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MEMORANDUM FOR THE VICE PRESIDENT
THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE DIRECTOR OF CENTRAL INTELLIGENCE
UNITED STATES TRADE REPRESENTATIVE
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: U.S. Policy Toward Japan (S)

We are scheduling a Deputies Committee Meeting for the week of February 22, in preparation for a possible Principals Committee Meeting, to consider specific steps we might take with regard to Japan. (S)

The objective of this review is to develop broad goals and strategies that will guide our policies toward Japan. In preparation for the Deputies Committee meeting, a possible Principals meeting, a possible visit by Prime Minister Miyazawa in March and a trip to Tokyo by the President for the G-7 Summit in July, a policy paper should be prepared based on the best current information, addressing the questions listed below in Parts I and II. No presumptions should be made about limitations on policy. Possible conflicts among different policy options should of course be part of the analysis. (S)

BACKGROUND

Our relationship with Japan is exceptionally complex and important. It forces us to deal with issues of globalization and interdependence, competition and burden sharing. Japan is one of our most important strategic (in the broadest sense) allies, often the most important political and economic partner on a broad range of regional and global issues, and the largest overseas export market for American goods and services. At the same time, the end of the Cold War, the growing trade imbalance and intractable market access problems are causing great strains. In the next few months we face potential disputes in civil aviation, semiconductors, and supercomputers and continued pressure for relief from the U.S. auto industry. The frameworks within which we have discussed trade issues with Japan (e.g. MOSS, SII) have been criticized in the Congress and elsewhere.

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Moreover, the priorities within our multifaceted relationship -- strategic, political, economic -- may not always be clear, to the Japanese or ourselves. (S)

The strategic framework in East Asia is predicated on a solid U.S.-Japan security relationship. The U.S. forward-deploys significant forces in Japan for regional and Middle East contingencies and Japan assumes the majority of the cost for their stationing. East Asian countries see the U.S.-Japan security relationship as the most stabilizing factor in East Asia. The security relationship with Japan enjoys broad public support in Japan, but Japanese government officials have warned us not to take it for granted. Many in East Asia are concerned that defense budget pressures will require a rethinking of U.S. forward deployments in Japan, and that the U.S. is lessening its strategic commitment to the region, influencing Japan to pursue a more independent and Asia-first foreign policy. There is potential for divergence of U.S. and Japanese policies toward China, Russia, Korea and Vietnam. (S)

In the post-Cold War era, there is a need for Japan to assume greater global responsibilities. Japan seeks permanent membership on the United Nations Security Council, a greater role in other UN organizations and is now in the process of generating public support to change its laws to allow greater participation in UN peacekeeping. Japan supports GATT but is unwilling to be a leader in moving the process forward; however, it is actively pursuing leadership on global environmental issues. In addition, Japan is the largest provider of ODA, much of it linked to Japanese economic interests, but increasingly taking into account broader interests as well. (S)

The Japanese economy is undergoing an economic adjustment that has left it with the lowest growth rates in decades. Business confidence is low and the financial sector has serious problems. The long term prognosis is not clear. However, Japan continues to have high investment in commercial R&D and is well positioned for a strong economic comeback. (S)

The problem of chronic Japanese trade surpluses with the U.S. and the world persists. While the U.S. trade deficit with most of the industrial world dropped sharply in the late 80's, following depreciation of the dollar, the deficit with Japan, after dropping for a few years, is rising dramatically, as is Japan's overall trade surplus with the world. The continuing trade deficit with Japan has led some in the U.S. to argue that Japan's economic structures and/or policies present unique resistance to foreign penetration and, therefore, require distinct U.S. trade policies more focused on measurable results. Others argue that such policies distort trade and undermine economic efficiency and long-term U.S. competitiveness. (S)

PART I: ASSESSMENT

-- What fundamental American interests are at stake with respect to Japan? (S)

- What is our strategic/security interest in Japan with the end of the Cold War and the diminution of the Russian threat? What is our security leverage with Japan? What do we want Japan to do? (S)
- How important is Japan as a political ally in East Asia, in other regions, in the UN and on global issues? What is the current trend in each area of U.S. interest? (S)
- What is the economic importance of Japan to the U.S. as a market, source of strategic goods, source of investment capital and as a coordinator on multilateral issues (e.g., foreign assistance)? How does this limit our ability to influence Japan? (S)
- To what degree do Japan's economic policies, practices and structures adversely affect U.S. economic interests at home and in third country markets? (S)
- How significant are Japan's bilateral and global trade and current account surpluses in economic terms? In political terms? (S)
- Will these imbalances increase or decrease? What are the key variables? (S)
- What have been the most effective sources of influence on Japan's economic policies? How important is outside pressure? Clear expectations and objectives? How effective would military/strategic leverage be in achieving economic objectives? (S)
- To what extent is Japan engaged in internationalization of its economy? What are the major remaining problems for foreign market and investment access to Japan? (S)
- Is Japan reformulating its international role and image? (S)
- Is Japan likely to embark on a more independent foreign security, and/or economic policy course? Is Japan's dependence on an export-driven economy significantly changing? What are the key internal and external variables in determining Japan's strategic and economic orientation? (S)
- What U.S. actions would have the greatest potential effect in increasing U.S. exports? Would a sectoral approach or a cross sectoral approach net more benefits? (S)
- How will U.S.-Japan relations affect U.S. interests elsewhere in East Asia and more broadly? (S)
- Korean peninsula, China, Southeast Asia, Russia, G-7, UN, Middle East? (U)

- Global issues including GATT, proliferation, environment, terrorism, human rights? (U)
- Is the current U.S.-Japan Treaty of Cooperation and Mutual Security effective? What, if anything, should be changed? ~~(S)~~

PART II: OPTIONS FOR POLICY

- What broad policy choices do we have to advance our interests with respect to Japan? ~~(S)~~
 - Strategic/Military? (U)
 - Political? (U)
 - Economic? (U)
 - What are the trade-offs among these three areas? (U)
 - Trade-offs against other Asian relationships? (U)
- What are the pluses and minuses and the implications for broader U.S. policy concerns? What are the budgetary, legislative, congressional, and public affairs implications? ~~(S)~~
- What regional security mechanisms would strengthen the U.S.-Japan relationships and would they be effective in terms of overall regional policy? ~~(S)~~
- What is the best framework within which to conduct the U.S.-Japan dialogue on economic, security and other issues? ~~(S)~~

PART III: TASKING

- The Assistant Secretary of State for East Asian and Pacific Affairs shall convene an Interagency Working Group, task specific drafting responsibilities, and set deadlines for drafts. ~~(S)~~
 - Should there be differences of opinion, they shall be clearly stated rather than compromised for the sake of an agreed product. (U)
- A final decision paper is due to the NSC Executive Secretary not later than February 19, 1993. ~~(S)~~



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