etc., numbering six items (4-7.5/nil).
- o Items of interest to the U.S. and the European Community: Farm tractors, numbering five items (4.2-5.9/nil).

FARM PRODUCTS (Present rate/new rate in percent)

- o Items of interest to the U.S.: Mangoes (7.5/final rate of Tokyo Round of multinational negotiations at 6.0); avocados (7.5/6.0); guava (7.5/6.0); grapes (15.6/13.0); dried grapes (3.1/2.0); walnuts (23.8/20.0); papaya (6.3/4.0); kiwi fruits (8.8/8.0); stearin of beef and pork fats (5.9/5.0); fatty materials obtained from wool grease (5.9/5.0); cotton seed oil (Y18.12 per kg/Y17 per kg); processed animal or vegetable oil (5.4/5.0); fatty alcohol (5.4/5.0); chewing gum, sugar-added (33.8/30/0); ripe olive (11.6/9.0); marmalade and fruit jelly, sugar-added (32/unagreed item of the Tokyo Round); canned peach of 2 kg or over (16.9/15.0); roasted almond (12.3/10.0); mixed vegetable juice, non-sugar (12.0/9.0); vegetable juice, non-sugar (12.6/12.0).
- o Items of interest to Southeast Asian nations: Coconut oil (9.4 or Y10 per kg/9 or Y10 per kg); castor oil (9.4/9.0).
- o Items of interest to the European Community: Cocoa powder (22.8/21.5); roasted chicory, extracts and essences (10.8/10/0).

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