America’s Rebalance toward Asia:
Trade, Security & Resource Interests in the Pacific

April 11-18, 2014
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Table of Contents

Conference Overview ................................................................. 1

China’s Rebalancing: Implications for U.S.-China Economic Relations .................. 5
David Dollar, Ph.D.

The U.S. and Japan: Strategic Partners in Building a 21st Century Economic
Architecture in the Asia-Pacific Region ........................................ 9
Charles D. Lake, II

Japan’s Decision to Remain as a Tier One Nation; Seeking a New Framework for Dialogue with China;
What’s Really at Stake after Abe’s Remark in Davos ............................ 15
Tsuyoshi Sunohara

Energy and Environment in Northeast Asia ....................................... 25
Sharon Squassoni

Nuclear Threats in Northeast Asia .................................................. 29
Sharon Squassoni

Energy Security for the 21st Century: The Role of Nuclear Power after Fukushima .... 33
Nobuo Tanaka

Quiet Deterrence: Japan Needs a Careful Strategy to Manage its Strained Ties with China .......................... 53
Yoichi Funabashi

Can China Rise Peacefully? ............................................................ 57
Susan Shirk, Ph.D.

Multilateral Security Cooperation in Northeast Asia: Relevance, Limitations, and Possibilities .......... 63
Kim Tae-Hyo, Ph.D.
Addressing the U.S.-China Security Dilemma ..................................................69
Wang Dong, Ph.D.

America’s Rebalance toward Asia: Trade, Security & Resource Interests in the Pacific ............71
Ambassador Chan Heng Chee, Ph.D.

Straight Forward: The Political Implications of Taiwan-Mainland Economic Integration .............75
Chu Yun-han, Ph.D.

The Changing Security Environment in Northeast Asia and the Dynamic Role of Regional Relationships .................................................................81
Shen Dingli, Ph.D.

Navigating Conflicting Signals Sent Out by Japan, the United States, and China ..................89
Akio Takahara, D.Phil.

Watch the Russian and Japanese Diplomatic Dance; Asia Enters an Age of Increasing Uncertainty;
Watch the Rise of Asia’s National Security Councils; How China and America can Keep a Pacific Peace;
North Korea is an Asian Hybrid of Orwell and Hobbes; How American should handle a Changing Japan ..............................................................91
Kurt Campbell, Ph.D.

Conference Participants .................................................................101

Conference Agenda .................................................................105
Conference Overview

America’s Rebalance Toward Asia

The Aspen Institute Congressional Program convened a conference in Japan April 11-18, 2014 to focus on America’s Rebalance toward Asia: Trade, Security and Resource Interests in the Pacific. Twenty members of Congress engaged with 22 U.S. and Asian scholars on a number of issues affecting Asian and U.S. security, economic and energy interests. The Prime Minister of Japan, Shinzo Abe, addressed the group; as well as U.S. Ambassador to Japan, Caroline Kennedy. Participants also visited the operations at Yokosuka Naval Base and engaged with a 22 members of the Japanese Diet. In Kyoto the delegation visited a range of educational sites arranged by eight teams of students. Each team, led by an American student studying in Japan, and a Japanese student, experienced a unique educational itinerary. The congressional delegation was one of the most senior and diverse delegations to visit Japan in decades.

Many of the scholars contended that the history of the 21st century will largely be written in the Asia-Pacific region. East Asia is home to some of the most innovative and dynamic economies in the world. With billions of citizens looking for a better life, the prospects for growth and prosperity are nearly infinite. Despite these opportunities, endemic security concerns persist from North Korea’s nuclear provocations to growing challenges in the maritime domain and nontraditional challenges from natural disasters to cyber attacks. The conference provided an important strategic conversation one week before the visit of President Obama to Tokyo.

The proposed trade agreement called the Trans-Pacific Partnership has animated economic discussions throughout the Asia-Pacific region. The TPP is viewed by many in Japan as a mechanism to bind the U.S. to the security of its Asian partners. Some argue that the TPP has the potential to fundamentally change the face of economic interactions in East Asia, a region accounting for roughly 40% of global trade. In each potential member country, various stakeholders have concerns over certain provisions of the agreement, including investor-state dispute mechanisms, agriculture tariffs, tariffs and regulations on automobiles, as well as the role of State-Owned Enterprises. Negotiators are working to achieve consensus on these and other areas of concern central to this agreement such as environmental conservation and pharmaceutical regulatory frameworks. While these areas are proving to be some of the most challenging for negotiators, their eventual resolution could lay the groundwork for a more robust and resilient trade architecture in the Asia-Pacific.

Japan formally joined the TPP negotiations as part of a larger Japanese economic stimulus and regulatory overhaul program, centered on the so-called “Three Arrows” policy, including quantitative easing (macro-economic stimulus), public spending, and structural reform. The market has responded positively to Prime
Minister Abe’s reforms. The Nikkei rallied to nearly 50% of its total value, inflation targets were met, and consumer confidence rose. Abe hopes to push forward “shovel ready” projects to improve Japan’s aging infrastructure, create more jobs, and encourage growth. Some of the targets, including agriculture, labor markets, immigration, healthcare, and female participation in the workforce, involve tackling deeply entrenched aspects of Japanese industry reticent to foreign competition or regulatory reform. Japanese policies to increase the participation of women in the workforce are a key element of Abe’s restructuring and were repeatedly raised as important steps by many participants.

Nonetheless, the TPP faces hurdles in the U.S. Congress based on concerns about the potential domestic impact on jobs, and the challenge of approving Trade Promotion Authority, which the administration contends is essential to secure a lasting agreement.

Across the Sea of Japan, President Park Geun-hye also faces a unique set of challenges in South Korea. A key plank of Park’s domestic agenda is her commitment to underwrite a vast social welfare scheme to care for South Korea’s aging population. Other commitments include continuing high rates of economic growth, aiding the continued global expansion of Korean companies while also supporting Korean small and midsized companies.

Chinese economic growth (while slowing) continues to drive forward and generate wealth across a large spectrum of society (both in China and throughout Asia). Chinese national authorities have in the last thirty years accomplished a herculean feat in raising over 500 million people out of poverty. However, severe structural challenges remain that threaten the long-term viability of China’s growth engine. Corruption, income inequality, pollution and land degradation, along with inefficient SOEs stand as top-line reform priorities for the administration led by President Xi Jinping. Through an ambitious reform agenda, Xi has already cracked down on provincial and national corruption (while targeting political rivals), as well as developed a number of incentive programs to begin to unravel the role of SOEs. China has made one of the world’s most successful transitions from a centrally planned to an increasingly more free market-oriented economy. Xi’s next goal is for China to become the first Asian nation to make a full transition from an export-oriented to a consumer-driven economy. While China has made some progress on this front, Asian trade relations are more explicitly defined by their robust cross-border exchanges, especially between Japan and China, as well as between Japan and China and South Korea. This dynamic is fundamental to the political environment of Northeast Asia. The trade regimes of these countries are deeply intertwined and create a complex dynamic for political interactions in Northeast Asia and beyond.

On top of this multifaceted economic relationship, the Northeast Asian political climate is growing more complex and tense by the day. Sino-Japanese relations have reached an all-time low in the post war period, defined by increasingly tense exchanges over territorial disputes at the Senkaku/Diaoyu islands—animated by growing Chinese assertiveness. While Japan has not fired a shot in anger in nearly 70 years, there has been an increasing appetite amongst Japan’s senior leadership to play a more active role in pushing back against perceived Chinese assertiveness and at the same time enhance its regional security and peacekeeping capabilities. Abe’s strategy involves investing in more robust defense capacities as well as taking steps to strengthen the U.S. alliance by resolving outstanding issues on base relocation and taking initial steps to normalize Japan’s defense identity. Several participants stressed that budget pressures in the U.S. continue to raise questions about how much the U.S. can afford to spend on defense—which has huge implications in Asia.

Some participants in the conference noted that Japan’s reassessment of its regional defense role has created additional tensions with China and South Korea. South Korea is also in a challenging position, as it reconciles its close economic partnership with China but also suffers through its own territorial issues, magnified by the recent expansion of the Chinese Air Defense Identification Zone. North Korea adds a fundamental and profound element of uncertainty to the mix that presents significant security concerns to U.S. and allied interest. North Korean leader Kim Jong-un (now apparently contemplating additional nuclear tests) is a dangerous variable not
only for South Korea as well as the United States, but also increasingly for its neighbor China. Japan and South Korea also share a strained relationship, with historical reconciliation dominating the political climate of bilateral relations. A growing Chinese maritime presence continues to strain regional ties as these players navigate the complexities of responding to China’s rising role.

Energy demand also is a source of vulnerability for Asian countries, especially Japan, which faces a dilemma of whether to return to nuclear power after the Fukushima nuclear disaster. China is now the world’s largest energy consumer. Although China leads the world in investment in renewable energy, it still burns more coal than the rest of the world combined, with serious environmental consequences. China, Japan, and the South Korea are heavily dependent on imports of oil and gas from the Middle East; they would like to import shale gas from the United States. Reconciling economic development goals with the need to mitigate global climate change is a major challenge—especially since local air and water pollution in China has reached catastrophic levels with regional and global impacts.

The Asia-Pacific is in a period of historic change. Deeply intertwined economic ties are increasingly overshadowed by growing regional tensions and historical memories aggravate political relations. Maritime disputes and historical issues continue to dominate political discussions, especially as national defense budgets in China, Japan and South Korea (along with some ASEAN states) are growing to counter perceived security challenges. As the Asia-Pacific region continues to develop in economic and geo-political significance, U.S. policy decisions will remain a major factor in trade, diplomacy and security. There was a strong sense that the U.S. interests in the Asia Pacific in security concerns, economic and political engagement and cultural interchange needs to continue to remain strong and vibrant.
China’s growth model is on an unsustainable path. Compared to the earlier experiences of Japan, South Korea, and Taiwan, China’s growth model is more investment heavy and relies less on technological advance. China has obviously done very well with this model up to now, but in order to sustain its success going forward it faces inter-related challenges on the supply side and the demand side. On the supply side it needs to generate more innovation and productivity growth while reining in wasteful investment; on the demand side it needs to spur household income and consumption. Structural reforms in the areas of hukou, land, finance, the monopoly sectors, and fiscal arrangements can help China meet these challenges. Successful adjustment in China should contribute to a more balanced and healthy U.S.-China economic relationship. A failure to adjust in China could lead to a sharp slowdown in the country’s growth and disruptive economic relations between China and the rest of the world.

Stylized facts from East Asian neighbors

The earlier experiences of Japan, South Korea, and Taiwan provide some lessons about the stage of development that China is in now. All of these comparative economies avoided the “middle-income trap.” The key reason why they were able to reach high income is that they had continuous technological advance or “total factor productivity” (TFP) growth. Starting at 20-30% of the USA’s TFP level, they continued to converge on the USA until they reached above 80% of the USA level. Those economies also had high investment rates, peaking at about 35% of GDP. The productivity growth meant that the investment could continue to be high-return even as they built up their capital stock. The high return to capital could be seen in those economies’ low and stable capital-output ratios. Household consumption was in the range of 50-60% of GDP. Government consumption was another 15%, making consumption the main source of demand. During their period of highest investment, the East Asian economies tended to have current account deficits, meaning that they were net borrowers from the rest of the world. Starting at about the stage China is at now, their investment rates began to decline and their current accounts shifted from deficit to surplus. Consumption was relatively stable during this transition.

China shows a number of different features from those earlier Asian experiences. The graph also shows China’s measured TFP level relative to the USA. After the beginning of China’s reform in 1978 there was a spurt of productivity growth, but in recent years China’s TFP growth has stagnated at about 40% of the U.S. level. China’s investment rate has risen up to 50% of GDP, which can keep GDP growth going for a short time. But this combination results in falling return to capital so that it takes more and more investment to sustain the same growth rate. This can be seen in China’s rising capital-output ratio, which is now much higher than the other Asian economies at this stage of development. The real world evidence
of excess investment in China is empty apartment buildings, underutilized airports, and serious excess capacity in key manufacturing sectors such as steel and automobiles.

China’s growth would be more sustainable if it increased the role of innovation and productivity growth, and brought its investment rate gradually down. As investment comes down, consumption needs to rise as a share of GDP otherwise there is not enough demand for the supply. It would be difficult for China’s external surplus to increase because it is already large and the rest of the world would have trouble absorbing a larger Chinese surplus. Because household consumption, at about one-third of GDP in recent years, is so much lower in China than in the earlier Asian industrializers, there is a lot of potential for demand to shift from investment to consumption. What reforms would facilitate this transformation of the growth model so that it relies more on innovation on the supply side and on consumption on the demand side?

Reforms can facilitate China’s transformation

One of the striking characteristics of China is that there are large productivity differences across locations. Most evident is the large productivity gap between rural locations and cities. There are also unusually large productivity differences among Chinese cities. The hukou registration system helps maintain these large productivity gaps. Under this system people have a registration, usually in their place of birth, and it is extremely difficult to formally change the registration. Most difficult is to shift from a rural registration to an urban one. About 62% of the population has rural registration. About two hundred million people with rural registration have come to cities as migrant workers, but they are not able to bring their families with them and they are not entitled to government services (schooling, health, public housing). Even counting rural migrants, China’s urban population is only 52% of the total. When South Korea was at China’s stage of development its urbanization rate was 68%. Phasing out the hukou restrictions on movement would give China a large productivity boost by allowing more workers to shift from low-productivity agriculture to higher productivity jobs in services and manufacturing. It would also increase the income and consumption of the large rural population. And it would require the government to spend more money on public services. All of this would help with China’s rebalancing.

The system for managing rural land is also a bottleneck for transforming the growth model. Local governments can dispossess peasants and pay below-market compensation. This is a source of revenue for local governments to fund their infrastructure needs, but it has also become an important source of corruption and social unrest. It encourages over-development and excessive investment, and also reduces the wealth and income of peasants from what it would otherwise be. Giving peasants more secure title to their land, allowing them to mortgage or sell the rights, would make it easier for rural families to move to cities and to have some capital as they start their urban life. This reform would raise the income and consumption of the current rural population, and rein in some of the over-investment carried out by local governments.

China’s repressed financial system also contributes to the bias in favor of investment and against consumption. China has low, controlled interest rates. These act as a tax on households that put their savings in the banks, and as a subsidy to the firms that can borrow at low rates—often state enterprises and local government investment vehicles. Liberalizing interest rates will give households a nice boost to their income, and make state firms face a more realistic cost of capital. This would drive out the most wasteful investments, lead to more efficient allocation of
capital, and raise China’s productivity growth. Other aspects of financial reform would include reducing the government permits required for firms to issue stocks and bonds, and opening up financial services to competition from the private sector, including foreign investors. It should be noted that Japan, South Korea, and Taiwan all initially had repressed financial systems. By the time they reached China’s stage of development, they had already made substantial progress liberalizing finance.

China’s financial sector is a good example of a more general problem. There are a large number of important sectors that are dominated by state enterprises, protected by restrictions on private investment and foreign investment. The Organization for Economic Cooperation and Development measures the restrictiveness of economies to foreign investment, overall and in particular sectors. Their analysis covers the OECD countries plus major developing countries such as Brazil, China, India, and Indonesia. Of all these countries, China is the most restrictive towards foreign investment. Furthermore, it is almost completely closed in key services, such as finance, telecom, logistics, media, railways, and airlines. The energy and agricultural sectors are also quite closed to foreign investors. Opening up these sectors to private and foreign competition would lead to more innovation and productivity growth. The state enterprises are not likely to disappear, they have the advantage of being large incumbents. But a more competitive environment would force them to learn from the foreign firms and adopt new technologies. These service sectors are more labor-intensive than industry in China, and more skill-intensive. About one-third of their workforce is college-educated, compared to less than 10% in industry. As more and more young people in China go to college, these service sectors will be the main areas for job creation. Hence it is important to make them competitive and dynamic.

A final important area of reform is the fiscal system. In China, most expenditure occurs at the local government level, whereas most revenue is collected by the central government. Local governments need a more stable source of revenue: a property tax could be one important source. There could also be some realignment of responsibilities between the central and local level. One reason that local governments resist in-migration is that they worry about the cost of education and health for a larger population. The central government has an interest in ensuring that the whole population has good access to education and health services. China overall has enough fiscal resources to provide better social services (and environmental services as well). The current system encourages large amounts of government investment and less attention to social and environmental services. Part of the fiscal reform should be greater transparency. If local officials and their families had to disclose assets and income; if local revenue and expenditures were publicized on the internet; and if the activities of local government investment vehicles were audited and made publicly available—all of these changes would lead to public pressure that would reduce corruption and shift expenditure from investment towards public goods such as social services, environmental protection, and food safety.

China’s current, investment-heavy growth model is leading to a large amount of debt and a declining return to investment. Without reform, this is a recipe for a growth crisis down the road. The kind of comprehensive reform program outlined here should lead to a transformation of the growth model in which innovation and productivity increase, investment gradually slows down, and consumption plays a more important role in demand. The communiqué from the Third Plenum gave some hints of reform in these areas: promoting rural-urban integration, opening up more to foreign trade and investment, adjusting fiscal relations between center and local, and strengthening farmers’ property rights. Hopefully the new Leading Group on Deepening Economic Reform will pursue this agenda decisively. It will take some time to assess how serious the new leadership is concerning reform and how effective their implementation will be.

China’s rebalancing would create a solid foundation for U.S.-China economic relations

China’s current growth model contributes to an unbalanced economic relationship between the U.S. and China. Its policies such as hukou restrictions, repressed finance, and undervalued exchange rate lead to a low-consumption, high-investment growth path. That growth model generated trade surpluses that reached above 10% of GDP in the pre-crisis period.
Since the global crisis the surplus has come down to the 2-3% of GDP range, but it is at risk of rising again as the U.S. and global economies fully recover from the crisis. Furthermore, China’s restrictions on foreign trade and investment tend to be concentrated in areas in which the U.S. is strong: agriculture and modern services. Of course aspects of U.S. policy contribute to the imbalance as well, notably low U.S. savings and under-investment in infrastructure.

China’s rebalancing agenda, which is necessary for its own sustained growth, should create a better foundation for U.S.-China economic relations. Easing the restrictions on mobility and liberalizing the financial system (including the exchange rate) should raise consumption and lower national savings. These reforms would help keep China’s trade surplus at a manageable level going forward. Opening up agriculture, energy, and services to foreign trade and investment would make China’s economy more sustainable. These changes would also be a significant boon to U.S. firms and workers.

The most significant agreement at the 2013 Strategic and Economic Dialogue was the decision to seriously negotiate on a Bilateral Investment Treaty. The Chinese understand that this would have to be on the basis of a small negative list. Up until now China has always operated a positive list system in which only a small number of sectors are open to foreign investment. A BIT would require China to open up virtually all its sectors to foreign trade and investment. It would also require a floating exchange rate and a path to an open capital account. These would all be major reforms for China. Hence progress in negotiating a BIT will be a good indicator of how serious the new leadership is about reform. Even under the best scenario it would take a couple years to negotiate the BIT. The U.S. should benefit significantly from successful rebalancing in China; the extent to which the U.S. benefits will also depend on it increasing its own competitiveness through infrastructure investments and structural reforms such as immigration overhaul, tax simplification, and changes in entitlement parameters in order to make the system sustainable in the long term.

If China does not pursue vigorous reform then it is likely that its growth rate will slow down sharply within a few years. On the current path, there are sharply diminishing returns to investment. Profit-oriented investment naturally drops off in such an environment. Government-sponsored investment can remain high for some time. But China’s total government debt (central plus local) relative to GDP is rising rapidly. It is not yet at an alarming level, but several more years of the investment- and debt-heavy model will put it into a danger zone. From an economic point of view this is not a good scenario for the U.S. A sharp drop in China’s growth rate would be quite disruptive to the global economy, probably sending commodity prices down sharply. A truly flexible Chinese exchange rate may depreciate in this scenario in which investment drops but, with a lackluster reform effort, is not replaced by consumption demand. China may try to export its way out of its problems, into a world economy that could not easily absorb such a level of Chinese savings.

The smooth growth of the global economy depends primarily on the U.S. and China. The U.S. now seems to be on a solid path of recovery with a fiscal stance that is sound for the medium term, normalizing monetary policy, and some clear structural advantages such as the shale gas revolution. As noted, immigration, tax, and entitlement reform could really strengthen the U.S. economic position. The question then is whether China can match this U.S. adjustment with complementary reforms. A rebalanced U.S.-China economic relationship could be a solid foundation for global growth for the next decade and beyond.

Endnotes

The U.S. and Japan: Strategic Partners in Building a 21st-Century Economic Architecture in the Asia-Pacific Region

Charles D. Lake II
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Executive summary

The United States and Japan are well positioned as strategic partners to lead the development of the new global economic architecture that is emerging in the wake of the global financial crisis. The two countries have long enjoyed a deep, increasingly cooperative relationship rooted in shared values, and there exist new prospects for deeper cooperation owing to Japan’s resurgence in leadership and commitment to reform.

As the world continues to emerge from the global financial crisis, global financial regulation and international trade and investment are the two core tools that world leaders are leveraging to address 21st-century challenges, including global financial system stability, non-tariff barriers, and cross-border supply chains.

In the international trade context, a bicycle theory has been used to explain the promotion of trade liberalization. Just as a bicycle must maintain momentum to stay upright, so must the march toward freer trade make consistent progress to stay on track. In the post-financial crisis era, a new bicycle theory is necessary to explain the need to maintain momentum and move forward simultaneously with these two core elements of the new international architecture: the global financial regulatory regime and the international trade and investment regime.

Cooperation on key trade, investment, and financial regulatory reform initiatives will not only help ensure a rules-based, high-standard economic architecture, it will also pave the way for the two countries to exercise leadership in addressing other major global challenges that the United States and Japan must meet together, including aging populations and striking a balance between fiscal consolidation and growth policy.

Japan’s resurgence in leadership, commitment to reform, and engagement with the world

After two “lost decades” characterized by stagnant growth and in the wake of two major crises (the global financial crisis and the March 11, 2011 Great East Japan Earthquake), Japan’s leadership has attracted global attention and greatly increased the country’s capacity to work even more closely with its natural strategic partner, the United States.

Japan’s close relationship with the United States is rooted in more than just shared values, which include basic human rights, democracy, and the rule of law. Japan is also a major economic power and highly technologically advanced country. Comprising approximately 9% of world GDP, it is the third largest economy in the world. Japan is America’s fourth largest trading partner with over $216 billion in two-way goods trade in 2012. The United States and Japan are also closely connected through capital flows. After China, Japan is the second largest owner of U.S. government bonds with holdings of $1.2 trillion, and the two countries are a major market for each other’s companies in a wide range of industries.
Japan’s National Security Strategy: The open international economic system a key element

The U.S.-Japan security alliance has long been the cornerstone of peace and prosperity in the Asia-Pacific region. Recently, Japan has taken several critical steps to contribute as a responsible stakeholder. In December 2013, for example, Japan adopted its first National Security Strategy with a new approach that positions Japan as a “proactive contributor to peace” including measures to more actively contribute to the U.S.-Japan alliance and the international community at large. Such measures include centralizing national security policymaking under a newly created National Security Council (modeled after the one in the United States) and potential changes to Japan’s policy toward exercising the right of collective self-defense and participating in United Nations collective security measures. The country is responding to changes in the security environment to take a more proactive approach in line with the role that the international community expects Japan to play.

The National Security Strategy highlights the importance of the open, rules-based international economic system to Japan’s national security. The strategy notes that it is essential for Japan’s economic prosperity to “achieve comprehensive and high-level trade agreements” such as the Trans-Pacific Partnership (“TPP”) and thereby “strengthen… vigor and prosperity in the region, [which] has a strategic importance of strengthening the foundation for a stable security environment in the region.”

Abenomics has created a “new dawn” for Japan

The return of political stability to Japan has improved its government’s ability to set policy and make international commitments. Led by Prime Minister Shinzo Abe, the current ruling Liberal Democratic Party (“LDP”)-New Komeito coalition has gained control of both houses of parliament (“the Diet”) with landslide electoral victories. With historically high levels of public approval and no national elections until summer 2016, the coalition is able to control the legislative agenda.

The economic reforms that the Abe administration has pursued since taking office in December 2012 have the potential to put Japan on a path to sustained growth. The “Abenomics” program consists of three “arrows”: bold monetary policy, flexible fiscal policy, and growth strategy (including structural reforms).

The first two arrows, implemented over the course of 2013, have restored consumer and business confidence to levels not seen since before the financial crisis. Consumer prices excluding fresh food and energy costs have begun to rise. And the world is refocused on Japan—in 2013 a record 10 million foreign tourists visited the country. The government is now concentrating on implementing the third arrow, the critical element for achieving sustainable, long-term economic prosperity for Japan.

Many overseas observers have argued that third arrow reforms have yet to materialize. However, continuous action on the third arrow has already produced tangible results. After announcing a comprehensive growth strategy in June 2013, the Abe administration wasted little time in moving to the implementation phase. In last autumn’s “Growth Strategy Diet,” the government passed 87% of the bills it submitted, including full retail electricity market liberalization and National Strategic Special Zones for deregulation. In the current Diet session, dubbed the “Virtuous Cycle Diet,” the government has committed to, among other measures, reform Japan’s labor market and corporate governance rules.

The Abe administration’s record warrants optimism that reform will maintain momentum going forward. Prime Minister Abe has demonstrated a capacity for tough political decisions on reform. Announcing Japan’s interest in joining the TPP agreement even with critical Upper House elections approaching is just one example. The previous Democratic Party of Japan (“DPJ”)-led government was unable to join negotiations for several years despite expressing an interest in doing so.

Another example is the Prime Minister’s October 2013 decision to go ahead with a consumption tax hike from 5% to 8% beginning April 1, 2014, consistent with Japan’s plan to achieving a primary budget surplus by fiscal 2020. In 2012, then-ruling party DPJ and opposition parties LDP and New Komeito reached an historic three-party framework agreement for integrated social security and tax reform to achieve fiscal discipline in the medium to long term. Under this framework, Prime Minister Abe was required to
make a determination whether to raise taxes based on consideration of macroeconomic and other factors. Given that all previous prime ministers who have raised the consumption tax have been forced to resign soon after taking that action, many pundits speculated that Prime Minister Abe would postpone the decision to raise taxes. Nevertheless, Prime Minister Abe took the decision while also taking steps to address the negative economic impact of the consumption tax hike. Dependent on the state of the economy, another increase to 10% is scheduled for October 2015.

Japan’s exchange rate back to pre-crisis levels

The effect of the first arrow (monetary easing) on Japan’s currency has recently received much attention. As shown in the graph below, however, it is clear that rather than reflecting an undervalued currency, the yen’s current real effective exchange rate merely represents a return to pre-crisis levels.

Real Effective Exchange Rates of Major Currencies

Global investors purchased the yen amid a flight to quality with the fall 2008 onset of the global financial crisis. At that time, U.S. and European central banks took aggressive action to support the economy. In contrast, Japan did not follow suit to the same extent. The yen thus remained overvalued as its supply did not increase on a relative basis.

The situation changed dramatically after Prime Minister Abe assumed power and promoted a policy of bold monetary easing. In April 2013, newly inducted Bank of Japan Governor Haruhiko Kuroda launched “quantitative and qualitative easing” policies in order to increase domestic demand and investment and end deflation.

Global financial regulation & international trade and investment—opportunities for U.S.-Japan strategic partnership

In the post-financial crisis world, the importance of robust institutions in the areas of global financial regulation and international trade and investment will only grow. For this reason, the United States and Japan have an interest in ensuring that both “wheels” of the bicycle maintain forward momentum and achieve successful outcomes.

First wheel: Global financial regulation

Efforts to create new international rules and standards fitting for the 21st century picked up momentum in 2008 as a response to the global financial crisis. At that time, individual countries were taking urgent economic stimulus and financial stability measures. As well as working at the national level, leaders saw the need to cooperate internationally to restore global growth and implement needed reforms in the world’s financial system.

Against this backdrop, the G20 and Financial Stability Board (“FSB”) have tasked international standard setting bodies such as the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors (“IAIS”), and the International Organization of Securities Commissioners (“IOSCO”) with carrying out these reforms.

In the insurance area, IAIS has identified global systemically important insurers and is in the process of formulating related policy measures. The IAIS is also undertaking a major effort to develop a comprehensive framework and methods to address regulatory and risk issues involved in group-wide supervision of so-called Internationally Active Insurance Groups (“IAIGs”), including the adoption of a global Insurance Capital Standard (“ICS”).
Japan is a strategic partner in this area

The United States and Japan agree that strong and transparent financial systems, capital markets, and financial services are essential to domestic and global growth, and both countries support global reform efforts to strengthen the global financial system. Japan is working with the United States in these key institutions, and there remains ample potential to partner further to ensure transparent development of robust, rules-based standards.

Second wheel: International trade and investment

Trade and investment, the second wheel of this new economic architecture, is another key area in which American and Japanese interests align. The United States and Japan are pursuing “competitive liberalization” trade strategies, to use a phrase coined by former United States Trade Representative Robert Zoellick, in which preferential trade deals—bilateral, regional, and global—are used to increase pressure on non-member countries to either join the group itself or to conclude a broader agreement. Given structural weaknesses of the World Trade Organization (“WTO”) that are hindering further work toward trade liberalization and addressing modern challenges, the focus has shifted to plurilateral agreements that do not require all WTO members to sign on but instead are region- or sector-focused and seek a “WTO-plus” agreement that addresses both tariff and non-tariff barriers.

TPP: The best building block toward a region-wide free trade agreement

Of the regional initiatives, the TPP is currently in the spotlight. The TPP is a comprehensive, high-standard agreement among 12 countries to liberalize trade and investment and address “21st-century” issues such as cross-border supply chains and intellectual property.

Japan officially entered negotiations in July 2013, significantly boosting the commercial value of the agreement. A high standard, 21st-century TPP agreement will generate substantial gains for all participants, as expanded trade and investment mean more jobs in a wide range of industries. The United States and Japan are also participating in the Trade in Services Agreement (“TISA”), a key plurilateral initiative to introduce new and strengthened rules for services. The TPP and other such initiatives should be viewed as the best building blocks to set a high bar as countries move toward the much broader goal of a Free Trade Area of the Asia-Pacific (“FTAAP”) to create an economically integrated community that facilitates the seamless cross-border movement of goods and services.

Competing regimes: RCEP, China-Korea-Japan FTA

Other, less ambitious regional trade initiatives such as Regional Comprehensive Economic Partnership (“RCEP”) and the China-Korea-Japan FTA should be watched carefully. Any regional economic architecture in the Asia-Pacific in the 21st century must maintain transparent, effective, enforceable, and mutually coherent regulatory systems, adhere to international best practices, and assure high levels of collaboration among trading partners in the region. For that reason, efforts such as TPP and RCEP should strive to complement efforts towards the long-term goal of establishing a rules-based, high-standard economic architecture in the Asia-Pacific.

Japan has been an excellent partner

Skepticism of Japan’s participation in the TPP talks has proven unfounded. Japan has been an excellent strategic partner in forming the 21st-century trade and investment architecture, particularly as regards state-owned enterprises, investment, and intellectual property rights. In the TPP and other key trade initiatives, the United States and Japan have a common interest in ensuring that forward momentum continues. To this end, Japan will face a strategic test of whether it can present a tariff reduction package that meets the high standards necessary for a successful agreement. On that front, the situation looks optimistic given Japan’s domestic efforts to reform the agricultural sector. Under Abe administration policy, Japan has decided to terminate the so-called Gentan policy, a comprehensive price maintenance and production control program that has been in force for half a century. Japan will also establish a “farmland bank” along with tax incentives and subsidies to
facilitate the consolidation of farmland, shifting from small farms with fragmented ownership to large, and in many cases corporation-run, farms operated by the next generation of farmers.

**Ambitious international regulatory, trade, and investment agenda requires heightened transparency and accountability**

To keep the bicycle upright and moving forward, both the United States and Japan share an interest in ensuring transparency and accountability. In that context, there is a need to recognize that the legal enforceability of international commitments lies on a spectrum, with legally binding, formally ratified agreements on one end, and organizations such as the Asia-Pacific Economic Cooperation (“APEC”) that promote global best practices but have no enforcement mechanism on the other end.

In the gray middle are international standard setting bodies such as the FSB and IAIS that were established through political commitments, not formal treaties. Countries are not legally bound to implement the standards set, but processes such as the Financial Sector Assessment Program (“FSAP”), a comprehensive review of financial regulatory systems conducted by the International Monetary Fund and the World Bank, can create de facto enforcement mechanisms that could require changes to domestic laws.

All this underscores the need for transparency and accountability to democratically elected leaders in participating countries. In the area of trade and investment, Trade Promotion Authority (“TPA”), legislation that defines U.S. negotiation objectives and priorities for trade and investment agreements, provides an important mechanism to ensure transparency and accountability in the U.S. trade policy decision-making process. The legislation would establish consultation and notification requirements for the Executive Branch to follow throughout the trade negotiation process, ensuring that Congress and other stakeholders are closely involved throughout.

**Conclusion**

It is in the United States’ best interest to leverage the recent upturn in Japan to work with this critical, strategic ally to both achieve optimal outcomes in current negotiations and initiatives and find opportunities to lead the way to address other major global challenges. As mentioned above, forward momentum and simultaneous progress are critical to ensure that global financial regulation and international trade and investment remain on track. Owing to deep cooperation and shared interests, the United States and Japan are well positioned to ensure that progress continues by showing leadership and ensuring that the new international architecture is governed by transparent, robust rules and high standards.
Japan’s Decision to Remain as a Tier 1 Nation

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In the summer of 2012, the Center for Strategic and International Studies Japan chair released a new report with regard to the U.S.-Japan alliance.

The report, known as the third Armitage-Nye report, was co-chaired by Richard L. Armitage, president of Armitage International and former deputy secretary of state (Bush 43 Administration), and Joseph S. Nye, distinguished service professor, Harvard University and former assistant secretary of defense (Clinton Administration), who have been paid a lot of respect by Japanese as her reliable friends in the United States.

Thus, the report received significant attention in Tokyo as a guideline of how to manage the unique bilateral alliance across the Pacific in the 21st century. “For such an alliance to exist, the United States and Japan will need to come to it from the perspective, and as the embodiment, of Tier 1 nations. In our view, Tier 1 nations have significant economic weight, capable military forces, global vision and demonstrated leadership on international concerns. Although there are areas in which the United States can better support the alliance, we have no doubt of the United States’ continuing Tier 1 status. For Japan, however, there is a decision to be made. Does Japan desire to continue to be a Tier 1 nation, or is she content to drift into Tier 2 status? If Tier 2 status is good enough for the Japanese people and their government, this report will not be of interest.”

In the introduction of the report, both Armitage and Nye posed this argument, and it was received in Tokyo as a shocking message.

Many Japanese political leaders interpreted the wording as a soft ultimatum that the United States might consider reviewing its Asia strategy, in which the alliance with Japan has been positioned as its cornerstone. If Japan would continue to marginalize itself with long-time deflation and its self-restraint defense policy based upon the Constitution made by the Americans after the end of World War II, the alliance could not function well to stabilize the Asia-Pacific region so that every player across the Pacific can enjoy their prosperity and peace. That was exactly what both Armitage and Nye had meant and the message was well understood in Tokyo.

Shinzo Abe, the 96th prime minister of Japan and the president of Japan’s ruling Liberal Democratic Party was one of those political leaders who tried to respond to that call. Abe and his key policy advisors, such as Abe’s right-hand man, Yoshihide Suga, chief cabinet secretary, and Shotaro Yachi, secretary general of Japan’s first National Security Council, believed Japan should remain as a Tier 1 nation in the 21st century, and, to achieve that strategic goal, Japan should take some initiatives both economically and politically.

Immediately after taking Japan’s highest office again in early 2013, Abe made an important decision to participate in the Trans-Pacific Partnership. From
his perspective, this was one of those necessary initiatives for Japan to survive as a Tier 1 nation in the international arena because it was widely believed that TPP membership meant more than economic partnership with the United States, similar to the Triple Entente between the U.K., France and Russia in 19th century to counter the rise of Germany.

In fact, Yoshihiko Noda, Abe’s predecessor in 2012 when Japan’s Democratic Party was still a ruling party in Tokyo, was also eager to persuade then ruling DPJ and his followers to allow him to make the same decision about the TPP. One of the influential members of DPJ, who was seen as a pro-China political leader and who once took a very important position under Noda’s predecessor, Naoto Kan’s Cabinet, said to the author quietly: “We understand that this TPP is designed as a basic foundation for the U.S. grand strategy toward Asia and to maintain our alliance structure with the United States in the 21st century, and that is why I believe we should make it.” Although there remain some opposing voices in Japan with regard to its membership in the TPP, especially from those sectors such as agriculture, insurance and medicine, there is, at the same time, a growing bipartisan consensus among Japan’s establishment from a wide range of the political spectrum that Japan should be in the trade pact in the long run.

Abe, of course, echoes those unspoken voices. In an exclusive interview in early February with the author, Abe emphasized the importance of Japan’s membership in the TPP. “As for the TPP, most participating countries—especially the biggest economy in the world, the United States; and Japan, the third largest—are ready to make new economic ground rules in the Asia-Pacific region within this framework. Countries that share common values of liberty, democracy and rule of law are leading the way. I do fully understand the TPP’s significance and, I believe, Japan and the United States should lead in this endeavor.”

In addition to his decision about the TPP, Abe introduced an eye-catching economic policy, known as “Abe-nomics”. Abe-nomics is the name given to a suite of economic policies introduced by Abe after he became Japan’s prime minister in early 2013. Abe’s goal was to stop Japan’s two-decades-long trend of deflation and to revive its sluggish economy with the so-called “Three Arrows”: a massive fiscal stimulus or flexibility, more aggressive monetary expansion or easing from the Bank of Japan, and structural reforms to boost Japan’s competitiveness.

Among those three arrows, people believed the third one, structural reforms, would be the most difficult part for Abe to achieve. In June of 2013, the third arrow was fired by Abe to promote Japan’s structural reforms to the economy; however, many investors both at home and abroad remain skeptical about the outcome. To respond to those skepticisms, Abe made a famous “buy my Abe-nomics” speech at the New York Stock Exchange in September of 2013.

After the speech in New York, Abe continued to insist that he was still on track and ready to pursue his third arrow in more depth.

Senior Vice Minister in Japan’s Cabinet Office Yasutoshi Nishimura, one of Abe’s closest aides who is now in charge of TPP negotiation as well as economic revitalization, said recently to the author that the Abe administration was well aware of those skepticisms; however, they were now tackling many issues faithfully.

According to Nishimura, in addition to corporation tax reform as well as relaunching nuclear energy, the government of Japan has now three priorities in the area of reform policy or growth strategy: immigration policy reform, enhancing the female workforce and changing labor market practice.

These reforms would eventually change Japan’s homogeneous nature as a nation and its traditional customs, such as seniority system and paternalism. However, Nishimura said the Abe administration had found there were no other options but to pursue those hard paths.

That is why the Government of Japan is also trying to promote the conversion of agricultural, fishery and forestry industries into growth industries by introducing corporate know-how as well as encouraging exports, said Nishimura.

It has been a longstanding conviction of Abe that the U.S.-Japan alliance is a value sharing alliance that has a lot of common values, such as the rule of law, freedom of speech, free markets and democracy. To some extent, this is tactical rhetoric for Abe and Japan to emphasize the importance of the alliance with Japan to the United States in the face of China’s
rise both economically and militarily, but he simply believes that way too.

In order to keep the value sharing advantage in the context of the strategic triangle relationship between the United States, Japan and China in the 21st century, Japan, as an existing responsible stakeholder, should and will pay more attention to key international norms such as the rule of law. This means Japan will continue to honor enforcement mechanism of the World Trade Organization and oppose any kind of currency manipulation. That is why Abe and his key economic advisors, such as Finance Minister Taro Aso, were so keen and nervous to any questions about Abe-nomics in the context of currency manipulation in early 2013.

In October 2013, Japan, the second-largest buyer of U.S. Treasury debt, boosted its holdings 1 percent to $1.19 trillion, a record level, while China, the largest foreign buyer, boosted its holdings 0.9 percent to $1.32 billion, also a record level. There is some opacity if China would hold the amount for a long time, while it is safe to say that Japan clearly has no intention to use its holdings as leverage against the United States.

According to Japan’s Ministry of Foreign Affairs and the U.S. Department of Commerce, Japan had $189 billion in imports from China, while it exported $148 billion to China in 2012. In the same year, Japan imported $72 billion worth of goods from the United States, while it exported $149 billion to the United States. The United States had $428 billion in imports, while only $112 billion export to China.

With this triangular economic interdependence among the three nations, both the United States and Japan should worry about the future course of China’s economy as well as its political reform.

Some China experts in Tokyo predict that China would eventually face some sort of clash in its economy, given many hidden problems such as the shadow banking system. Naturally, there seems a wide range of predictions about the future course of China’s economy; however, there is a growing consensus among experts both in the United States and Japan that China will not be able to enjoy her high growth ratio over the next decade.

It is also well known that the economic growth would be the only legitimacy for China’s Communist party in 21st century to keep the Chinese people under their control. On this particular point, Nye said in an interview with the author last year, “The Chinese Communist Party is not very communist anymore.”

What would happen if Chinese leaders find that they could not depend on the legitimacy in the near future? Nye responded to the question this way.

“It [the Chinese Communist Party] finds that being a representative of nationalism creates a degree of legitimacy, and I think that explains some of the nationalism that’s in the Chinese textbooks and in the Chinese press and so forth. And, it’s something we have to be aware of.”

As Nye pointed out, both the United States and Japan should be aware of this sort of negative development inside China and be well-prepared to lead China as a normal partner in the world with the full understanding of international norms in terms of trade as well as security policy.

Now, many Chinese leaders, including President Xi Jinping, talk about “the new relationship between the United States and China,” and the reason why is, according to Nye, to indicate to the United States that China has no intention at all to fight against the United States.

“The best I’m able to understand it from talking to Chinese friends is they looked at the histories of rising powers in the past and noticed that, very often, a rising power gets into a conflict with an established power, like Germany,” said Nye.

To keep that good behavior of China in the coming years ahead, it is vital and indispensable for both the United States and Japan to maintain their strong joint deterrence in this region so that China would not make any sort of miscalculations in the future. That is why Abe and Japan are trying to regain its original power as a Tier 1 nation. It means a lot to Japan, of course, but also to the United States, which has an enormous stake in Asia both economically and militarily as a Pacific nation.
The international arena is increasingly concerned about tensions in Northeast Asia. The world’s third-largest economy, Japan, and a rising China look to many to be on a collision course.

At the heart of the tensions are divergent interpretations of modern history, and some small rocky islands in the East China Sea called the Senkakus by Tokyo and Diaoyu by Beijing.

Speaking to the Nikkei Asian Review, Japanese Prime Minister Shinzo Abe reiterated convictions that his country has no intention of sparking conflict with China and is ready to contribute to the 21st century global agenda as a responsible stakeholder. He also shared his thoughts on diplomacy, trade in the 21st century and security.

Q: What did you accomplish at the World Economic Forum in Davos, Switzerland?
A: The fact I was invited to the Davos conference to give the first keynote speech by a Japanese leader is, I believe, a clear sign the world has upped its attention on Japan’s economic recovery. This is a result of huge efforts by the Japanese people; I am very proud of that.

I believe it is important to show that Japan has been changing and will continue to change. I went to Davos to share this belief by presenting some policy initiatives. I wanted to show that the world can count on Japan’s future.

The conference was full and, as a politician, I was impressed with the response. They were keenly interested in what Japan’s prime minister had to say.

Q: What was the reaction like to your “third arrow” of “Abenomics”?
A: They really focused on the launch of the third arrow of Abenomics (a growth strategy). In particular, they wanted to know whether I can further the deregulation reforms. As you know, Japan has been tackling deregulation, but there are areas that remain regulated. These are known as the bedrock, since they are hard to crack. I stressed that I will tackle them, I will bore through this bedrock, like a drill.

At the same time, I promised I would transform Japan’s society into one in which women can fully exert their abilities and talents. Unfortunately, Japan is not at that point yet. This, however, means our nation still has a lot of potential.

On these two particular points, the response from the audience was very positive.

Q: Just recently, a Japanese female scientist made a historic discovery in cell reprogramming with stimulus-triggered acquisition of pluripotency cells, or STAP cells.
A: Yes, it is a great achievement for Dr. Haruko Obokata. The ability of young women to be flexible in their thinking is behind Obokata’s achievements. I am determined to make new initiatives for women as a pillar of our economic growth strategy, rather than as a social policy.

Q: The Chinese government has been vocal in its claims that a conflict between China and Japan would be due solely to Tokyo’s provocative actions. How do you respond to that?
A: The bilateral relationship Japan has with China is one of our most important. With our deep interdependence in a variety of areas, the two countries are
too closely connected to be separated.

Moreover, let me state clearly that, as a matter of reality, the two countries could never clash. We must not let that happen. I believe this conviction is shared by Chinese leaders.

As a starting point, we should go back to the Mutually Beneficial Relationship based on Common Strategic Interests between Japan and China, which I agreed with China’s then-leaders when I was prime minister in 2006. We should focus on enhancing ties and, when we disagree on a particular issue, avoid letting that damage the entire relationship.

With regard to the Senkaku Islands, history and international law show that they are clearly and inherently Japan territory. However, China has been intensifying its efforts to change the status quo, dispatching their vessels so often into our territorial waters around the islands.

In addition, China last November unilaterally declared its own air defense identification zone. Japan has responded in a calm manner.

Prior to that, a Chinese navy frigate directed its fire-control radar at a Self-Defense Forces destroyer in the East China Sea. Around the same time, a Chinese frigate is suspected of having directed the same kind of radar at an SDF helicopter as well.

Such actions are extremely dangerous because, at some point, they could trigger unpredictable consequences. However, we showed self-control and responded in a unified manner. I must state this self-restraint posture clearly. Needless to say, we will keep that stance.

I believe it is necessary to avoid unexpected situations by reducing unnecessary misunderstandings on both the Japanese and Chinese sides. This is because China is dispatching its vessels into our territorial waters on a regular basis. There has been a conspicuous rise in the number of SDF scrambles against Chinese aircraft too.

Therefore, the need for a communication mechanism between Japanese and Chinese defense authorities is more pressing than ever. I emphasized this point in my speech at Davos last month.

In my first term as prime minister, I proposed strengthening our defense communication mechanism, and my Chinese counterparts agreed to do so in order to prevent unpredictable consequences. China has unfortunately yet to start implementing this agreement. I will continue to sincerely urge China to comply and agree to start the implementation. This is not only for Japan’s sake but also for China’s. Our two countries’ efforts will contribute to peace and stability in the region.

Q: At Davos, you mentioned the U.K.-Germany relationship before World War I. What was the implication?

A: I tried to emphasize at Davos that what Asia really needs for peace and prosperity is not military power or intimidation but dialogue and rule of law. It is unequivocally evident that we must not engage in any kind of warfare anymore. We should establish a communication mechanism between Japan and China in order to avoid any sort of unexpected accidents that might eventually lead to a clash. In this context, I believe it is important for us to have a summit between Japan and China. With this belief, I said, as I keep saying, that my door for dialogue with China is always open.

Q: Do you see a possibility of a summit in the near future?

A: I would like to keep seeking a bilateral summit. I believe a summit would be very meaningful to ease the tension.

Q: Looking back at the past year, would you describe the objective of your assertive foreign policy strategy?

A: Japan, now the third-largest economy in the world, has been consistently implementing so-called peace diplomacy over the last 68 years, ever since the end of World War II. It has enormously contributed to global peace and prosperity. In spite of this fact, the presence of Japan is, we may have to admit, not so widely recognized in international society. This is partly because Japanese leaders’ outreach was not adequate, and the tendency was exacerbated by the almost annual replacement of prime ministers, including myself.
What I have found is when a Japanese leader visits a foreign country, the counterpart will listen to him very carefully.

Now a lot of attention is paid to Japan’s economic recovery, and I thought we should take advantage of this momentum to achieve a diplomacy that takes a panoramic perspective around the globe. With this strategy in mind, I made 16 overseas trips and paid visits to 31 countries over these 13 months. And Japan is receiving more foreign guests because of their renewed interest in the way the economy has recovered. My summits with foreign leaders, including those over the phone, have exceeded 150 thus far.

I have really come to the conclusion that direct talks between leaders go a long way to establishing personal relationships with trust.

Q: What is your outlook on the Trans-Pacific Partnership negotiations, particularly in relation to bilateral U.S.-Japan talks?

A: As for the TPP, most participating countries -- especially the biggest economy in the world, the U.S., and Japan, the third largest -- are ready to make new economic ground rules in the Asia-Pacific region within this framework. Countries that share common values of liberty, democracy and rule of law are leading the way. I do fully understand the TPP’s significance and, I believe, Japan and the U.S. should lead in this endeavor.

Though Japan joined the TPP talks after other countries, Minister of State for Regulatory Reform Akira Amari, TPP Chief Negotiator Koji Tsuruoka and other staff have done a lot of hard work. Now Japan is playing a leading role in the negotiations. Of course, those negotiations are not so easy, since every participating country is defending its own national interests. Japan, however, is in the middle of the process and has close contact with the U.S., seeking common ground to accommodate all parties.

Q: You actively nurtured relationships with India, Russia and Australia, and invited U.S. President Barack Obama to Japan in April. What are the strategic goals here?

A: Last year I set up the National Security Council in the government of Japan, and last month I organized the National Security Secretariat. At the NSC, we made Japan’s first National Security Strategy. With its high transparency, I think the NSS makes clear Japan’s security and foreign policy not only domestically but also internationally. Based upon this strategy, I will continue to conduct diplomacy around the world.

Reflecting changes in the Asia-Pacific security environment, I would like to enhance not only our national interest but also the broader interests of the international community through Japan’s contributions to many global agendas. I would like to deepen our collaboration with those nations that share fundamental values with us.

In this context, my recent visit to India was quite fruitful. I believe that strengthening economic ties with India will benefit Japan, since relations between the two countries have great potential. In terms of security, I believe it is meaningful to conduct joint naval exercises between Japan, the U.S. and India. This amounts to a great development in terms of enhancing peace and stability in this region through cooperative networks of value-sharing nations.

In Davos, I had the chance to have a short talk with Tony Abbott, prime minister of Australia, too. Australia has defined Japan as its best friend in Asia, and I hope we will deepen our cooperation not only economically but also in security policy as like-minded nations that share the same values.

Of course, we think our alliance with the U.S. is the fundamental basis for Japan’s foreign and security policy. I would like to enhance this alliance further. Naturally, I would like to enhance our relationships with neighboring countries as well. As I said earlier in this interview, the Japan-China relationship is one of the most important ties for Japan. Needless to say, South Korea is also a very important neighbor.

I think it is also important to conduct so-called “Top Diplomacy” in the field of economy and trade. Last year, I visited all of the Gulf Cooperation Council member countries, and under my leadership we will see increasing exports of infrastructure into Asian markets. I believe this will contribute to Japan’s economic growth.

Q: What is the agenda for Obama’s visit?

A: I would like to take some time to form a con-
crete agenda. I believe we should jointly make it clear to the world that the Japan-U.S. alliance is unwavering. This is very important, not just for our two countries but for the sake of peace and prosperity in the entire Asia-Pacific region.

Q: You say revising the current constitution is your lifework. What is the political philosophy behind that?

A: A constitution represents a nation’s framework and future. It has been more than 60 years since we introduced the current constitution, and during that time, the global landscape and environment has undergone tectonic shifts. We see some elements in our constitution that are not compatible with such changes and current conditions, both at home and abroad.

We believe in keeping three basic principles of the current constitution -- namely, the sovereignty of the people, utmost respect for basic human rights and pacifism. To catch up with global changes, we should add some new human rights elements, with which we could strive to protect the environment as well as victims of crime.

In addition, the constitution does not have any word on the Self-Defense Forces. This is not healthy for ensuring civilian control over the SDF. My party, the Liberal Democratic Party, has been advocating amending our constitution since its founding almost 60 years ago. I was not the first person to insist on amendments.

Moreover, we have no intention of going back to our prewar militarism or becoming a military superpower again by amending the constitution, as some people misconstrue. Let me clearly reiterate that we never think that way.

There may be many criticisms of that sort, but you should recall the time when the Defense Agency transitioned to the Ministry of Defense. Around that time, there were similar criticisms. But today, you can see the current defense budget is smaller than the budget back then.
The repercussions are still being felt from a comment Prime Minister Shinzo Abe made on the chilly Japan-China relationship. In a remark in Davos, Switzerland, Abe referred to the relationship of Britain and Germany before World War I when he tried to explain about a current tension between Japan and China. But many political scientists in the West think the 19th-century U.K.-German relationship is more like that of present-day Beijing and Washington, not Tokyo and Beijing.

“The Chinese talk about this new relationship (between the U.S. and China), but they’ve never spelled it out very clearly,” said Joseph Nye, a Harvard University scholar who has many friends in both the Japanese and the Chinese governments. “The best I’m able to understand from talking to Chinese friends is that they look at the histories of rising powers in the past and notice that, very often, a rising power gets into a conflict with an established power, like Germany and Britain did a century ago.”

Nye pointed out it is clear to many Americans that Chinese leaders, including President Xi Jinping, are sending a well-designed message to Washington that they want to avoid any conflict with the U.S. “What they mean by this new type of relationship (between the U.S. and China) is that it -- the rise of Chinese economic power -- should not lead to a conflict with the U.S.,” Nye said.

Nye’s analysis echoes those of many experts and former U.S. government officials in Washington, especially those who are associated with the Barack Obama administration, partly because the White House is uneager to see any sort of turmoil in Asia, which is expected to lead world economic growth over the next couple of decades.

Knowing this, the Chinese have conducted a series of negative campaigns against Abe and his administration. They claim that Japan is trying to destroy the world order established after World War II and that therefore Japan will become a negative or destabilizing factor not only in Asia but the entire world, despite the fact that Japan is an ally of the U.S. in Asia. Abe’s comment on the 19th century British-German relationship inadvertently provided new fuel for Beijing to assert that it was not China but Japan that was looking for confrontation on the horizon in East Asia.

On the other hand, Beijing has been intimidating Tokyo by dispatching ships and aircrafts to the Senkaku Islands area since Japan nationalized them in the fall of 2012.

Now China is trying to drive a wedge between the West, namely Washington, and Tokyo by calling Japan a destabilizer or an irresponsible stakeholder, in hopes of weakening the commitment of the U.S. to defend the islands in the East China Sea under the 1960 U.S.-Japan Security Treaty.

Mind the gap

“I see certainly some gap between the U.S. and Japan regarding how to deal with the rise of China,” said Tokyo University Prof. Fumiaki Kubo, one of Japan’s leading scholars on U.S. politics.

“The U.S. thinks its priority is to stabilize the region by appeasing China one way or another, while Japan is spending more energy on how it might defend its territories such as the Senkaku Islands against China,” Kubo said.

There is a wide perception gap between Japan and the U.S. over the best way to deal with China. Among many Japanese strategists such as Shinichi Kitaoka, who plays a key role in the special colloquium work-
ing on Japan’s controversial right to collective self-defense, there is growing concern that the U.S. and Europe will eventually misunderstand Japan’s real intentions regarding some future-oriented initiatives or policies being introduced by Abe.

Those initiatives include setting up the Japan National Security Council, enacting the State Secrets Law and exercising the right to collective self-defense under Japan’s current constitution. In Kitaoka’s view, the actions are designed to make Japan a more responsible stakeholder in the international arena, but China accuses Tokyo of using these steps as preparations to re-militarize.

When the Obama administration issued a statement about Abe’s sudden visit to Yasukuni Shrine, which enshrines several class-A war criminals, Tokyo was upset by the “disappointment” expressed by Washington. This was also taken by Beijing as another sign that the gap between Tokyo and Washington is widening.

Former Japanese Defense Minister Satoshi Morimoto was one of those who immediately worried about the negative impact on the alliance.

“We should make it clear to our American friends and others that the Yasukuni visit has no relationship to Japan’s modern strategy, including exercising the right to collective self-defense and setting up Japan’s NSC. They are all designed to strengthen our alliance structure with the U.S.,” he said.

In fact, many pragmatic conservatives, including Abe’s right-hand man Chief Cabinet Secretary Yoshihide Suga and Japan’s NSC Secretary General Shotaro Yachi, reportedly tried to dissuade Abe from going to Yasukuni, fearing a strong backlash, this time from the U.S. But they failed to change Abe’s mind.

Simultaneously, Tokyo was also disappointed when Washington did not take a strong position after Beijing declared an Air Defense Identification Zone over the East China Sea. It is widely believed in Tokyo that the U.S. was keen not to damage the evolving great-power relations with China and came short of strong opposition against the zone. Abe is still asking China to withdraw the declaration.

“The establishment of the zone is consistent with the series of moves that have been made by the Chinese within the South China Sea, as well as the East China Sea. I think a motivator was the contest over the Senkakus, but I think the issue is broader than that,” Robert Willard, former U.S. Pacific Commander, said.

Broader claims

Willard said he agrees that China’s ADIZ is a power play.

“It is a demonstration by the Chinese, within the international framework of the establishment of an ADIZ, to establish a broader claim over the East China Sea. In general (it is) directed not just at Japan but also at the international community. And in that sense it is objectionable, certainly to the U.S.,” he said.

Clearly, Abe shares Willard’s concerns. Abe also knows that Japan’s position is not that of the U.K. but rather of France in the 19th century when it signed the Triple Entente with Britain and Russia to counter the rise of Germany.

Now, Abe is preparing for an official visit from President Barack Obama in April. This visit will demonstrate the U.S.-Japan alliance is still firm and can be made even stronger under their leadership. Indeed, it was Abe who overcame a lot of opposing voices in Japan regarding the Trans-Pacific Partnership, immediately after forming his second cabinet in December 2012. Many political analysts in Tokyo said there was a strong message from Abe to Washington that Japan was ready to play a role in the major U.S. trade initiative.

Nye thinks the British-German model of the 19th century does not fit well with the Sino-U.S. relationship in the 21st century. “Germany had passed Britain in total size by 1900, while China is not going to pass the U.S. in terms of overall power for decades to come, and I don’t think they will even then,” he said.

If that is the case, then all Abe and Obama need to do, as Abe pointed out in our interview, is make sure their alliance is still strong, so that the U.S.-Japan strategic joint deterrence can work toward stabilizing the entire Asia-Pacific region throughout the 21st century and contribute to building global prosperity.

In achieving that goal, it really doesn’t matter whether it is Japan or the U.S. that better fits the role played by Britain in the 19th century.
Energy And Environment In Northeast Asia

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Center for Strategic & International Studies

Introduction
The forecast in Asia generally is for a huge surge in demand based on population growth, increasing wealth (a rising middle class) and urbanization. Asia’s appetite for energy will almost double in the next four decades, while demand in Europe will decline. The global balance among energy producers and consumers will shift, including a shift from consumers in advanced economies to emerging economies. While dramatic energy consumption is possible without environmental degradation, it is unlikely, since the energy sector accounts for two-thirds of global greenhouse gas emissions.

In Northeast Asia, China is driving these trends as the largest developing economy. Energy trends in Japan and South Korea, however, reflect the challenges of industrialized, but resource-poor countries. All three will compete in tighter energy markets with potentially rising prices that could spark political tensions, some of them the result of competition over scarce energy resources. Their ability to diversify supply and improve resilience will be important and U.S. oil and gas can play a positive role.

Energy Use And Production In China, Japan, And South Korea
No appetite for energy is bigger than China’s: it is now the world’s largest energy consumer, the largest importer of oil and second largest consumer of oil (after the United States). Its demand for oil is expected to overtake the United States’ demand by 2029, but eventually, it will be eclipsed by India.

Coal is the bigger story here: not only is China the largest consumer and producer but it uses more coal than the rest of the world combined. Coal demand will grow for another 15-20 years before peaking. Although coal will feed a declining percentage of primary energy, absolute volumes will grow as long as China’s total energy use also grows. China’s overall production of natural gas will be strong (5.7% annual growth) but imports will also grow. Despite being “the most promising country for shale gas outside of the United States,” China lacks the ingredients (e.g., private ownership) for rapid exploitation.

Japan is facing stark choices. Its overall energy consumption has declined almost to 1990 levels, while the substitution for nuclear electricity generation with imported oil and gas has emptied its coffers (creating a trade deficit of $114 billion in 2013) and erased all of its CO2 reduction gains of the last seven years. Before Fukushima, Japan was on the pathway to one of the lowest energy intensity ratings in the world (energy consumption required to generate a unit of economic growth), and well on its way to meeting Kyoto Protocol CO2 reduction targets.

The latest Basic Energy Plan, scheduled for approval by the Diet in March 2014, depicts a return to nuclear energy but does not specify how it will allocate the mix of fuels (oil, gas, coal, nuclear and renewables). It states that the dependence on nuclear
will be as low as possible but that nuclear capacity “in the future will be assessed in light of stable supply, cost reduction, global warming countermeasures, and the maintenance of technology and human resources to secure safety.”

South Korea, before 2011, had been on track to increase nuclear energy (41% of electricity generation) and renewables (11%) and reduce fossil fuels to 61% of primary energy consumption by 2030, all the while reducing its total energy consumption. Korea’s heavy industry (especially shipbuilding) is energy-intensive and its per capita consumption is about twice that of OECD countries with similarly-sized economies. South Korea’s goal under its 2008 National Basic Energy Plan was to halve its energy intensity level by 2030. As described in more detail below, public opposition to nuclear energy since 2011 may force an adjustment to these goals in the latest national energy plan, which is still under review.

**Energy Imports**

More than forty years ago, Japan substituted nuclear energy for oil in electricity generation to avoid future oil shocks. Today, it is substituting oil (and gas) for nuclear energy, although at a much lower rate (oil provided 73% of electricity generation in 1973; 8% in 2010; 18% in 2012). Japan still depends on oil imports for industry and transportation, overwhelmingly from the Middle East (83% of its crude oil imports come from Saudi Arabia, UAE, Qatar, Kuwait, and Iran.) Japan is the third largest net importer of oil globally.

Japan’s diversification into nuclear power, LNG and coal-fired power plants has imposed other costs (see nuclear discussion below). Although its LNG sources are fairly diversified (see appendix), the continued linkage of LNG prices to oil makes this an expensive choice. Nonetheless, Japan consumes 37% of global LNG exports. Japan already imports LNG from the United States and hopes to expand this in the near future. In coal imports, Japan ranks second behind China as the largest importer; all of its coal is imported from Australia.

South Korea is also heavily dependent (96.3%) on energy imports to meet its total energy needs. It relies on the Middle East for 87% of its oil imports. Its energy imports cost $184 billion in 2012 and constituted a third of its total imports. Not all energy imports are the same however; while gas accounts for 20% of electricity generation, it comprises half of South Korea’s energy bill. South Korea ranks third in the world for coal imports and fifth for crude oil imports.

As noted above, China imports coal, LNG and oil. As China’s demand for oil has outpaced domestic production, it has begun to rely more on imports from Saudi Arabia and Iran than in the past, but it is still far less dependent on the Middle East than its neighbors Japan and South Korea. It imports half its oil from abroad and about half of that comes from the Middle East.

**Geostrategic Impact Of Increased Imports**

Imports can make a country vulnerable to price fluctuations and delays or cutoffs in supply because of weather, conflict (including piracy), technical problems or political disagreements and can have a huge financial impact. Each energy source has its costs and benefits. For example, coal supplies are generally cheap, plentiful, and available from stable suppliers, even though the quantity used makes stockpiling cumbersome and their CO2 emissions are highest. Oil can be stored in large quantities, is a flexible energy source and has a well-developed market, but foreign supply must transit through well-known chokepoints (straits of Hormuz and Malacca). LNG, which will play an increasing role in imports in Asia, cannot be stored well (because it evaporates) and the market is inflexible, dominated by long-term contracts. Pipelines (of which there are few in Asia) carry other vulnerabilities.

For Northeast Asia, the following vulnerabilities are acute:

- 30% of world’s oil shipments transit the Strait of Malacca (15 million barrels/day (MB/D) between Malaysia, Singapore and Indonesia) and the South China Sea.
- 80% of crude oil, 90% of liquefied petroleum gas (LPG) and 20% of LNG exported to Japan transits the Strait of Hormuz.
• Japan and Korea now import more than 95% of their total energy from abroad; by 2040, 80% of Asia’s oil will be imported.

Looking forward, Middle East oil will continue to be relatively cheap, but oil from other regions will free up with the decline in U.S. demand for imports. Australia is poised to become the largest LNG exporter in 2019 (followed by Qatar, which the U.S. will overtake in 2030). Japan and China will continue to square off on the development of offshore deposits of oil and gas, which are subject to territorial disputes.

U.S. Role

In 2013, President Obama told the United Nations General Assembly:

“We will ensure the free flow of energy... Although America is steadily reducing our own dependence on imported oil, the world still depends upon the region’s [Middle East] energy supply, and a severe disruption could destabilize the entire global economy.”

The biggest concerns are the Strait of Hormuz -- the world’s most strategic chokepoint, with 17 million barrels of oil shipped daily -- and the Strait of Malacca, which is the shortest route for ships sailing to Asia from the Middle East. U.S. naval operations in the Persian Gulf and in the South China Sea are integral to protecting oil transportation to Japan and South Korea. However, U.S. initiatives to more actively engage in protection of the Strait of Malacca have been met with caution by the littoral states (Malaysia, Indonesia and Singapore).

China has sought to lessen its vulnerabilities through construction of three pipelines – from Myanmar to bypass the Strait of Malacca, from Central Asia and from Russia. Japan and South Korea do not currently have access to pipelines. More importantly, both have plans to import LNG from the United States. Japan already imports some LNG from Alaska since 1969 and seeks more: six projects already have obtained export permission from U.S. Department of Energy. South Korea has also signed a long-term contract with U.S. companies to import natural gas beginning in 2017. Although nuclear energy has long been touted the “cheapest” electricity source, U.S. gas is cheaper than nuclear for South Korea at $3.5/MMbtu and cheaper than coal even at $6/MMbtu (the highest price since 2009).

One wildcard is whether Russia will become a major gas exporter to Asia. As demand in Russia’s European market declines, and its western gas fields plateau in production, Russia may see increasing economic and political value in developing its eastern gas fields.

Nuclear Energy In Asia & Japan

Japan is the most advanced nuclear energy state in Asia, followed by South Korea and then China. Before the March 2011 accident at the Fukushima Daiichi power plant that melted the cores of 3 nuclear power reactors, Japan had 54 operating nuclear power plants and relied on nuclear energy for about 30% of its electricity generation. Since then, its nuclear sites shut down for safety checks and scheduled maintenance and have remained on standby until new safety requirements and inspections can be completed. The sudden withdrawal of a major energy source has had a severe economic impact, forcing Japan to import oil and natural gas at significant cost. In 2012, total fuel imports cost $250 billion. The lack of preparedness for a severe accident and subsequent mishandling of the clean-up at the Fukushima Daiichi site (including leaks of radioactive water) by TEPCO (the utility that owns the nuclear reactors) have enormously eroded public trust in nuclear power and nuclear governance. The Japanese government has been intensely engaged in restructuring the nuclear regulation authority to improve public trust.

The Abe government supports nuclear power, as evidenced by the new draft Basic Energy Plan that describes nuclear energy as an important baseload electricity source and maintains Japan’s commitment to its fuel cycle capabilities, and many anticipate that some reactors may restart in 2014. While it is likely that some reactors may restart, the extent of nuclear power’s future role in Japan is still uncertain.

South Korea responded cautiously at first to the Fukushima Daiichi accident by conducting safety reviews, but more problems have been uncovered over time. Like Japan, nuclear energy is important for South Korea’s energy mix because of its extreme dependence on foreign resources. Before Fukushima,
South Korea planned to increase nuclear energy’s share of electricity production to 41%, but the most recent plan scales that back down to 29% (a 3% increase from today). With 23 operating nuclear power plants, five are under construction and the ROK plans to build another eleven reactors.

South Korea’s reversal followed a drop in public trust after Fukushima and a growing procurement and safety scandal beginning in 2012. Last year 100 people were indicted for fake certifications, bribery and other offenses, shutting down several nuclear power plants temporarily. Although Korea also reorganized its nuclear safety regulator to be more independent of nuclear energy promotion following Fukushima, there are some anecdotal accounts that the regulator is too isolated.

China was engaged in an ambitious nuclear construction effort rivaled only by the first wave of nuclear power plant construction in the United States when the Fukushima accident happened. Its response was cautious, halting new projects and conducting a safety review of operating nuclear power plants. The accident prompted a domestic debate about China’s emphasis on building indigenously adapted Generation II designs with fewer passive safety features. Although the rate of construction slowed temporarily, new build is generally back on track, with 21 plants operating now and another 27 in various stages of development. By 2035, however, nuclear power is still only slated to contribute 6% of China’s electricity generation.

Environmental Implications

With the energy challenges described above, it’s not surprising that China (1), Japan (5) and South Korea (7) rank in the top ten emitters of CO2 emissions from burning fossil fuels. (The United States ranks second.) The big picture points to a projected global increase in CO2 emissions by 2035 from developing countries, driven by coal-fired electricity generation in China and India.

Public pressure is forcing China to ease up on coal because of the obvious air pollution it has caused, and last year China began to implement carbon trading schemes in major cities. Although China ratified the Kyoto Protocol, it is not required to reduce emissions as a developing country (non-Annex I). Nonetheless, China now aims to cut its greenhouse gas emissions per unit of GDP to 40-45 percent below 2005 levels by 2020. China’s goal in the 12th Five Year Plan for Economic and Social Development (2011-2015) was to meet 20% of its total energy demand with renewables by 2020. Although China leads the world in investment in renewable energy (~$50 billion/year), especially solar and wind power, these advances are dwarfed by the sheer scale of its energy consumption.

South Korea, like China, is not required to reduce its emissions under the Kyoto Protocol but has planned to cut its GHG by 30% from the business-as-usual projections by 2020 by reducing oil use (down to 40% of primary total energy consumption in 2012 from 42% in 2011), greater reliance on natural gas, and stronger energy efficiency standards. In 2012, South Korea created a renewable portfolio standard (with an initial quota of 2% for renewable electricity) and will expand its off-shore wind capacity of 2.5 billion kW by 2019 (from only 0.3 billion kW in 2008).

Japan, as noted above, is having trouble meeting its climate goals without nuclear energy. At the 2013 UN Framework Convention on Climate Change meeting in Warsaw, Japanese officials announced they would aim for 3% above 1990 levels. Although Japan reduced its GHG emissions by 8.2% between 2008 and 2012, those “gains” were lost after Fukushima. Clearly, Japan is committed to a low carbon future but how that future shapes up after electricity deregulation, the expiration of feed-in-tariffs for renewables and major decisions on nuclear energy is uncertain.
Nuclear Threats In Northeast Asia

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Center for Strategic & International Studies

Introduction

Two kinds of nuclear threats challenge security in Northeast Asia today: existing nuclear weapons in China and North Korea, and stockpiles of fissile material and fuel cycle capabilities (both existing and potential). Recent regional tensions have exacerbated perceptions of nuclear risks and have complicated long-term efforts to reduce those risks. U.S. global leadership on reducing nuclear risks is critical, as are efforts to strengthen its bilateral relationships with regional partners. While arms control and confidence-building measures have been successful elsewhere, their application in Asia remains challenging.

Nuclear Threat: Nuclear Weapons In China And North Korea

The two nuclear arsenals in Northeast Asia are quite different from each other and are both fairly opaque. China is an established nuclear weapons power, having first tested nuclear weapons in 1964, and as such, is one of the “legitimate” nuclear weapons holders under the Nuclear Nonproliferation Treaty (NPT). North Korea, on the other hand, is an NPT “drop-out,” having signed the treaty in 1985 as a non-nuclear weapon state but never really came into compliance with treaty obligations.

China claims that it needs a minimal deterrent nuclear force but it does not attach numbers to minimum deterrence. With a no-first-use declaratory policy, China is focusing its modernization effort on enhancing survivability against a first strike by improving accuracy, mobility and range. China now has about 250 nuclear warheads, and older aircraft, short-, medium-, and long-range missiles, and one submarine (SSBN) to deliver them. Its missiles have single warheads, although it has had the technology for multiple warheads for some time. About 60 of its land-based missiles have sufficient range to hit the continental United States, and this number is expected to increase in the next decade. China’s submarine deterrent is rudimentary: in 1986 it deployed a single Xia-class submarine, which can carry 12 missiles (JL-1) but the missiles are not considered operational. Three Jin-class submarines (successor to the Xia-class) are operational, but have been deployed without missiles. The U.S. Department of Defense anticipates these eventually could provide China with a credible, sea-based deterrent in the future, but there are significant hurdles. For one, Chinese doctrine currently does not allow missiles to be mated with nuclear warheads in ordinary circumstances, posing a dilemma for command and control of such submarines.

North Korea has a nuclear weapon capability but there is no evidence yet that it can deliver nuclear weapons. The agreement to freeze North Korea’s plutonium production capability (1994 Agreed Framework) dissolved in 2002 over allegations of a uranium enrichment program. In short order, North Korea kicked out international inspectors, withdrew from the NPT in 2003 and tested nuclear weapons (in 2006, 2009 and 2013). The on-again, off-again
Six Party Talks obtained North Korean commitments to disarmament, and certainly slowed North Korean progress, but ultimately failed to achieve irreversible disarmament when they were suspended in 2008.

In November 2010, North Korea revealed a new uranium enrichment workshop with 2000 centrifuges to former Los Alamos National Laboratory Director Siegfried Hecker. In mid-2013, North Korea restarted its 5 megawatt-electric (MWe) reactor at Yongbyon (which produced its existing stockpile of plutonium). That reactor can produce about one bomb’s worth of plutonium (5-8kg) annually. Before these efforts, experts believed that North Korea had enough fissile material for 8-10 weapons. The current stockpile is tougher to assess because there is little data about North Korean uranium enrichment capacity; Dr. Hecker estimated in 2010 that the new centrifuge plant could produce about 40kg of highly enriched uranium (HEU) annually (enough for 2 HEU weapons), but the plant size has doubled since then.

Whether North Korea can successfully mate a nuclear warhead to a ballistic missile with sufficient range to hit the United States has been long debated, but North Korea undoubtedly continues to improve those capabilities. North Korean nuclear weapons, in any event, pose an additional threat: political instability could lead to the loss, inadvertent use or theft of nuclear weapons or fissile material. The political order in North Korea, as witnessed by the recent execution of Kim Jong Un’s uncle Jang Song Thaek, is in flux.

From a U.S. perspective, nuclear weapons in Asia are, at present, ungoverned (and perhaps ungovernable) spaces. Strategic stability talks with the Chinese are in their infancy, but China has not been shy about arguing that multilateral nuclear arms control will only be possible once the United States and Russia draw down their nuclear arsenals significantly. China would need to wait a long time for U.S. and Russian reductions to reach its level of 250 warheads, if ever, but of course it could build up to match U.S. and Russian forces. Chinese officials are watching developments in missile defenses very closely.

Hopes that new leadership in North Korea could create an opening for disarmament talks were short-lived. The February 2012 “Leap Day” deal with North Korea, which would have suspended missile and nuclear tests and also uranium enrichment, fell apart in less than two months. U.N. sanctions in response to subsequent missile and nuclear tests prompted harsh rhetoric from Kim Jong Un, including threats of nuclear attacks. Although China actively lobbied to resume Six Party Talks last year and DPRK officials said they were prepared to return to the table unconditionally, the United States and other parties see little benefit to negotiations absent a real demonstration from North Korea on denuclearization.

**Nuclear Threat: Fissile Material Stockpiles**

Although nuclear weapons pose the ultimate threat, fissile material stockpiles pose other risks: that states could maintain latent nuclear weapons capabilities or that the material itself could fall vulnerable to theft, sabotage or misuse. Stockpiles and production facilities (uranium enrichment and spent fuel reprocessing) are safeguarded under the NPT, but their development is not restricted. While most countries rely on the commercial market in lieu of expensive domestic uranium enrichment and spent fuel reprocessing, few want to restrict their future options, making negotiated restrictions difficult to reach. In Northeast Asia, three countries have enrichment and reprocessing facilities: China, Japan, and North Korea. China has both military facilities and civilian plants (1 of 3 enrichment plants is under international safeguards), while North Korea’s facilities are no longer monitored. China is believed to have stopped producing fissile material for its weapons, like the other four nuclear weapon states, but has not declared a moratorium. Joining the informal moratorium could be helpful toward a global agreement to halt fissile material production for weapons. China’s nuclear material holdings are mostly unknown.

North Korea maintains that its new enrichment plant is meant for civilian purposes (to fuel its small light water reactor under construction), but has not offered to place it under inspection. As time goes on, and given the precedent of Iran, the prospect of eliminating fissile material production in North Korea dims.

Japan is the only non-nuclear weapon state globally that has both enrichment and reprocessing capabilities, yet its current facilities are too small to provide
all of its commercial needs. Japan’s commercial-scale reprocessing facility at Rokkasho-mura is scheduled to open this year, but has been plagued by delays and cost overruns (total cost is now $22 billion).

South Korea has been seeking U.S. approval for acquiring enrichment and reprocessing (pyroprocessing) capabilities. This has become a sticking point in negotiations to renew its nuclear cooperation agreement with the United States. South Korea had a nuclear weapons program in the 1970s and signed a joint declaration with North Korea in 1992 to ban enrichment and reprocessing on the peninsula, an agreement that North Korea has obviously violated. U.S. policy has long discouraged additional countries from acquiring enrichment or reprocessing capabilities on economic and nonproliferation grounds.

Of all the states in Asia, Japan has the largest stockpiles of fissile material. The table below shows both nuclear power plants and separated fissile material in countries in Northeast Asia.

<table>
<thead>
<tr>
<th>Power Reactors</th>
<th>Fuel Cycle</th>
<th>Pu in SNF</th>
<th>HEU</th>
<th>Separated PU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Enrichment, reprocessing</td>
<td>159 MT</td>
<td>-170kg</td>
<td>34.9 MT in UK, France 9.3 MT in Japan</td>
</tr>
<tr>
<td>China</td>
<td>Enrichment, reprocessing</td>
<td>?</td>
<td>16 +-tons</td>
<td>13.8 kg official (1.8 MT unofficial)</td>
</tr>
<tr>
<td>Taiwan</td>
<td>No E/R</td>
<td>29 MT</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>South Korea</td>
<td>No E/R</td>
<td>130 MT</td>
<td>None</td>
<td>None</td>
</tr>
<tr>
<td>North Korea</td>
<td>Enrichment, reprocessing</td>
<td>?</td>
<td>?</td>
<td>-40kg</td>
</tr>
</tbody>
</table>

Generally speaking, plutonium in spent nuclear fuel (SNF) is considered to be self-protecting because of high radiation barriers to theft. Once separated, however, the security and proliferation risks rise. In terms of scale, the 9 metric tons of separated plutonium in Japan today (or 9000 kg) could provide material for between 1000 and 2000 nuclear weapons. Worldwide, there is enough separated material (Pu and HEU) in civil and military stocks for over 100,000 weapons – or 30% more than when the United States and Russia each had 35,000 nuclear warheads.

Today, the most pressing issue is how Japan will handle its plutonium stockpile after the March 2011 accident at the Fukushima Daiichi nuclear power plant triggered a shutdown of all Japanese power reactors. Without a clear path for irradiating the separated plutonium in reactors, starting up the Rokkasho-mura will increase the stockpile of separated plutonium, potentially creating additional security risks for Japan. The draft Japanese Basic Energy plan indicates a “business as usual” approach on the fuel cycle despite the fact that it is unclear how many nuclear power plants will ever be restarted.

Recently, Chinese officials expressed concern about Japan’s plutonium use policy as well as the pace of removal from Japan of 500kg of HEU and separated plutonium in connection with the 2014 Nuclear Security Summit held in the Netherlands. At a press briefing on February 17, 2014, China’s Foreign Ministry spokeswoman stated:

“China attaches great importance to nuclear proliferation risks and potential threats posed by nuclear materials to regional security. China has grave concerns over Japan’s possession of weapons-grade nuclear materials... Japan’s failure to hand back its stored weapons-grade nuclear materials to the relevant country has ignited concerns of the international community including China.”
This concern likely has less to do with proliferation than political tensions, since Japan has possessed the material in question for decades at the Critical Facility in Tokai-mura.

**Reducing Nuclear Risks**

U.S. bilateral security assurances have played a large role in shoring up nuclear nonproliferation in Northeast Asia and will continue to do so. There is some risk, however, that lack of confidence in those bilateral commitments can cause nonproliferation commitments to unravel and there is historical evidence for this in Asia with South Korea and Taiwan decades ago.

At the same time, the emergence of effective multilateral institutions to support efforts to reduce nuclear risks is not yet on the horizon in Asia. Although some fora (e.g., the ASEAN Regional Forum and the Asia-Pacific Safeguards Network) address discrete nonproliferation issues, the kinds of broader collaboration made possible by economic and political integration in Europe are not foreseen. The ability to leverage bilateral relationships and promote third party cooperation has been limited so far.

On nuclear weapons, the United States will continue to engage China where it can on strategic stability talks as a long-term investment. Greater transparency on China’s modernization of its arsenal would constitute a modest improvement, but China has few incentives to talk seriously about any limits on its strategic nuclear force for quite a while. A collateral benefit could be more sustained cooperation with respect to the North Korean nuclear threat, and there is recent evidence of greater willingness by China to engage, given heightened concerns about North Korea’s stability.

With respect to North Korea, the United States is unlikely to press forward bilaterally with North Korea or even multilaterally under the Six Party Talks absent a significant compromise by the North. South Korean President Park Guen-hye has taken a slightly softer stance on negotiations (willingness to talk before denuclearization) but it is not clear how far she might be willing to stray from the U.S. approach in search of a legacy for her term.

The Obama administration has integrated nuclear security throughout its overall nuclear posture, taking the risks from nuclear material more seriously than previous administrations. Although historically this has not been a prominent concern within Asia, South Korea’s hosting of the 2012 Nuclear Security Summit helped raise awareness of this global threat. Unfortunately, the three states with the most significant stockpiles of sensitive material (either in civilian or military sectors) all pose serious obstacles to reducing risks; China dismisses transparency as antithetical to security in general and nuclear security in particular; North Korea will only give up material in the context of a broader denuclearization agreement which is remote at the moment; and Japan is caught between a public suspicious of nuclear power, economic exigency and the tightly woven relationships that constitute the nuclear village calling for “business as usual.” The United States, in this context, needs to consider carefully whether a new nuclear energy architecture is needed so that nuclear energy – which will grow mostly in Asia in the future -- can move forward on a safe and secure basis with minimal proliferation risks.
Energy Security for the 21st Century: The Role of Nuclear Power after Fukushima

Nobuo Tanaka
Former Executive Director of the IEA
Professor of the University of Tokyo, GraSPP
Global Associate for Energy Security and Sustainability of the IEEJ

The engine of energy demand growth moves to South Asia

Primary energy demand, 2035 (Mtoe)

Share of global growth 2012-2035

China is the main driver of increasing energy demand in the current decade, but India takes over in the 2020s as the principal source of growth
A mix that is slow to change

Growth in total primary energy demand

Today's share of fossil fuels in the global mix, at 82%, is the same as it was 25 years ago; the strong rise of renewables only reduces this to around 75% in 2035
North American Energy Independence and Middle East oil to Asia: a new Energy Silk Road

Middle East oil export by destination

By 2035, almost 90% of Middle Eastern oil exports go to Asia; North America’s emergence as a net exporter accelerates the eastward shift in trade

Blockage of the Strait of Hormuz may push Japan into the Economic Death Spiral.

85% of Japanese oil import
20% of Japanese LNG import
But if no nuclear reactors are running,.....?

17 mbd of petroleum
(20% of global demand & 42% of trade)

82 million tons of LNG pa
(30% of global demand)
Economic Death Spiral may hit Japan

- Blockage of the Strait of Hormuz
  - Oil Price may double to $160 / barrel
  - Japan’s current account surplus (9 trillion yen in 2011) may turn to deficit of 6 trillion yen.
  - Without further restarting of nuclear power plants, deficits may reach 12 trillion yen.
- Confidence on Japan’s public finance may be lost.
  - Current Account surplus is the basis for confidence
  - Persisting Deficit may lead to capital flight from Japan
  - Power crisis enhances flight of manufacturing industries
- Loss of Confidence in JGB and Yen. Capital move into commodities means higher prices of oil.
- Total Economic Melt Down may happen.

China’s Import Transit Routes

USDOD China Report 2013
Two chapters to the oil production story

**Contributions to global oil production growth**

**Conventional:**
- Middle East
- Brazil
- Rest of the world

**Unconventional:**
- Light tight oil
- Oil sands, extra-heavy oil, coal/gas-to-liquids, & other

*The United States (light tight oil) & Brazil (deepwater) step up until the mid-2020s, but the Middle East is critical to the longer-term oil outlook*

Should China and India join the IEA?

**Net oil imports of selected countries in the New Policies Scenario 2013 (mb/d)**

*Asia becomes the unrivalled centre of the global oil trade as the region draws in a rising share of the available crude*
Shale Gas revolution?

**Figure 3.4** Change in annual natural gas production in selected countries in the New Policies Scenario

<table>
<thead>
<tr>
<th>Country</th>
<th>2011-2020</th>
<th>2020-2035</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Russia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia</td>
<td></td>
<td></td>
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<tr>
<td>Qatar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iraq</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkmenistan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Iran</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Algeria</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

LNG pricing: a competitiveness burden on Asian economies

Developing a Natural Gas Trading Hub in Asia (2013 by IEA)
The higher the oil price goes, the lower the gas price becomes.

**Figure 4.7** Relationship between break-even price (gas price needed to recover well costs) and the liquid content of the gas produced

LNG from the United States can shake up gas markets

**Indicative economics of LNG export from the US Gulf Coast (at current prices)**

*New LNG supplies accelerate movement towards a more interconnected global market, but high costs of transport between regions mean no single global gas price*
Two Price Zones may appear.

**Figure 3.11** Regional gas prices in the New Policies Scenario and in the Gas Price Convergence Case

World Electricity Generation grows by 70% led by renewables in OECD and by coal in non-OECD countries.

**Figure 5.3** Electricity generation by source in the New Policies Scenario

- OECD
- Non-OECD

- Coal
- Renewables
- Gas
- Nuclear
- Oil
Renewables needs $4.7 trillion of subsidies by 2035.

**Figure 6.15**  Global renewable energy subsidies by source in the New Policies Scenario

![Graph showing global renewable energy subsidies by source from 2008 to 2035.](image)

Notes: Other includes geothermal, marine and small hydro.

Japan’s Power Sector: Renewables, gas and energy efficiency leading the charge

**Figure 6.13**  Japan electricity generation by source in the New Policies Scenario

![Graph showing Japan electricity generation by source from 1990 to 2035.](image)

A decline in nuclear is compensated by a 3-fold increase in electricity from renewables, a continued high reliance on LNG imports & improvements in efficiency.
Who has the energy to compete?

The Remarkable Renaissance of US petrochemicals

Regional differences in natural gas prices narrow from today's very high levels but remain large through to 2035; electricity price differentials also persist.

Who has the energy to compete?

The Remarkable Renaissance of US petrochemicals

Regional differences in natural gas prices narrow from today's very high levels but remain large through to 2035; electricity price differentials also persist.

Box 8.4

The slump in gas, ethane and LPG prices in the United States due to the boom in shale gas has given US petrochemical producers a major advantage over many competitors in Europe and other parts of the world that rely primarily on naphtha, an oil-based alternative feedstock. This sharp improvement in the profitability of bulk petrochemicals production has boosted utilization rates at existing US plants and led to a surge in plans for new production facilities (Figure 8.15). Between 2010 and the end of March 2013, almost 100 chemical industry projects valued at around $72 billion were announced (ACC, 2013). According to the American Chemistry Council, these investments, were they all to proceed, would boost production capacity by 40% in 2020; provide 1.2 million jobs during the construction phase (to 2020); create over half a million permanent jobs; and give rise to total output worth $200 billion per year in the longer term. The majority of the planned projects, many of them for export, involve expansions of capacity for ethylene, ethylene derivatives (such as polyethylene and polyvinyl chloride), ammonia, methanol, chlorine, and to some extent for propylene. Roughly half of the announced investments to date are by firms based outside the United States. Much of the investment is aimed at making use of the rapidly growing volume of ethane coming onto the US market. However, using solely ethane as feedstock in steam crackers produces just ethylene and almost no other by-products, such as propylene, which may lead to local imbalances in derivative product markets.

Figure 8.15

Historical and planned ethylene capacity additions by region

Sources: ICIS (2013); IHS (2013); METI (2013); Platts (2013); US EIA (2013); and IEA analysis.
An energy boost to the economy?

**Share of global export market for energy-intensive goods**

*The US, together with key emerging economies, increases its export market share for energy-intensive goods, while the EU and Japan see a sharp decline*

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**Nuclear’s future**

*Figure 5.12*  Nuclear power installed capacity by region in the New Policies Scenario
Share the Lessons of the Fukushima

- Lessons to be Shared
  - Think about the unthinkable; Tsunami and Station Black Out. Large scale Blackout. Change total mind set for “Safety”.
  - Prepare for the severe accidents by defense in depth, common cause failure & compound disasters. NRC’s B-5-b clause was not accepted despite its suggestion.
  - Clarify why it happened only to Fukushima Daiichi and NOT to other sites like Fukushima Daini, Onagawa, Tokai-daini.

- Safety Principles
  - Fukushima accident was caused by human error and should have been avoided. (Parliament Investigation Commission report )
  - International Cooperation : A nuclear accident anywhere is an accident everywhere.
  - Independent Regulatory authority ; Transparency and Trust, “Back Fitting” of regulation

- Secured supply of Electricity
  - Power station location
  - Strengthened interconnection of grid lines

- Once disaster has happened, Recovery from disaster is at least as important as preparing for it.
  - FEMA like organization and training of the nuclear emergency staff including the self defense force ; integration of safety and security.
  - New Technology. New type of Reactors such as Integral Fast Reactor.

Time for Safer, Proliferation resistant and Easier Waste Management Paradigm: Integral Fast Reactor and Pyroprocessing

Pyroprocessing was used to demonstrate the EBR-II fuel cycle closure during 1964-69

Dr. YOON IL CHANG
Argonne National Laboratory
Technical Rationale for the Integral Fast Reactor

✓ Revolutionary improvements as a next generation nuclear concept:
  – Inexhaustible Energy Supply
  – Inherent Passive Safety
  – Long-term Waste Management Solution
  – Proliferation-Resistance
  – Economic Fuel Cycle Closure
✓ Metal fuel and pyroprocessing are key to achieving these revolutionary improvements.
✓ Implications on LWR spent fuel management

Joint Program on Pyroprocessing with Japan

✓ Central Research Institute of Electric Power industry (CRIEPI): $20 million cost sharing signed in July 1989.
✓ Power Reactor and Nuclear Fuel Development Corporation (PNC): $60 million cost sharing program agreed to in February 1994, but canceled by DOE.
✓ These joint programs ended when the IFR Program was terminated in October 1994.
Importance of LWR Pyroprocessing Demonstration

✓ The public views adequate nuclear waste management as a critical linchpin in further development of nuclear energy.
✓ The backend of the nuclear fuel cycle cannot be addressed independent of the next-generation reactor options. A systems approach is required.
✓ Basically, three options exist:
  – LWR once-through only and direct disposal of spent fuel
  – PUREX reprocessing and MOX recycle in LWRs in interim
  – LWR once-through, followed by pyroprocessing and full recycle in fast reactors
✓ A key missing link for decision making is a pilot-scale demonstration of pyroprocessing for LWR spent fuel.

Dr. YOON IL CHANG
Argonne National Laboratory

A Plausible Path forward Option

✓ As an immediate step, develop a detailed conceptual design and cost/schedule estimates for a pilot-scale (100 ton/yr) pyroprocessing facility to treat LWR spent fuel.
  – This will provide data for industry to evaluate viability.
✓ Follow with a construction project for 100 ton/yr LWR pyroprocessing facility to validate economics and commercial viability.
✓ In parallel, initiate an IFR demonstration project based on GEH’s PRISM Mod-B (311 MWe).
  – Licensing preparations
  – Negotiations with the U.S. industry and international partners
✓ A modest sized prototype demonstration project on a DOE site can be done at a fraction of the cost.
  – A vital project to preserve the technology base and develop next-generation engineers for the future.

Dr. YOON IL CHANG
Argonne National Laboratory
Removal of uranium, plutonium, and transuranics makes a 300,000 year problem a 300 year problem.

Korea Is Eager to Develop IFR.

Long-term Plan for SFR and Pyroprocess

SCGII Conference, UC Berkeley, October 2-3, 2012
For such an alliance to exist, the United States and Japan will need to come to it from the perspective, and as the embodiment, of tier-one nations. In our view, tier-one nations have significant economic weight, capable military forces, global vision, and demonstrated leadership on international concerns. Although there are areas in which the United States can better support the alliance, we have no doubt of the United States’ continuing tier-one status. For Japan, however, there is a decision to be made. Does Japan desire to continue to be a tier-one nation, or is she content to drift into tier-two status?

Energy Security
(Nuclear)
Understandably, the Fukushima nuclear disaster dealt a major setback to nuclear power. The setback reverberated not only throughout Japan, but also around the world. Japan has made tremendous progress in boosting energy efficiency and is a world leader in energy research and development. While the people of Japan have demonstrated remarkable national unity in reducing energy consumption and setting the world’s highest standards for energy efficiency, a lack of nuclear energy in the near term will have serious repercussions for Japan.

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**Emissions off track in the run-up to the 2015 climate summit in France**

*Cumulative energy-related CO₂ emissions*

*‘Carbon budget’ for 2 °C*

*Non-OECD countries account for a rising share of emissions; the 2 °C ‘carbon budget’ is being spent much too quickly*
Global energy-related CO₂ emissions by scenario

CO₂ emissions rise to 44.1 Gt in the Current Policies & 37 Gt in New Policies Scenario by 2035. Efficient World & 450 Scenarios see levels of 30.5 Gt & 22.1 Gt respectively

Figure 8.6  Electricity generation from low-carbon technologies and share by scenario, 2010 and 2035

Can we build 16 GW of nuclear power plants a year?  
+ Can we build 60 GW of wind power plants a year? (2010 = 198 GW)  
+ Can we build 50 GW of Solar PV capacities a year? (2010 = 38GW)  
And CO₂ price will be more than $120 per ton.

* Other includes geothermal, concentrating solar power and marine.  
Note: 450 = 450 Scenario; NPS = New Policies Scenario.
Energy self-sufficiency* by fuel in 2011

* Self-sufficiency = domestic production / total primary energy supply

Note: Does not include fuels not in the fossil fuels, renewables and nuclear categories.

Source: Energy Data Center, IEA.
**“Energy for Peace in Asia”**  

New Vision?  

- **Demand Leveling** (Time Zone & Climate Difference)  
- **Stable Supply** (through regional interdependence)  
- **Fair Electricity Price**  

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**Asia Super Grid**  

Phase 3  

Total 36,000km  

Presentation by Mr. Masayoshi SON

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**Conclusions**  

**Comprehensive Energy Security and Sustainability**

- Urgent need for restarting nuclear power plants. Prepare scenarios for Iranian Crisis.  
- Nuclear Power will continue to play a major role in the world. Japan’s role after Fukushima is to share the lessons learned for safer Nuclear Power deployment in Asia and elsewhere. (ex. rejection of B5b implementation) International collaboration on Integral Fast Reactor, Fuel cycle technology development at Fukushima.  
- Energy Security for the 21st Century must be Collective and Comprehensive Electricity Supply Security under sustainability constraints. EU’s connectivity approach can be a model especially for Asia. Domestic reform issues of power market: 50-60 hrz problem, FIT reform, unbundling of utilities, international grid connection with Korea and Russia.  
- Golden Age of Natural Gas will come with golden rules including sustainability requirements and a new pricing formula. Russia remains as a key player with pipelines and LNG facilities. LNG exports from North America including Alaska may be a game-changer.  
- New technologies help; Hydrogen economy, Methane-hydrate, Super-conductivity grid, EVs, Smart Grids, Storage, CCS, Solar PV etc.  
- China and India should join the IEA. Need for the North East Asian Energy Security Forum
Quiet Deterrence: Japan Needs a Careful Strategy to Manage its Strained Ties with China

Yoichi Funabashi
Chairman, Rebuild Japan Initiative Foundation

(This essay was originally published in the Security Times, January 31, 2014)

If the Cold War was a confrontation between the United States and the Soviet Union over the geopolitics of the Eurasian continent centered on central Europe, the 21st century could be characterized by tensions between the United States and China over the geopolitics of the Asia-Pacific region’s oceans.

Among the situations pointing towards such a future scenario are prevailing tensions between Japan and China over territorial rights to the Senkaku Islands (or Diaoyu, as they are known in China) in the East China Sea. Though Japan has long exerted administrative control over the Senkaku Islands, China has started to challenge this control directly, dispatching government vessels into waters under Japanese administrative control and brandishing its naval and air force power.

The challenge for Japan will be to form “quiet deterrence” by dealing with lingering territorial issues with the utmost calm and composure, and by maintaining strategic communications with China.

Tensions between Japan and China over territorial issues in the East China Sea cannot be considered separately from similar such disputes in the South China Sea between China and the Association of Southeast Asian Nations (ASEAN) maritime countries. While until recently China had tended to veer away from explicitly disputing the territorial issue of the Senkaku Islands, the government’s approach to territorial issues in the South China Sea has, in contrast, been markedly stronger, with China readily demonstrating its willingness to engage in military clashes with Vietnam and the Philippines.

From 2010 to 2012, at almost the same time as tensions were simmering between Japan and China in the East China Sea, Chinese vessels engaged in a protracted standoff against vessels of Vietnam and the Philippines over territorial rights in the South China Sea. Cases of anti-Chinese demonstrations also transpired in both countries within this same time frame.

The International Crisis Group (ICG), a leading international non-governmental organization advising on conflict prevention and resolution, notes in a report that this diplomatic offensive by China, manifested similarly in each of the aforementioned cases, is characterized by a tactic it terms “reactive assertiveness”. This terminology is used to describe a tactic whereby China seeks to induce provocative actions by the other party in a dispute over territorial waters. Once the other party takes action, China then responds by pursuing strong countermeasures that it has had time to prepare in advance. Through such tactics, China seeks to remodel the status quo in its favor.

Framing the case of the Senkaku Islands in the context of this tactic, China, interpreting the Government of Japan’s decision to purchase the islands as a unilateral change to the status quo, implemented a series of pre-planned actions with the goal of changing the facts on the ground. The most important action in this regard was Beijing’s declaration of territorial baselines around the islands in September 2012, thus
increasing the number and reach of its law enforcement patrols in an attempt to challenge Japan’s de facto control of its territorial waters.

China’s basic stance on territorial disputes is to seek to avoid at all costs the use of armed force in the resolution of land-based issues, and to adopt a cautious stance in that arena. Also, at times when there is a high risk that domestic stability may be put in jeopardy, China tends to seek a compromise with the neighboring country in land-based territorial disputes. When such cases involve ethnic unrest, China has demonstrated remarkable readiness to compromise on territorial land issues. However, China also shows a strong tendency to resort to the use of military force at times when it feels that its own negotiating position is weak in territorial disputes.

In the case of the Senkaku Islands, two factors overlay China’s stance: the first being China’s perceptions of its own military weakness against Japan and the United States, and the second being that the issue does not impact any domestic vulnerabilities such as ethnic tensions. In other words, the case of the Senkaku Islands is one in which it is difficult for China to exert self-control, and where perceptions of its own vulnerability are easily stimulated.

Above all, in the context of naval power, while China seeks to demonstrate its strength in this regard, on the other hand it has a propensity towards what could best be likened to a “naval power complex”.

Still, the biggest risk for Japan and the United States is the lack of transparency surrounding the build-up of China’s naval power and the manner in which it intends to project this power globally.

In October 2006, on the occasion of then-Prime Minister Shinzo Abe’s visit to China, Japan and China agreed to build a “mutually beneficial relationship based on common strategic interests” in line with a belief that, even in the presence of individual thorny issues, it is important to keep such issues under control so that they do not affect the entire Japan-China relationship. Since then, the leaders have repeatedly affirmed that the two countries will promote a “mutually beneficial relationship based on common strategic interests.”

However, after tensions flared up over the Senkaku Islands in 2010 and 2012, the modus operandi of the “mutually beneficial relationship based on common strategic interests” has mostly collapsed. And the domestic political dynamics in Japan and China only serve to undergird this situation.

In the case of Japan, we can point to, for example, the backlash of the conservatives against Japan’s post-Cold War efforts to overcome the issue of history, the decline of Japan’s national strength, the rise of identity politics including visits to the Yasukuni Shrine by prime ministers from the Junichiro Koizumi Administration onwards, and the diplomatic gaucheness of the administrations led by the Democratic Party of Japan (DPJ). Conversely, in the case of China, we can identify what Chinese intellectuals refer to as changes in China’s “political fundamentals”. Simply put, it is the manifestation of the unraveling of the legitimacy of the Communist Party of China’s (CPC’s) one-party system of authoritarian rule and the chauvinism of nationalism that the CPC’s leadership has mobilized to offset this. The unraveling of CPC’s legitimacy is evident from several developments, including the end of China’s rapid growth, the sharp increases in wealth and income disparities between regions and individuals, corruption among CPC senior members, environmental degradation, uprisings by ethnic minorities, and counter-attack public opinions on the Internet.

The Japan-China relationship is confounded by the fact that Japan frequently becomes the primary target of outbreaks of Chinese nationalism. At times, the CPC elicits domestic nationalism and applies deliberate diplomatic pressure on opponent countries. When the opponent is Japan, this often takes the form of “patriotic collusive” nationalism between the CPC and government and the masses. Both 2010 and 2012 saw outbreaks of such “patriotic collusive” nationalism. For the Chinese leadership, Japan remains a “whipping boy” for quickly obtaining legitimacy.

A more fundamental and long-term structural factor is the end of China’s path to a peaceful rise that had characterized the last 30 years. If China sees economic interdependence only from the perspective of power, this is not in China’s own best interests. “Interdependent peace” is nothing more than the concept of building peace by engagement.

Japan-China tensions surrounding the sovereignty of the Senkaku Islands have shaken up the “strategic
fundamentals” upon which Japan had premised its relationship with China. If China identifies the First Island Chain as “China’s seas” and further demonstrates its “strategic will to the sea” by projecting naval power to the Second Island Chain, Japan runs the risk of losing a “surplus of security.”

It can be said that the question of how China’s “strategic will to the sea” may be steered toward contributing to the development of “principles of liberal international order” in the Asia-Pacific is the biggest strategic challenge facing the Asia-Pacific in the 21st century. This involves neither the containment of China, nor an encirclement of China. China is too big and too interdependent to attempt such an effort.

Accordingly, all countries have no choice but to pursue a strategy that combines assurance and dissuasion, or engagement and hedging. However, it is not possible to determine unambiguously what circumstances will cause such a strategy to tip between assurance and dissuasion. After all, the main purpose of a deterrence strategy against China is neither suppressing the rise of China, nor outdoing China; it is to make China understand that military expansion, particularly the expansion of naval power, will have the reverse effect on China’s future peace and security.

If China attempts to alter the “status quo” of the international order by using its newly acquired economic strength as leverage, the “interdependent peace” between Japan and China would no longer function. Should this happen, a vision for a multifaceted regional order based on “principles of liberal international order” must be developed. However, both the trade and investment needed for China’s growth evolve sustainably precisely because there is a peaceful environment. The primary contradiction of Chinese power is economic growth and the sustainability of development. China’s high growth will not last long—indeed, many observers see that the high growth period has already ended—and issues of disparity and corruption could propel the CPC regime into a state of crisis. State-owned enterprises are turning into dinosaur-like entities that swallow up private enterprises. Furthermore, China is quickly falling into the trap of middle-income countries.

The cost-effectiveness of the Japan-China battle over “administrative control” is decidedly asymmetric in nature. In order to continue to demonstrate its “administrative control,” Japan must always maintain a sense of alert on the ground. As a Chinese expert in security issues has said, “Japan can no longer rest.” While Japan is subject to a conventional war of “unless it wins, it will lose,” China is using guerrilla warfare tactics premised on the principle that “unless it loses, it will win.” Amidst the somber situation of Japan’s loss of the surplus of security provided by the sea, the weight of anti-Japan pressure that uses China’s economic strength as leverage, and the perpetual onus of proving Japan’s administrative control of the Senkaku Islands, Japan has no other choice but to be prepared for a “long, long struggle.”

Japan should pursue a policy of “quiet deterrence.” The deterrence must be quiet so as not to incur China’s reactive assertiveness; that is, Japan must exercise self-restraint in order not to overreact to China’s provocations. Moreover, the deterrence must be quiet so as not to cause an outbreak of Chinese nationalism and not to tempt the Chinese Government to enflame Chinese nationalism. The deterrence must also be quiet for Japan and the United States to jointly address this challenge by fully exercising the Japan-US alliance. Should Japan lose either its composure or its determination, should it let its strategically defensive posture waver, or should it lose self-control and overreact, this could give the United States a pretext for avoiding its obligation to defend Japan. Furthermore, a quiet approach is also required in order to achieve the widening of a China deterrence system in cooperation with the Japan-U.S. Alliance and other countries such as Australia, the Philippines, Indonesia, Vietnam, and Singapore.

Finally, and paradoxically, the essence of “quiet deterrence” must be to maintain strategic communications with China, carry out risk and crisis management simultaneously, stabilize the bilateral relationship, and maintain peace.

Deterrence, after all, is basically a sort of strategic communication. The firing up of nationalism in either country puts pressure on political leaders. Thus, quiet deterrence is required.
Until a few years ago, the signs were encouraging that China was on a path to rise peacefully. China generally behaved like a cautious rising power preoccupied with its own domestic problems and intent on avoiding international conflicts that could disrupt economic growth and social stability.

China’s leaders are more worried about regime stability—the domestic threats to Communist Party rule—than about any international threat. Keeping the economy growing by at least 7 percent per year is considered a political imperative to create jobs and prevent the widespread unemployment that could lead to large-scale labor unrest. To maintain a good international environment for economic development Chinese leaders adopted a low profile; they sought to avoid provoking their Asian neighbors or the United States.

Conscious that China’s rapid rise leads other countries to view it as a threat, Chinese diplomats worked hard to build its reputation as a good global citizen and regional neighbor. China became a staunch supporter of the World Trade Organization and the Nonproliferation Treaty, and participated in many more multilateral organizations than we would expect of a country at its level of development. Seeking to reassure its Asian neighbors about its benign intentions, China resolved almost all of its land border disputes in an accommodating manner that involved giving up more territory than it got. China also participated actively in the new forums for regional cooperation that emerged in the 1990s. It stepped forward to mediate the dangerous standoff between the United States and North Korea over North Korea’s nuclear weapons program by organizing the Beijing-based Six Party Talks. Its cooperative efforts were rooted in the leaders’ interest in a peaceful international environment to sustain economic growth and prevent rebellion against CCP rule.

China’s cautious diplomacy showed some emotional blind spots, particularly toward Japan and Taiwan, hot-button domestic political issues that are the focus of intense interest and nationalist sentiment at elite and popular levels. China’s politically insecure leaders took tough public stands on Japan and Taiwan in order to bolster their standing at home. But with the exception of these two issues, China’s international behavior up until 2008 gave hope that its leaders had the motivation and the skill to guide the country to rise peacefully.

**Signs of Loss of Restraint**

In recent years, however, Chinese leaders have evidenced difficulty in sustaining this restrained approach to the world. After the violent protests in Tibet on the eve of the 2008 Beijing Olympics, the government publically vilified the Dalai Lama and the Western media; injected the Tibet issue into every diplomatic interaction with Western counterparts; cancelled important meetings like the China-EU summit when President Sarkozy said he would meet with the Dalai Lama; and included Tibet in the load-
ed concept of “core interests,” i.e. the national priorities which must be defended at all costs including by force, which previously had been limited to preventing Taiwan independence. In March 2009, violent ethnic conflict between Uyghurs and Han Chinese in Xinjiang produced a similar foreign policy reaction from the PRC government including the further redefinition of “core interests” to include Xinjiang.

In March 2009, two Chinese fishing trawlers, a fishery patrol ship, and a State Oceanographic Administration patrol ship with a People’s Liberation Army naval ship nearby created a dangerous maritime incident when they harassed the Impeccable, an American surveillance ship collecting underwater intelligence on Chinese submarines and the contours of the ocean floor 75 miles off Hainan Island. The Americans believe that collecting military-related undersea information is within their rights in the “international waters” that begin 12 nautical miles off the Chinese coast. But the Chinese assert their right to exclude foreign military activities from the maritime and air space 12-200 nautical miles offshore (their Exclusive Economic Zone under the United Nations Convention on the Law of the Sea).

China estranged the South Korean public when it followed its Mao-era loyalties and favored the North in response to two acts of North Korean aggression against South Korea in 2010. When the Cheonan, a South Korean corvette sunk and 46 sailors lost their lives, China declined to send a team to Seoul to review the findings of an international investigation that had concluded a North Korean torpedo was responsible, and wouldn’t censure the North Korean attack. A few months later, the Chinese refused to condemn an unprovoked artillery attack by the DPRK on Yeonpyeong Island that killed two civilians and two ROK marines. China’s only vocal criticism was reserved for the US-ROK joint exercises, including an American aircraft carrier, held shortly after the artillery attack in the waters between the Korea Peninsula and China.

The most worrisome trend in China’s foreign policy is its increasingly muscular effort to assert its maritime territorial claims in the East China Sea and South China Sea. President Xi Jinping has stated repeatedly that sovereignty is more important than security for China. When the Japanese government purchased several of the small islands in the East China Sea called Senkaku in Japan and Diaoyu in China on the eve of the 2012 Chinese Communist Party Congress that was to elevate Xi to the number one leader, Xi whipped up popular support by sending government ships to challenge Japan’s administration of the islands; the ships, now under the command of the new Chinese Coast Guard continue to be a regular presence. The military’s declaration of an Air Defense Identification Zone and frequent air patrols by the PLA Air Force in the East China Sea demonstrate China’s resolve to reinforce its claims.

China’s expansive claims over the waters and small islands in the South China Sea, one of the most heavily trafficked maritime transport waters in the world, are contested by Vietnam, Malaysia, Brunei, and the Philippines; Taiwan makes the same claims as China does. Like China, Vietnam and the Philippines also have ramped up their maritime activities; new technologies for undersea oil and gas exploration have opened up new possibilities for prospecting and depleted stocks are forcing fishermen to catch fish further offshore. The PRC Bureau of Fisheries, State Oceanographic Administration, and the Hainan and Guangdong provincial governments, by making their own well-publicized moves in the South China Sea gain bigger budgets for more ships. Maritime stand-offs between China and Vietnam and the Philippines are growing more frequent and difficult to de-escalate. After one confrontation, China and the Philippines agreed to withdraw from the contested shoal, but China returned to chain off the area to non-Chinese fishermen.

China’s growing willingness to clash openly with its neighbors and the United States has caused Asians and Americans alike to revise their expectations about China’s rise. They are starting to believe that China may not be as limited in its aims and risk averse as it once appeared. As a result, their mistrust of China has heightened. China blames the backlash from neighboring countries on the Obama administration’s “pivot to Asia”. And the region is dividing into two Cold War-type blocs: the U.S. and its friends and allies vs. China, Russia, and the DPRK. China’s pre-2008 foreign policy was designed to prevent just this outcome, which was considered highly negative for China’s national security.
One explanation for China’s growing assertiveness is that the 2008 global financial crisis made the Chinese more confident that they were well on their way to supplanting the declining U.S. While this misperception undoubtedly increased demands for the Chinese government to stand tall, systemic features of domestic politics also are driving Beijing toward risk-taking behavior.

The Domestic Context of Chinese International Behavior

China’s leadership is extremely insecure, constantly fretting that it might be reaching the end of its reign. It’s also a country with a dysfunctional policy process dominated by powerful interest groups, many of them within the state itself.

The biggest danger isn’t China’s growing economic or military strength. It’s the internal fragility that could drive it to make threats that leaders can’t back down from for fear of loss of internal support—and the possibility of overexpansion, driven by parochial interest groups that would benefit in the short term.

Insecure Leaders

China’s leaders have a deep sense of political insecurity. They lack the charisma and personal following that Mao Zedong and Deng Xiaoping, their predecessors in the revolutionary generation, once had. As the current leaders look out from the leadership compound of Zhongnanhai to a Chinese society drastically transformed by market reform and opening to the world, everywhere they see threats to their own political survival and to the survival of the CCP regime.

The leaders’ anxieties about their survival spiked during the Tiananmen Crisis of the spring 1989. Large protests occurred in over 130 cities throughout the country; the CCP leadership split on how to respond to the protests; and only because the PLA followed Deng Xiaoping’s command to use force to put down the demonstrations did the People’s Republic of China remain standing. In November 1989, the Berlin Wall fell and communist governments in the Soviet Union and Eastern Europe started to collapse. Ever since then, China’s leaders have worried intensely that their own days in power are numbered. As they try to extend the lifespan of the regime, they pay particular attention to the three lessons they took away from the CCP’s close call in 1989:

- Prevent large-scale social unrest.
- Avoid public splits in the leadership.
- Keep the military loyal.

In their foreign policy decisions, these domestic imperatives are very much on their minds.

Anti-Foreign Nationalism

China’s leaders’ greatest fear is an opposition movement that fuses together various discontented groups under the banner of nationalism. Anti-foreign nationalism could provide the glue that unifies what so far has been small scale and localized protest into a revolutionary tide that sweeps the CCP out of power. Such nationalist revolutionary movements overthrew the Qing Dynasty (1911) and the Republic of China (1949).

Popular nationalism is intensifying in China. In part this is a natural consequence of the country’s rise after more than a century of being weak, internally divided, and internationally marginalized. Post-Deng CCP leaders also promote anti-foreign nationalism as a source of legitimacy now that almost no one believes in communism any more. In the 1990s when Jiang Zemin led the party, a patriotic education campaign in the schools and propaganda stimulated a “rediscovery of nationalism.” The focal point of the campaign was Japan’s brutal occupation of China in the 1930s and ‘40s.

The CCP, by stoking anti-foreign nationalism, has boxed itself into a corner. Having allowed students to demonstrate outside the U.S. embassy and consulates (in 1999 after the accidental bombing of the Chinese embassy in Belgrade, Yugoslavia) and the Japanese embassy (in 2005 and 2012), how do leaders manage future protests without risking having the students turn on them? It is striking that the Chinese government has never dared allow a demonstration against Taiwan! Yet it is this risk of losing control of anti-foreign protests—

leaving something to chance—that may encourage the Chinese government to tolerate them as a way of gaining leverage over the Japanese or the Americans.
When the public is paying attention to an issue, it stiffens Beijing’s stance. Although Sino-Japanese relations have been most battered by popular nationalism in China, in recent years, other issues also have become nationalist hot-buttons. Tibet and Xinjiang had not been particularly salient to the public before the 2008 and 2009 violent demonstrations in those ethnically divided regions. But Chinese Netizens were so infuriated by the on-line photos and videos of Tibetans and Uyghurs beating Han Chinese that they drove the authorities to take a much harder line on these two issues in their diplomatic relations.

**Media and Internet**

The commercialization of the media and emergence of the Internet has made nationalist public opinion a major influence in the foreign policy process. Chinese newspapers, magazines, and news sites compete for audiences with exciting stories about national security threats just as their counterparts in other countries do. Headlines and photographs of Japanese Aegis cruisers or joint exercises of the U.S. military with its Japanese or South Korean allies sell newspapers.

The Internet sets the international news agenda and forces officials to react. Hungry for news and dissatisfied with the timeliness and accuracy of information provided by print and television, the public, particularly the young urbanites who are most likely to demonstrate against foreign targets, flocks to the Internet. The number of Internet users has grown to 618 million, 500 million of whom access the Web through their mobile devices. The fastest and most decentralized sources of online information are Weibo microblogs that combine features of Twitter and Facebook, and Weixin instant messaging.

CCP propaganda officials have made a massive effort to keep control over the content of the commercial media and the Internet. They employ ingenious technological methods and human monitors to restrict access to online information it defines expansively as subversive. Propaganda departments send out directives about what to say and what not to say. For example, framing U.S. Asia policy as “containment” of China is the current line. In contrast, almost all criticism of Taiwan has disappeared from the media when Hu Jintao has made it his personal legacy to improve cross-Strait ties. The CCP also uses paid employees and volunteers to post comments that make it appear as if the tide of opinion favors the CCP’s line. Because the hand of the censor is clearly visible on the Internet, when an anti-Japanese or anti-American news story or a petition isn’t yanked offline, it sends a signal that officials approve of it.

Market competition and propaganda censorship in combination with one another foster media myths about international as well as domestic threats; myths that spur the military and the internal security bureaucracies to over-reach abroad and at home; myths that blow back on the thinking of top officials. Xi Jinping’s current campaign to clean up the corrupt behavior of CCP officials blames “hostile foreign forces” for subverting the integrity of the Party.

Despite censorship, the Chinese people today have exponentially more information about events outside the country than in the past. In the short time before the censors delete a news story, it can be spread widely and spark online outrage, forcing Chinese officials to react. Chinese crisis management often falls into a commitment trap as the propaganda authorities jump the gun and take a tough stand before there has been time for careful deliberation of its consequences.

**Broken Foreign Policy Process**

Despite stereotypes about the decisiveness of communist authoritarian governments, in reality decisions require a protracted process of building consensus among bureaucratic organizations that represent functional, sectoral, and regional interests. The foreign policy arena has become crowded with different agencies and state corporations promoting their own agendas and diluting the power of the Ministry of Foreign Affairs. Civil-military relations also have been plagued by poor coordination if not outright insubordination. The top foreign policy official, Yang Jiechi who serves as head of the CCP Foreign Affairs Office and as a State Councilor in the government State Council, is only an ordinary CCP Central Committee member who lacks the clout to coordinate the multiple agencies, state corporations, and the PLA who often go their own way. The South China Sea had never been the focus of much public attention; it wasn’t a hot-button issue of nationalism like Japan or Taiwan. The impetus for China’s increas-
ingly assertive actions in the region came from the increasing number of parochial bureaucratic interests that dominate the dysfunctional foreign policy process. Instead of the checks and balances that should produce a cautious foreign policy, China is trending toward dangerous over-reaching as each bureaucracy pursues its parochial interests more or less unimpeded by the others.

Xi Jinping is seeking to restore top-down control by ruling as a strong leader and putting himself in charge of a number of new leadership groups, including a National Security Council focused on domestic as well as international threats. But will he use this power to restrain the bureaucracies that benefit from a tense international situation or to spur them to even greater assertiveness?

Policy Implications

The domestic dynamics that might impel China to act rashly make the case for a strong U.S. military presence in the region all the more compelling. In a crisis, domestic pressures could drive China’s leaders to make threats they then cannot back down from for fear of losing public support. Therefore when Chinese decision-makers look out toward the Pacific, it’s important for them to see the U.S. and its allies capable of making a robust defense of their interests, and think twice—to reassess the risks—before making threats. They know they may pay some domestic cost for exercising restraint; the U.S. and its allies must remind them that they will pay an even greater cost if they act belligerently.

Yet the United States should avoid saber-rattling and rhetorical muscle flexing that provokes government spokesmen and media to respond in kind. Quiet strength is the best way to handle a rising power with a political system like China’s. Military exercises and basing arrangements send their own message; low-key public statements help dispel the myth that a strong U.S. military presence in the region means a hostile containment strategy. Washington should avoid tough public statements that inflame nationalist public opinion, force a sharp official reaction, and increase the clout of the parochial interests including the PLA that benefit from a tense threat environment. For the same reasons, it is advisable to criticize Chinese actions whenever possible by emphasizing the principles of international relations that should be followed by every country, and not by calling out China.
Multilateral Security Cooperation in Northeast Asia:
Relevance, Limitations, and Possibilities

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History and Hypothesis

In East Asia, many regional institutions have emerged in the last several decades: ASEAN (Association of Southeast Asian Nations, 1967), ARF (ASEAN Regional Forum, 1994), APEC (Asia-Pacific Economic Cooperation, 1993), EAS (East Asia Summit, 2005), etc. In the case of Southeast Asia, however, ASEAN has not been able to combine the ten member countries into an integrated economic and security community. The member states established a regional free trade zone, but each state has different goals and economic plans because levels of economic development and industrial structure vary among the ten ASEAN countries. The ASEAN Regional Forum and APEC cover almost every country in the Asia-Pacific region, but its annual gatherings have not created a breakthrough in terms of regional security and economic cooperation. The EAS is another ambitious attempt to promote region-wide cooperation and the ultimate vision of an East Asian Community. It added major Northeast Asian countries (the People’s Republic of China, Japan, and the Republic of Korea) and the U.S., Russia, India, Australia, New Zealand to the ten ASEAN countries. Again, the problem is that the spectrum of military and economic interests is too diverse among participants, which makes consensus on important issues virtually impossible. The 18 EAS countries’ defense Ministers Meeting (ADMM-Plus: ASEAN Defense Ministers Meeting-Plus) was formed in 2010 and five areas of possible cooperation were identified: counter-terrorism, humanitarian assistance and disaster relief, maritime security, military medicine, and peacekeeping. However, it is too early to expect that the ADMM-Plus will implement a preventive diplomacy that reconciles conflicting security interests across the diverse issues of the Asia-Pacific region. More importantly, ADMM-Plus seems irrelevant to the most vexing problems of Southeast Asian maritime security: territorial disputes and the security of the South China Sea.

Northeast Asian multilateralism seems to be an even harder case. The six-party talk framework to tackle the North Korea’s nuclear problem has operated for nearly ten years, but the program has not been stopped despite several joint agreements on denuclearization. Every above mentioned multilateral institution has also discussed the North Korean case, but no effective and binding agreement has been agreed upon. Northeast Asia is the most dynamic and volatile stage in which strategic interests of the U.S. and the PRC are in conflict. Some observers note differences in ideologies and political system in the region while others highlight power politics between the U.S. and the PRC as the main cause for the lack of multilateralism in Northeast Asia. In any case, the North Korean problem is the most significant challenge to the stability and prosperity of the region.

In this paper, I establish two hypotheses and test them against Northeast Asia to find a key indepen-
dent variable responsible for the current stalemate in Northeast Asian multilateral cooperation.

- Hypothesis A: Differences in values and ideology hinder multilateralism in Northeast Asia
- Hypothesis B: Great power politics between the U.S. and the PRC hinders multilateralism in Northeast Asia

Analyzing each of the multilateral mechanisms in Northeast Asia, I examine limitations and possibilities of future progress in Northeast Asian multilateralism. In particular, the North Korean nuclear problem and Korea-Japan relations are examined as a major test cases to find out the relevance of great power politics to multilateralism in Northeast Asia. I conclude that a certain level of multilateral economic cooperation began to occur in Northeast Asia despite differences in values and ideology but multilateral security cooperation in the region is still at an embryonic stage due to conflicting security interests between the U.S. and the PRC. Instead, sub-regional mini-multilateralism is robust when assessing Northeast Asian security. I predict that as long as rivalry between the U.S. and the PRC exists in Northeast Asia, multilateral security cooperation in the region will continue to be limited in scope and depth even if Korea is reunified and any improvement is made in the relationship between the ROK and Japan.

Test Cases for Northeast Asia

Is it plausible to argue that differences in values and ideology hinder multilateralism in Northeast Asia (Hypothesis A)? Democratic peace theory posits that democratic countries do not fight each other and history shows that most wars occurred either between non-democratic countries or between non-democratic and democratic countries. It follows that democratic countries chose to go to war only to defend or expand democracy. According to this logic, the US decided to fight in the Korean War and the Vietnam War to defend its democratic allies, and the Iraqi War and the Afghanistan War were to implant and promote democracy in the Middle East. America’s liberal internationalism is also believed to have contributed to a more open and prosperous global economy. If we identify ‘ideology’ as the independent variable responsible for the success or failure of multilateralism, we should see more peace and cooperation between democratic countries and there should be more conflicts between countries with different ideologies and political systems.

First, the recent development in economic relations among Northeast Asian countries shows that ideology is hardly a causal factor. The governments of the PRC and the ROK began official negotiations on a Free Trade Agreement (FTA) in May 2012. It was a quick and decisive breakthrough after less than two years of assessment and the two countries are speeding up the negotiation process and aim for a high-level free trade agreement. In contrast, that FTA negotiation between Japan and Korea has advanced little despite ten years of negotiation since 2003. Along with bilateral FTA talks between the PRC and the ROK, trilateral FTA discussions among Beijing, Tokyo, and Seoul were also launched at the 5th annual China-Japan-Korea Summit in May 2012. The ROK’s trade volume with the PRC surpassed its aggregate trade volume with both the U.S. and Japan in 2009. And the three countries jointly agreed to a series of currency swap arrangements since the global economic crisis in 2008. These examples suggest that economic cooperation or regional market integration can occur regardless of differences in ideology and political institutions. The same can be said for the 10 ASEAN countries because they established a free trade area even though some its members are socialist regimes such as Vietnam and Myanmar.

The fact that almost every country in East Asia has joined the ARF and APEC also shows that differences of ideology cannot explain why the number of regional multilateral institutions has increased. The PRC, Russia, Japan, and the ROK—the big four of Northeast Asia—are all members of the ARF, APEC, EAS, and ADMM-Plus. The DPRK, arguably the most tough and stubborn totalitarian regime in the world, has been attending the ARF’s annual foreign ministers’ meeting since it joined the forum in 2000. Although it is not a formally institutionalized organization, the six-party talk mechanism has been working to deal with the North Korean nuclear issue. In July 2013, a 1.5 track security dialogue was convened among the U.S., the PRC, and the ROK; it
was the first occasion in which high-ranking government officials from Washington, Beijing, and Seoul in charge of North Korean issues met together without Japan and Russia. At the track-two level, US-China-South Korea trilateral meetings and closed discussions have rapidly increased during the last three years, and this phenomenon is a remarkable departure from the traditional division of sub-regional multilateral groupings: U.S.-Japan-South Korea trilateral cooperation on one side and the China-Russia-North Korea trilateral coordination on the other.

The birth and renaissance of multilateralism in East Asia has occurred despite ideological differences. However, before examining the truth or falsity of Hypothesis B (that there is an inverse relationship between the degree of great power competition and the development of multilateralism in Northeast Asia), we need to separate two notions: the advent of multilateralism and multilateralism’s roles and consequences. At least in terms of institutional settings and person-to-person meetings, multilateralism exists in Northeast Asia. Now we have to answer why multilateralism in East Asia (particularly Northeast Asia) is relatively weak. Is it because of the ideological barrier (Hypothesis A) or endemic conflicts structured by the great power rivalry between the U.S. and the PRC (Hypothesis B)?

Economic cooperation among Northeast Asian countries has remarkably expanded in various areas including trade, exchange rate, investment, finance, labor, and so on. The upward curve of economic cooperation across different ideologies parallels the Chinese and Russian policies of economic reform and openness, particularly since the collapse of the Cold War era. The North Korean case is an exception because the regime never wants to open the economy to international markets because of internal political reasons. I argue that regional power politics, rather than ideology, has the most influence on economic relations among Northeast Asian countries. Several examples show how regional rivalry and the logic of power politics are deeply involved with economic relations in Northeast Asia: when South Korea was about to finish FTA negotiation with the U.S. in 2010, the Chinese government proposed that South Korea pursue a China-Korea FTA as early as possible; when the start of China-Korea FTA negotiations was about to be decided, the Japanese government proposed that it and Seoul seriously consider announcing the beginning of Korea-Japan FTA negotiations ahead of China; after the U.S. started to accelerate Trans-Pacific Partnership (TPP) negotiations in 2012, the PRC initiated the launch of the official discussion on the Regional Economic Comprehensive Partnership (RCEP) in 2013. Free trade agreements become possible when member countries’ economic conditions serve mutual economic benefits, but in the Northeast Asian case, political checks and balances between the U.S. and the PRC and the PRC and Japan seem very much relevant to their economic diplomacy.

In the security realm, there exists no region-wide military and security institution in Northeast Asia. Because the memberships of the ARF and the EAS are too broad—spanning the Pacific Ocean, South China Sea, and the Indian Ocean—security problems in Northeast Asia have not been effectively handled by grand multilateralism. The six-party talk mechanism has been considered an ideal blueprint for Northeast Asian regional security institutions, but expectations for the six-party talks’ constructive role in dealing with North Korean issues was significantly reduced after the DPRK launched its 5th long-range ballistic missile in December 2012 and conducted its 3rd nuclear test in February 2013. Instead of universal multilateral security cooperation, sub-regional security ties are prevalent in the Northeast Asian order. For the U.S., its alliance with Japan and the ROK has been the central axis to engage with and check the PRC’s dominance and unilateralism in the region. To policymakers in Washington, trilateral security cooperation among the U.S., Japan, and the ROK has been regarded as “a must” for handling important security issues surrounding the Korean Peninsula. For the PRC, on the other hand, its selective partnership with Russia has been a key to managing the Northeast Asian balance of power. The Chinese-Russian partnership is backed by the Shanghai Cooperation Organization (SCO), aiming not only to check America’s engagement policy toward Europe and Central Asia but also to effectively respond to the Obama administration’s rebalancing strategy toward Northeast Asia.
I then explain why this Northeast Asian security atmosphere should be understood in terms of great power politics. Both the six-part talks and sub-regional multilateralism led by the U.S. and the PRC center on issues concerning the Korean Peninsula, where the long-term security interests of Washington and Beijing collide.

The PRC government has been consistent in objecting to North Korean nuclear armament, but its political and economic pressure has not been strong enough to discourage Pyongyang’s pursuit of nuclear capability. Like his grandfather and father, North Korean leader Kim Jung-Un believes that compromise could hasten internal divisions among the Pyongyang elite and even lead to the implosion of North Korean society. China’s dilemma is that it is risky to push North Korean leaders to the point where the regime is isolated; North Korea is an invaluable strategic asset for the PRC because it serves as a buffer zone limiting U.S. security influence off the Chinese continent. Chinese leaders have been disappointed by the North Korean leaders’ inflexibility (rejecting reform) and their endless provocations against South Korea, but securing the Pyongyang regime as long as possible is still a more important goal for them than immediate denuclearization of the DPRK. Without active Chinese support, all the U.S. can do is to politically urge the DPRK to come to the negotiation table and to pledge to dismantle its nuclear program. Extreme measures like a military strike on the DPRK would be too risky for the U.S. because it could lead to an escalation of violence and may invite strong reactions from China and Russia. In addition, the ROK government’s swing between the ‘sunshine policy’ and a ‘principled approach’ during the past 15 years allowed the DPRK to buy time and escape the tight pressure imposed by members of the six-party talks. Japan and Russia, as members of the six-party talks, have attended these multilateral discussions. Japan has been on the U.S. side and Russia has supported the Chinese position in general, but their influence on North Korea was relatively limited. The absence of powerful leverage on the DPRK resulted from the structure of security competition between the U.S. and the PRC, and peaceful resolution of the North Korean nuclear issue by the six-party talks became almost impossible.

Since the PRC wants to protect the North Korean regime not out of ideological affinity but out of its own strategic calculations, the ROK intends to improve its security dialogue with its Chinese counterparts not out of cultural affection but out of strategic necessity. A majority of policymakers in Seoul believe that Korean reunification is only a matter of time. Taking the future of a democratic and market-oriented unified Korea for granted, the ROK finds it crucial to change the Chinese leaders’ view and show that Korean reunification promises larger opportunities and benefits for the PRC. It is conventional wisdom that trilateral security cooperation among the three democracies (the U.S., Japan, and the ROK) would produce effective leverage against the DPRK and the PRC. In Washington, there is no challenging the idea that it would be better if America’s two allies in Northeast Asia (Japan and South Korea) reconcile over history issues and improve their security relations. As the historically poor relations between Tokyo and Seoul have been continuing for more than one year, the U.S. is concerned about the fragility of trilateral security ties and the chance of their breakdown. The Chinese government seems to be taking advantage of this situation by joining the South Korean government to accuse the Japanese government of denying its responsibility for what Japan did during the first half of the twentieth century. South Korea or even a unified Korea will still be a relatively smaller country in terms of military and economic size, population, and territory vis-à-vis its neighbors such as China, Russia, and Japan. Balance of power theory suggests Korea will be an inside balancer, hedging against all three neighbors, and Korea’s alliance with the U.S. would be the key, enabling Korea to create bargaining leverage. The U.S. and Japan, which see China and Russia more as competitors than does the ROK, seek to consolidate trilateral security ties among the U.S., Japan, and the ROK. Consequently, sub-regional security multilateralism led by the U.S. is governed by its strategic competition with the PRC. And America’s two allies in Northeast Asia will likely maintain their alliances with the U.S. for their own security reasons. However, the future of Korea-Japan security relations seems much less predictable and shaky because of two major stumbling blocks: different strategic views toward the PRC and mutual animosity regarding history issues.
Future Prospects and Policy Recommendations

Although multilateralism in Northeast Asia has grown in terms of the number of institutions and their size, the scope of cooperation has been limited to non-political issues. Examining cases of multilateralism in East Asia, I have shown that power politics between major global powers is the most significant variable affecting the range and depth of regional cooperation. Europe is no exception to this logic. The creation of NATO by the U.S. and Western European countries reflected the common goal of deterring the Soviet threat, and NATO’s expansion toward Eastern Europe since the end of the Cold War has been propelled by NATO members’ concern about a remaining Russian threat and rising Chinese military capability. The successful economic integration of the EU can also be interpreted as a region-wide balancing activity against other economic powers such as the U.S., Japan, and the PRC.

Regional cooperation among the countries of Northeast Asia will face more challenges as a power transition between the U.S. and the PRC occurs and rivalry between them grows. The dominance of two sub-regional multilateral mechanisms led by the U.S. and the PRC illustrates the notion of G2 power politics in Northeast Asia. Although the trilateral annual summit meeting among the PRC, Japan, and the ROK was established in 2010 by a Korean initiative, agreements have been limited to low-politics and the level of cooperation has been low. The future of multilateralism in Northeast will be tested by North Korean issues and Korea-Japan relations. Possible contingencies in North Korea will invite a dynamic strategic competition among regional powers and Korean reunification will lead the US-China rivalry to a higher level as they attempt to reshape the political, military, and economic order in Northeast Asia. As the U.S. attempts to maintain and upgrade the trilateral partnership with Japan and Korea, the history problem between the two U.S. allies will challenge the U.S. engagement policy toward the PRC and the Korean Peninsula.

For its own security interests, the ROK should evaluate the strategic implications of its relationships with the U.S., Japan, the PRC, and Russia. If the ROK finds it more important to improve its strategic partnership with the PRC, then it will be more important for the ROK to consolidate security ties with the U.S. and Japan because it has to play an inside balancer’s role as a relatively small power in Northeast Asia. For Japan, too, alliance with the U.S. alone may not be strong enough to deal with future relations with the PRC. Consequently, there are two policy options to improve multilateralism in Northeast Asia. One is to jointly cultivate a new Northeast Asian order in which both the U.S. and the PRC will find more shared interests across military and economic areas. This is the most desirable and fundamental solution for overcoming the setbacks of Northeast Asian multilateralism but it is also the most ideal and ambitious goal. The other option is to improve Korea-Japan relations so that U.S.-led trilateral liberal internationalism will play a stronger role in Northeast Asia. If we cannot get rid of the instinct of power politics in international relations, the second best option is to pursue a world in which power politics operates according to a common vision for peace and prosperity.
Preparing for his second term as U.S. president, Barack Obama has reshuffled his cabinet, bringing on new secretaries of state and defense. But despite the personnel changes in the second Obama administration—as well as in China following its recent once-in-a-decade leadership transition—the fundamentals of U.S. policy toward Asia will not change. Yet, that does not mean the two sides should not work to overcome the strategic distrust that plagues them.

It was just four years ago that strategists such as Zbigniew Brzezinski floated the idea of a Group of 2 (G2). And people’s expectations for U.S.-China cooperation ran high when President Obama went on a state visit to China in October 2009, as the two countries declared in a joint statement that they would endeavor to build a “positive, comprehensive, and cooperative” relationship. That partly reflected the strong sentiment at the time that common threats ranging from climate change to financial crisis to nuclear proliferation would bind the two countries together.

But many analysts now agree that increasing strategic distrust between China and the United States in recent years has posed significant challenges not only to U.S.-China relations but also to regional peace and security at large. Since the end of 2009, the United States and China have drifted apart. The two powers are increasingly trapped in an action-reaction cycle, so much so that many lament that the United States and China are doomed for a “strategic collision.”

Underlying the growing strategic distrust is an emerging security dilemma—a situation in which one state’s efforts to enhance its own security will lead others to feel less secure—between Beijing and Washington. Both the Chinese public and elite believe that the Obama administration’s pivot or rebalancing to Asia is a thinly veiled attempt to restrain and counterbalance, if not encircle or contain, a rising China. And many U.S. officials and analysts perceive an increasingly assertive China that does not shy away from flexing its muscles, “bullying” its neighbors, and pursuing its “narrow” interests relentlessly.

Numerous moves by the Obama administration have all been perceived in China as evidence of U.S. hostility toward Beijing. These moves have included deploying U.S. Marines to Darwin, Australia; asserting U.S. interests in freedom of navigation in the South China Sea; bolstering military alliances with the Philippines, Japan, and Australia; enhancing security cooperation with Vietnam and India; improving bilateral relations with Myanmar; and beefing up the United States’ ballistic missile defense systems in East Asia.

Going forward, the United States will continue to hedge against the rise of China and perceived Chinese assertiveness. It will strengthen its deterrence posture, build up its forward deployment, and reinforce military alliances and security partnerships in Asia. Yet, because of the almost-inevitable shrinking of the
U.S. defense budget, it remains to be seen whether Washington can match its rhetoric with action.

Interestingly, quite a number of American analysts have become critical of the Obama administration’s handling of the U.S. pivot or rebalancing to Asia, particularly of the way it was rolled out. Now, even the administration officials have acknowledged that too much emphasis was initially put on the military and security aspects of the pivot. In that sense, the U.S. rebalancing strategy itself needs to be “rebalanced.” It is likely that the second Obama administration will recalibrate its approach by putting more emphasis on economic cooperation and people-to-people exchanges in the Asia-Pacific, including with China.

The way the Chinese leadership transition is structured and institutionalized ensures continuity and predictability in China’s foreign policy. Around the time President Obama was elected to a second term, the Chinese leadership too changed. At the 18th Congress of the Communist Party of China, a new Standing Committee of the Politburo was elected. Xi Jinping, who has been China’s vice president since 2008, assumed the positions of general secretary of the Central Committee and chairman of the Central Military Commission. He and Executive Vice Premier Li Keqiang, respectively, will almost certainly assume the presidency and premiership at the National People’s Congress meeting next March.

Both men have been in senior leadership positions for many years. Other members of the top leadership have also been in senior posts for quite some time. The new Chinese leadership will maintain strong consensuses on major domestic and foreign policy agendas, which prioritize the continuation of deeper reform and China’s peaceful development.

Looking ahead, the U.S.-China relationship is entering a challenging period. How the relationship between China and the United States is to be managed is a question that will define the strategic landscape of the Asia-Pacific in the twenty-first century. China and the United States should not allow themselves to be engulfed by mutual hostility and suspicion, blindness to the effects their actions have on the relationship, misperceptions, and the fatalistic pessimism inherent in a hardcore realist mentality. Rather, they should accurately gauge each other’s strategic intentions and try to increase mutual strategic understanding and trust through candid discussion and exchanges at the highest level of leadership.

To mitigate the emerging security dilemma between the two countries, military-to-military exchanges and cooperation are critical. The recent development in military-to-military relations—including a joint counter-piracy exercise in the Gulf of Aden, a joint disaster-relief simulation and exercise, and the United States inviting China to participate in the 2014 Pacific Rim Exercise—are all signs that the U.S.-China relationship is moving in a positive direction. Increasing these exchanges will gradually build mutual understanding and trust.

In the medium-to-long run, both countries also need to gradually develop a shared vision of global affairs through genuine dialogue and cooperation. And to reverse the trend in both countries to view the other as “the enemy,” people-to-people exchanges, particularly exchanges among young generations and at local levels, need to be strengthened.

The Chinese leadership has now proposed a “new type of great-power relationship” as the vision and intellectual framework for resolving a century-old puzzle in international history: whether it is possible for rising powers and established powers to break away from a destiny of conflict. The concept has been well received in the United States. Now more creative and forward thinking is needed to further substantiate the conceptual framework.

The two sides must work together to draw a roadmap for building a new type of great-power relationship between China and the United States—one that transcends the logic of the security dilemma and great-power conflict and that makes the world a safer and better place to live.
America has prevailed as the predominant power in the Asia Pacific since WWII. Through the US-Japan defense alliance, the US Seventh Fleet, and working with a number of treaty allies—the Republic of Korea, the Philippines, Thailand, Australia and New Zealand—America has contributed to the peace and security of the region. More than that, America lost blood and treasure fighting the war against communism in the Korean peninsula and Vietnam. Then Prime Minister of Singapore, Lee Kuan Yew said, years after the American withdrawal, that the American presence in Vietnam fighting against the communists, “bought time for the non-communist countries in the region allowing them to develop their economies and build their institutions.”

The global order the United States advocated, of open markets, trade, investment and technology flows and the spread of values such as democracy, rule of law, and transparent government, was essential to the rise of the Asian economies such as Japan, the four tigers of South Korea, Taiwan, Hong Kong and Singapore. China too has benefited from this American-led international order. Now we see the emergence of new economies such as Vietnam, Indonesia, and the Philippines. Myanmar has lately chosen to join this international order, albeit tentatively and slowly. The United States has generally been regarded as a “benign power” in Asia. But that order is about to be changed. The shape of the new order is not entirely clear. What is clear is that the United States will still be a big element, an essential element, of whatever new framework will come.

Americans understand things are changing. President Obama, recognizing the significance of the rise of China, predicted the G20 would replace the G8 as the most important economic forum of this century. Two bruising wars in Iraq and Afghanistan, a profound financial crisis and recession have left the US eroded of resources, with no appetite to enter into another war and constrained leadership. In fact, a segment of American opinion today does not think it is American’s business to solve crises around the world. But it remains true that the US is still the only power with global reach whose participation in the search for a solution in any crisis is “indispensable.”

China’s rise is having a major impact on the region. Its path to modernization started in 1978. Today, in 2014, it is the second largest economy in the world, pushing ahead of Japan. No country in the region wants to stop China’s economic growth. It has been good for the region. China too has opened its markets, invested in many countries, and provided massive amounts of aid to the less developed countries in Association of South East Asian Nations (ASEAN). It is the number one trading partner of Australia, Japan, South Korea, and ASEAN. Anticipating its rise, ASEAN had at the end of the Cold War started to think of an architecture that would integrate China into the regional system. ASEAN was also interested to keep the US engaged in the Asia
Pacific after the Cold War. That was the reason for the proliferation of regional groupings such as: ASEAN+1 Dialogue, APEC (Asia-Pacific Economic Cooperation), ASEAN+3, EAS (East Asia Summit). As China’s economic power grows, it is to be expected that it will build its military muscle and seek to extend its influence. That is what all great and major powers seek to do. And as China’s trade and investments grow global, we would expect China would want to develop its military reach to protect its economic interests. But as China develops into a comprehensive power, it will want to have a bigger say on how the rules of the international game are determined. Smaller countries in the region find assurance in the great powers acting consistently and in accordance with established principles of international relations. It is probably true to say that Asian countries would like to see great powers act with magnanimity towards smaller countries. China’s recent assertive moves in the South China Sea are hard to understand especially since it had won the goodwill of ASEAN with its “peaceful rise” policy in earlier years.

Besides China, Japan is coming out of its economic doldrums finding new energy with nationalist overtones to revitalize itself through “Abe-nomics”. Its foreign policy is noticeably more high-profile under Prime Minister Abe seeking to reestablish itself as a regional leader. At a forum in Washington in 2013, Abe stoutly declared, “Japan is not and never will be a second-tier power.” Russia remains on the periphery of the Asia Pacific but has inserted itself in the regional architecture although it has not been an active player. Russia remains highly relevant because what it does in other regions of the world could impact on developments in Asia. Ukraine is a case in point. In addition, the Republic of Korea, ASEAN, Australia, New Zealand and India are vital and relevant elements in the new emerging framework.

President Obama’s first national security team, quickly grasped the changing dynamics and importance of Asia. They realized the wars in Iraq and Afghanistan had distracted US attention from Asia in the Bush Administration particularly in the second term. This created strategic opportunities in Asia introducing a new and fast evolving game with destabilizing effects. The Obama team sought to put more emphasis or rebalance to its Asia policy. In fact the rebalance of America’s policy to Asia did not begin in November 2011. It began earlier in 2009 when Secretary Hillary Clinton took her first trip as Secretary of State to Asia—visiting Japan, China, ROK, Indonesia and the ASEAN Secretariat. Not since Dean Rusk had a US Secretary of State gone to Asia for his or her first trip, and that was during the time of the Vietnam War.

Secretary Clinton and her Assistant Secretary of State, Kurt Campbell put far more attention on Southeast Asia, and on ASEAN, than any previous Administration officials. Asia policy in the United States had unfailingly been Northeast Asia policy. In that sense, the United States, no matter what the distraction, always paid adequate attention to China, Japan and the Korean peninsula. Clinton and Campbell understood that Asia policy was incomplete without a serious engagement of ASEAN and its 10 member states. ASEAN is a swing constituency, together or separately, and because of its location at the key crossroads of Asia, is an important element in the regional game. This was America’s first rebalance in Asia policy—to give greater strategic attention to ASEAN in its foreign policy.

China’s “9 dash-line (9DL)” map rolled out in 2009 indicating its claims in the South China Sea put every claimant country and countries using international sea lanes on notice. Its subsequent moves, such as the establishment of Sansha City, issuance of passports with the 9DL, issuance of a new map which categorized its 9DL claim in the SCS as a “natural boundary”, newly revised fishing regulations, and the declaration of its Air Defense Identification Zone (ADIZ) in the East China Sea (though within its rights) was done without consultation and considered too sweeping, all these factors have cumulatively raised deep concerns in the region.

When the United States announced its ‘rebalance’ policy to Asia with great fanfare in November 2011 after the APEC meeting in Honolulu and just before President Obama began his trip to Asia, there was great interest to see what the rebalance or “pivot to Asia” as it was briefly tagged would mean. Defense Secretary Leon Panetta’s statement in 2012 that the Pentagon would shift the bulk of its naval assets from the Atlantic to the Pacific by 2020 was the clearest signal of the shift in strategic focus. The figure of
a 60-40 percentage of force allocation favoring the Pacific over the Atlantic was said to be carefully calculated. The US military presence will be helpful so long as it does not develop into a containment policy. Containment would be counter-productive. Furthermore, it will not work because no Asian country will sign on to it. So the rebalance policy requires a fine balance, but that balance is crucial and necessary. In 2013 watching the Congressional fights over the budget and the lifting of the debt ceiling, Asian countries were kept wondering if sequestration would have an impact on the rebalance and if the United States would be able to maintain the policy over time.

So far the rebalance is visible mainly in military terms. Through the US Pacific Command (PACOM), the US stepped up its military engagement in the region. Largely challenged by a rising China, the Abe government has drawn closer to the US in its military co-operation. It has approved a new defense policy seeking to reinterpret Japan’s pacifist constitution and to redefine its Self Defense Force to participate in collective self-defense. It is projecting a 5% increase in its military budget and stepped up military purchases. With Australia there will be a rotation of 2,500 US marines in Darwin for six months every year under a new bilateral defense deal signed in 2011. The US is nearing agreement with the Philippines on new maritime security assistance and rotating more US military forces. It has strengthened maritime relations with Malaysia with 132 naval ship visits to Malaysian ports such as Pulau Indah and Kota Kinabalu from 2008 to 2013. With Vietnam, although a Memorandum of Understanding was signed on Advancing Bilateral Defense Co-operation in 2011, cooperation has proceeded at a cautious and gradual pace. Vietnam signed on as an observer to RIMPAC (Rim of the Pacific Exercise) but has refrained from joining in military exercises with the US. It has allowed the US navy one port call a year and has yet to allow a US warship to enter Cam Ranh Bay. Apart from the access the US military has to the facilities in Singapore under a 1990 and 1992 defense MOU, under the Strategic Framework Agreement signed in 2005, the US is rotating 4 littoral combat ships to Singapore. All parties are careful to underline that the bilateral co-operation is not aimed at any country.

At the same time, the US stepped up its military co-operation with China through exchanges at the highest levels even with the pivot or rebalance. During the visit of Chinese Defense Minister Zhang Wanquan to Washington in September 2013, Secretary Hagel is reported to have said, “The United States welcomes and supports the rise of a prosperous and responsible China that helps solve regional and global problems”. The visit resulted in an agreement between the US and China to do a number of joint military exercises, an agreement to establish a co-ordination mechanism to keep each other informed of their military activities to avoid miscalculations and to co-ordinate better, and China’s agreement to participate in RIMPAC. With this the United States and China signalled to each other and the world that the two great powers want to work with each other.

Notwithstanding the strengthening of military co-operation everywhere, the question whether the US can keep its focus on Asia given the ‘hot button’ issues across the globe, such as the Middle East and Iran, still stands. Now Ukraine presents another major challenge and is a clear reminder to Asia again. Following Russia’s moves into Crimea, the US is understandably seized by what is going on in Europe. Secretary Hagel lately and expectedly said that while rebalancing forces to Asia, the United States will meet the needs of its European allies and Europe. The rebalance may be rebalanced again. This presents a “strategic window” for the Chinese in the Asia Pacific region. It also puts Japan in a position where it might feel it has to take more initiatives on its own. There are the beginnings of a desire at the highest levels of Japanese leadership to dilute the narrative of WWII and move to dismantle some aspects of that post WWII order and constitution.

America’s military presence is an important and necessary aspect of the rebalance to Asia, but by itself, is insufficient. Trade and investment should be an equal component of rebalance. As the saying goes, the business of Asia is business. The United States has a major stake in the Asia Pacific. China, Japan and South Korea are among the top 10 trading partners of the United States. Together the three economies are responsible for 22.5% of US total trade. US trade relations with ASEAN are strong. The US is the fourth largest trading partner of ASEAN, and ASEAN
is the fifth largest trading partner of the US. Drawing from US trade data, US trade with ASEAN in 2012 stood at $200 billion, a slight increase from the previous year. ASEAN remains an attractive investment destination of the US. In 2012, total foreign direct investment (FDI) from the US to ASEAN was $6.9 billion. Increasingly, there is some FDI from ASEAN going to the United States. Of the 10 ASEAN countries, Singapore is the most active.

Asia remains an attractive market for the United States. With growing populations and a growing middle class in all the emerging economies, Asia is too big to ignore. The United States as an economic and trade player in recent years is increasingly overshadowed by China, the rising economic power. The United States has also been left behind in the number of trade networks that are being established through the regional trade agreements. This is why the Trans Pacific Partnership (TPP) now under negotiations is so significant for the region and crucial for the United States. Currently, there exists a myriad of trade agreements in the Asia-Pacific linking the economies together. The US has 20 trade agreements with countries in the world, including 6 TPP partners. There are about 180 preferential agreements among the Asia Pacific countries that do not include the United States. The largest trade agreements now being negotiated in Asia are the Regional Comprehensive Economic Partnership (RCEP) which does not include the US, and the TPP which does.

TPP is going through the last but most difficult stages now. The United States as the largest economy is clearly leading the negotiations. It should not only look at the trade balance sheet, but approach the TPP as a strategic investment. Congress should not put new burdens on the trade negotiations. TPP partners should all seriously try to close the deal.

It would be most helpful if Trade Promotion Authority (TPA) could be given by Congress. It would certainly help countries in the last stages making the real closing offers and give comfort to the parties that the difficult steps they are taking at the negotiating table will not unravel when the TPP bill goes through the legislature. It is hard enough for the 11 TPP countries to convince stakeholders to offer the terms demanded by the US. Passing TPA would show America’s commitment to trade and to the concept of rebalance in Asia.

Once the TPP is signed and comes into operation, it is likely other countries would want to bandwagon. President Park has indicated South Korea is ready to become a TPP member. China has shown some interest and is studying the agreement. This development will demonstrate that the US is taking leadership again in an important area. It may even have an impact on the global Doha round.

The dynamics of the Asia Pacific region are entering into an uncharted era. What role America will play in the new Asia will largely be determined by America itself. The time has never been more hospitable for the United States in the region.
Cross-Strait relations were the defining issue in Taiwan’s January 2012 presidential election, and despite President Ma Ying-jeou’s rather low approval rating toward the end of his first term, he was reelected with a convincing margin of 51.6 percent to 45.6 percent. Ma’s victory was built on a broad-based social coalition that has embraced the recent political rapprochement across the Taiwan Strait and benefited from closer economic ties with Mainland China. At the same time, his main opponent, Tsai Ying-wen, failed to convince the business community and urban middle class voters that the Democratic Progressive Party (DPP) has a viable formula to engage Beijing and sustain the momentum of economic integration.

Over the last decade, Mainland China’s phenomenal economic rise has precipitated a marked shift in public opinion in Taiwan, with a growing number of people in favor of normalizing the trade and investment relationship across the Strait and turning Taiwan’s cultural affinity and geographical proximity with the Mainland into the island’s foremost competitive advantage. This development was aided by Beijing’s charm offensive after the historic visit by Lien Chan, then the chairman of the Kuomintang (KMT), to the Mainland and the establishment of a high-level dialogue between the KMT and the Chinese Communist Party (CCP) leadership in 2005.

This shift in public opinion gave the KMT an enormous electoral advantage when it challenged the DPP in 2008. The KMT’s platform, which promised a reduction in cross-Strait tension, a resumption of political engagement with the Mainland and the speedy and full-scale normalization of cross-Strait trade and investment relations, evidently helped the party to a landslide victory in the January 2008 parliamentary election. The KMT won an unprecedented three-quarter majority for the first time since Taiwan became a democracy. The momentum then carried Ma to a convincing victory in the presidential election in March of that year, in which he picked up 57 percent of the popular vote.

Ma, therefore, had a clear-cut popular mandate when he took office. A great majority of Taiwan’s voters were convinced that closer economic ties with the Mainland were necessary to maintain the island’s economic vitality and prevent Taiwan from further marginalization. Ma delivered on most of his campaign promises regarding cross-Strait relations within the first six months of his first term, such as resuming the
semi-official channels of dialogue and negotiation; introducing direct air, sea and postal links; opening the door to Mainland tourists; lifting the ban on inbound investment by Chinese firms and loosening the 40 percent cap on Mainland-bound investment by Taiwan-listed companies.

Early wins for Ma

Ma’s new approach registered some clear signs of initial success. First, his administration was able to create multiple channels of high-level dialogue between Taipei and Beijing, with the three most important channels becoming institutionalized between 2008 and 2012. The first was the annual Cross-Strait Economic and Culture Forum, co-sponsored by the KMT and the CCP. Each year, the KMT’s honorary chairman, Wu Po-hsiung, acted as a surrogate for Ma, who is also KMT chairman, heading a large blue-ribbon delegation to meet with Hu Jintao in his capacity as the CCP secretary general. The second channel was on the sidelines of the annual summit of the Asia Pacific Economic Cooperation (APEC) forum. For four consecutive years, Lien Chan was designated by Ma as his representative to attend the APEC informal meeting of leaders. Each time, Lien held a private meeting with Hu to exchange views on cross-Strait relations. The third channel was the annual Boao Forum for Asia on Hainan Island, to which Taiwan sent a high-level delegation, which routinely met with the highest-ranking CCP official hosting the forum. These channels have helped deepen the mutual trust between Taipei and Beijing at the highest echelon. It is fair to say that besides Taiwan, the United States is the only country that enjoys such frequent and regular access to China’s top leaders.

In addition to these exchanges, Ma’s administration consolidated the institutional foundations needed to strengthen cross-Strait economic and cultural ties. Between 2008 and 2012, China’s Association for Relations Across the Taiwan Strait (ARATS) and Taiwan’s Straits Exchange Foundation (SEF) – two semi-official agencies that were founded in 1991 and 1990, respectively, to handle cross-Strait negotiations – have sealed 16 agreements covering intellectual property rights, investment protection, customs cooperation, mutual judicial assistance and a host of other areas.

The signing of the Economic Cooperation Framework Agreement (ECFA) in June 2010 was widely regarded as a milestone in cross-Strait relations. The ECFA set in motion negotiations on a fully-fledged cross-Strait free trade agreement. Under the ECFA, a Cross-Strait Economic Cooperation Committee was established to handle issues arising from the implementation of the agreement and to facilitate industrial cooperation. The agreement helped put Taiwan back on the map of foreign multinationals, which suddenly found new possibilities for incorporating the island into their Greater China strategy. Another path-breaking agreement was the Memorandum of Understanding on Cross-Strait Currency Settlement, which created the necessary mechanism for the two sides to settle their bilateral trade in renminbi, jump start cooperation of the financial industry across the Strait and open up the possibility of developing Taiwan into another offshore RMB center after Hong Kong.

Finally, the two sides have worked out a modus vivendi for avoiding head-on collisions in the international arena. Since 2008, Beijing and Taipei have effectively agreed to a tacit diplomatic truce. Beijing put on hold its potent diplomatic offensive to cut off Taipei’s remaining diplomatic ties with 23 countries concentrated in the Caribbean, Central America, Africa and the South Pacific. The most notable example was Beijing’s unprecedented gesture of goodwill in dissuading Paraguay and Nicaragua from switching diplomatic recognition from the Republic of China to the People’s Republic. Furthermore, in 2008, the World Health Organization (WHO) decided to designate Taiwan’s Center for Disease Control as a contact point under the International Health Regulation (IHR), an arrangement customarily reserved for member states only. In 2009, Taiwan was invited by WHO to become an observer (under the name Chinese Taipei) at its assembly. For the first time since the Republic of China was forced out of the UN in 1971, a cabinet-level public health official from Taiwan was given the official podium at a UN agency.

The signing of the ECFA also removed the major political obstacle for Taiwan to negotiate a free trade agreement (FTA) with members of the Association of Southeast Asian Nations (ASEAN) and other trad-
ing partners. Since 2010, Taipei has launched FTA talks with Singapore and New Zealand and most of Taiwan’s trading partners have upgraded their “unofficial official” relationship with Taiwan without encountering objections from Beijing. By the end of 2012, 124 countries and territories, including the United Kingdom, Japan, Canada, the European Union and the US, have offered Taiwan citizens visa-free travel status. Taiwan has also expanded its economic ties with important emerging market countries. In 2012, India gave its go-ahead for Taipei to set up a semi-official economic and cultural affairs office in Chennai and also granted President Ma an unprecedented “transient stop” in New Delhi during his last official trip to Africa. These developments clearly show that the cross-Strait political rapprochement has given Taipei new international space from Beijing without alienating Taiwan’s traditional diplomatic allies.

A window on engagement

During Hu Jintao’s tenure, Beijing responded constructively in other ways to Ma’s conciliatory overtures. For the CCP leadership, Ma’s victory presented Beijing with the first opportunity since the cross-Strait crisis of 1996 to engage with a popularly elected Taiwanese leader who was not committed to independence. This opened up a strategic window for Beijing to reach out to Taiwan’s various constituencies in its effort to further weaken the social support for independence. On the one hand, Beijing has shown a desire to accelerate the pace of rapprochement, trying to get as much done as possible while Ma is in power; on the other, it has shown great patience in pursuing its more sensitive political agenda in order to avoid pressuring Ma to go out of his comfort zone. Emanating from Beijing’s newly acquired confidence in its ability to keep Taiwan within its political and economic orbit, China’s new flexibility and pragmatism has, in turn, helped alleviate the apprehension among many Taiwanese that Beijing might attach tight political strings to closer economic ties with the Mainland. Throughout Ma’s first term, Beijing chose to go along with Taipei’s preferred formula of “first the easy, then the hard; the economic first, then the political.” Most observers predict that China’s newly installed president, Xi Jinping, will adhere to Hu’s pragmatic approach under the new guiding concept of “peaceful development,” instead of “peaceful reunification.”

The global financial crisis in 2008-09 gave Ma’s mainland policy an extra boost in a way that had not been foreseen. The intensified economic ties enhanced the spillover effect of China’s RMB 4 trillion economic stimulus package, which generated some timely purchase orders for a range of Taiwanese manufacturers, pulling them back from the brink of bankruptcy. The prospect of a slow and weak economic recovery in the US and Europe prompted export-oriented Taiwanese firms to place greater emphasis on the expanding demand from emerging-market countries. The ECFA enabled the island to unleash its full potential in exploiting the expanding business opportunity in Mainland China, which has suddenly emerged as the new buyer of last resort.

More broadly, in the aftermath of the crisis, China’s global role has been enhanced. Increasingly, in the eyes of Taiwan’s general public, Mainland China is no longer just a manufacturing platform but an important source of tourist spending, investment capital and consumer demand. During Ma’s first term, the scope for the trickle-down effects of cross-Strait economic integration has steadily expanded. It was no longer the case that only owners of export-oriented businesses or people with transportable skills and investment capital favored closer economic ties with the Chinese mainland.

Taiwan’s service sector has benefited significantly from Mainland Chinese tourists, whose number is expected to top 2.3 million in 2013, up from just 300,000 in 2008. Those tourists are giving a much-needed boost to Taiwan’s economy, according to a report issued by Barclays Bank. Despite a 0.2 percent contraction in the economy during the second quarter of 2012 because of falling exports, unemployment was near a four-year low by the end of the year. That job creation is largely because of growing demand for retail and travel-related services. Nearly half the net 77,600 jobs created in the first half of 2012 were in hotels, restaurants and retail outlets.

The real estate sector has also welcomed the new demand for commercial properties as many mainland-based Taiwanese expatriates have started re-investing in Taiwan and many Mainland Chinese
firms are ready to set up branch offices and subsidiaries on the island. The list of beneficiaries has grown significantly to include retail chains, medical service providers, the financial sector, professionals (such as attorneys, accountants and architects), the organic farming industry, the mass media and the creative industries.

Also, the ECFA is expected to unleash the great potential for the two sides to undertake joint efforts to incubate world-class industrial giants and brand names; to create joint ventures in alternative energy, Chinese medicine, aerospace, next-generation telecommunications and new materials; and to facilitate joint development of industrial and technical standards in these sunrise sectors. In addition, the bilateral arrangements helped put the island back on the world map of foreign multinational firms. Taiwan also has re-emerged as a gateway to Mainland China, offering non-stop airline services to more than 50 major cities in the Mainland, more direct flights than any other neighboring country or territory.

Keeping the status quo

In a nutshell, the acceleration of cross-Strait economic integration amounts to a large-scale realignment of Taiwan’s social forces, with the KMT firmly occupying the centrist ground. However, this by no means suggests that it is going to be all smooth sailing. First, the acceleration of cross-Strait economic integration has so far been driven more by economic pragmatism than cultural identity. The great majority of Taiwan’s people favor the preservation of the status quo, including the legal structure of a sovereign state as defined under the Republic of China Constitution. Therefore, Ma needs constantly to reassure the public that closer economic ties are not compromising Taiwan’s political autonomy and sovereign status. At the same time, there are still people whose interests have been adversely affected by the acceleration of cross-Strait economic exchanges. To consolidate the pro-integration coalition, the KMT government has to provide the losers with the necessary social protection. At the same time, Ma must placate the pro-independence zealots who are feeling increasingly marginalized and frustrated, and may be prone to take radical and disruptive action. Last but not least, Ma has to restrain the business lobby that is always preoccupied with its own narrow interests and increasingly susceptible to Beijing’s political influence.

Another important pillar of Ma’s new approach is the supportive attitude of Washington. Up to this point, Ma and his national security team have been able to induce a virtuous cycle in the triangular relationship among Washington, Beijing and Taipei based on the argument that peace and prosperity in the Taiwan Strait will ultimately complement the global strategic interests of the US. However, one might suspect that during Ma’s second term he will face a tougher challenge as Washington’s recent “pivot” to Asia heightens the strategic competition between the US and China. As former US National Security Advisor for Asia Michael Green put it, some circles in the American military establishment and conservative think tanks have growing reservations about how far this virtuous cycle can go. They worry about Taiwan becoming more dependent on the Mainland economically and on Beijing’s good will politically. It remains to be seen whether Taipei will soon reach a strategic crossroads where it will become increasingly difficult to maintain its close economic and security ties with the US while deepening its cooperative relationship with Beijing.

Should the trend toward cross-Strait economic integration continue at its current pace, the possibility cannot be excluded that Taiwanese nationalism could begin to fade while a growing awareness of the imperatives of cross-Strait economic interdependence may load the dice of national identity in favor of cross-Strait political integration in the long run. Whether this will come to pass depends on many “big ifs.” However, at this point, there is no trace of any burgeoning popular aspiration to break the status quo either through an innovative political formula or by capitulation to the Mainland’s grand design for reunification. On the contrary, popular anxiety may increase if the people on Taiwan become less confident that they will still have an equal say in deciding the island’s long-term political relationship with Mainland China, because time might not be on Taiwan’s side. As a consequence, a sharper Taiwanese identity might function as a form of psychological self-defense against the prospect of steady assimilation into Beijing’s political and economic orbit.
Taiwan leads the way?

At the same time, one might argue that despite the asymmetry in hard power between the two, closer cross-Strait economic and cultural ties could actually unleash Taiwan’s enormous potential for shaping Mainland China’s political future. The combined effects of the island’s democratic experience, the inherited cultural and linguistic affinity between Taiwan and the Mainland, Taiwan’s vibrant and diversified civil society and its strong economic and social ties with the Chinese Mainland constitute the most important sources of Taiwan’s soft power. In the eyes of Mainland Chinese citizens, Taiwan’s democratic experience may constitute a crucial and illuminating social experiment, because it is the first and the only democracy ever installed and practiced in a culturally Chinese society – with the possible exceptions of tightly controlled Singapore and the relative democracy enjoyed in Hong Kong.

Furthermore, in the eyes of the CCP elite, Taiwan’s unique mode of democratic transition illustrates a viable, albeit risky, exit strategy for a hegemonic party seeking a peaceful and gradual transition from one-party authoritarianism on the basis of its successful record of economic modernization. As the cross-Strait relationship enters a new era under the second Ma administration, Taiwan is in a position to maximize its soft power, which may be the only strategy available to protect its long-term interests. This strategy could also elevate Taiwan to the position of a significant, responsible and constructive player in East Asia and on the world stage.
The Changing Security Environment in Northeast Asia and The Dynamic Role of Regional Relationships

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Northeast Asia is experiencing a sea change of security environment. China’s rise is altering the regional balance and its interaction with the US rebalance has led East Asia more prone to be divergent. Japan’s conservative shift, as well as North Korea’s uncertain trajectory, all don’t bode well for peace and trust building of the Korean Peninsula. Fundamentally, it is up to all Koreans to forge their inter-Korea trust process, though the present situation has not been favorable. Interaction among external stakeholders could either promote or discourage trust building process on the peninsula. This paper has analyzed the main external factors that affect such trust building.

Northeast Asia is at a crucial time given its historical antagonism which is being rekindled lately. Ideologically and subsequently geostrategically, this region has been torn apart by alliance-politics and military-hedging, leaving two unifications of China and the Korean Peninsula long unfulfilled. Unlike the rest of the world, the Cold War has not totally receded here, as evidenced by Japanese revisionist Prime Minister Shinzo Abe’s visit to Yasukuni Shrine near the end of 2013, and North Korea’s persistent pursuit of a nuclear deterrent.

Meantime, Northeast Asia has been undergoing significant change of its security environment. Given China’s economic reform and opening, it has much transformed its Cold War ideology and employed a market economy, enabling itself to share great common interests with many other stakeholders in the region. This has facilitated its normalization of official relations with South Korea in 1992, while unfortunately leaving North Korea to feel more isolated as Pyongyang is unwilling to follow suit of Beijing’s opening. China’s rapid rise has made it the second biggest economy in the world, rendering it more capacity and confidence. Such growth has affected the regional balance of power in favor of China incrementally, so the Obama Administration has to launch its “rebalancing” strategy in East Asia to sustain the order of Pax Americana. Undoubtedly, the ever-intensifying Beijing-Tokyo relations have much to do with China’s rise and the US “rebalancing” that has emboldened Japan, on the dispute over Diaoyu/Senkaku Islands in particular.

Deeply rooted in this intertwined regional imbalance/rebalance is the lack of trust between various stakeholders. Ideologically, the US, as an offshore balancer in Northeast Asia, and Japan and South Korea, all have deficit of trust with China and North Korea, though South Korea and Japan also have a difficulty in history and territory between themselves. Strategically, the US and Japan have increasingly more difficulties with China’s intention and direction, while South Korea has been caught in between. It is also noted that China and North Korea are far less trustful with each other now, concerning th3e respec-
tive mode of ideology and development. Presently, Beijing and Pyongyang also differ fundamentally in regard to the latter’s nuclear weapons development. Their divergence in this regard has become more apparently after leaders Xi Jinping and Kim Jung-en have each commanded his power.

Such pervasive lack of trust among almost all actors in Northeast Asia will most likely be sustained for the rest of this decade. To some extent, the ongoing negative trend could possibly go worse. This makes Northeast Asia rather unstable and insecure, which is certainly unhelpful for the trust-building process on the Korean Peninsula.

**Changing Security Environment in Northeast Asia**

Northeast Asia has consisted of the top three world economies—the US, which has prominent presence here, and China as well as Japan. Since 1950s, the US has fostered two parallel America-centered military alliances with Japan and South Korea. Given Japan’s geographical location and overall competitiveness, Washington has tapped Tokyo as its “unsinkable” aircraft carrier in order to implement its forward deployment strategy, containing the Soviet Union, China and North Korea.

The end of the Cold War has much changed such a security landscape. With the demise of the former Soviet Union and given China’s reform and opening, international relations in Northeast Asia have been far less confrontational for the two decades of the 1990s-2000s, but have become more turbulent in the past several years. Presently this region is witnessing two trends simultaneously: regional and global economic integration which brings nations together, and rebalancing and reshaping of regional order that tends to be more intensive. As it is likely that America may no longer be the sole superpower in the next two decades, the pace of changing security environment in Northeast Asia could be more hastened accordingly, and the consequent major-power relations could be more uncertain.

**China’s rapid rise**

China’s rapid rise since 1978/1979 has been phenomenal. In 1979, China’s per capita GDP was merely 200 yuan, or US$125 (or 1/150 of the US). By 2013, however, it has reached some US$7000, or about 1/8 of the US, amounting to US$9.43b in total, or 57% of the US, making it the 2nd biggest economy in the world. In 2010, China’s GDP overtook Japan’s. China surpassed Japan by 42% in 2012, and by 2013 its GDP became twice as big as Japan (partly due to currency conversion of the two countries).

From 2000-2013, China’s total GDP rose from US$1.07t to US$9.43t, increasing more than three-fold, or nearly doubling every four years. If this rate could be sustained, by 2016 China could be on a par with the US. Though China’s economic rise is now slowing, it still grows at about 8% per year, which permits Beijing the chance to catch up with the US before 2030, with a conservative estimate. In terms of purchasing power parity, China would attain this much earlier than 2030. The US National Intelligence Council predicted in its 2030 Global Trend report of 2012 that “by 2030, the US would not be the sole superpower of the world.”

In the defense realm, China’s statistics rise up similarly. In 2001, Chinese defense spending was mere US$15 billion, or less than 1/18 of the US; but by 2013, it is close to US$120 billion, or 1/5 of the US in the same year, increasing also nearly by threefold in 12 years, or doubling every four years. Projecting linearly (though unrealistically), by around 2020, China’s military spending could reach some US$500 billion, much closer to the US current level, if America would stick to its sequestration by cutting defense spending by US$1 trillion in total from 2012-2020, comparing with its spending in 2011.

Already, China’s defense spending has more than doubled that of Japan, and quadrupled that of India. With much increased economic and defense resources available, China is now able to send Chinanaughts to space and aspire to place its first operational space station in orbit around 2020, possibly the only such functioning station in the space at that time. China has launched its own regional navigation and positioning system, the BeiDou Navigation Satellite System, or BDS, and will make it a global system around 2020. It has demonstrated both missile defense and anti-satellite capability, with fast modernization of the air force, navy and space capacity. In conjunction with its precision missile prowess, China is believed to have already acquired certain area denial
capability. Meantime, it is improving its land-based rapid transportation and overseas air-lifting capacity.

China’s rise is very much changing the strategic background of Northeast Asia. With Beijing’s defense build-up, the US is less certain to be able to maintain its dominance in the region, especially in the air and water close to China. In the East China Sea area, with its failure to persuade Japan not to nationalize the three main islands of Diaoyu Islands, China quickly launched a tit-for-tat campaign to illustrate its jurisdiction over the area since September 2012. As this still has not succeeded in making Japan to admit disputes over Diaoyu Islands, China announced in October 2013 its East China Sea Air Defense Identification Zone (ADIZ), covering Diaoyu Islands and its territorial space. Though the US and its allies refuse to admit the legitimacy of this East China Sea ADIZ, they have allowed their civilian airlines to observe China’s regulation, indicating that China has received much international acceptance of its jurisdiction over the zone, at least for the civilian part. This signifies, in a way, international recognition of the existence of a dispute over Diaoyu Islands, as Japan’s claim has overlapped this area.

China’s rise also has ramifications beyond Northeast Asia. In Southeast Asia, Chinese President Xi Jinping proposed a Maritime Silk Road during his visit to Indonesia and Malaysia in June 2013, suggesting cooperation on regional infrastructural connectedness. China’s financial and technological resources have given it an edge in offering public goods at a time when the US is fiscally mired. Such expansion of Chinese soft power could make the US nervous so Washington would evoke its “back in Asia” policy to strike an overall rebalance in East Asia. In particular, the US is concerned about China’s maritime expansion to infringe upon its neighbors’ exclusive economic rights, possibly disrupting freedom of navigation in international water and space.

**Japan’s conservative shift**

Japan’s changing political framework and foreign policy constitutes another key element of the current complex security environment in Northeast Asia. In general, Japan’s post Cold War defense posture has been geared toward its so called “normalcy”, allowing itself a normal country status, possessing all normal states’ rights. Apparently, the post WWII American occupation has imposed a peaceful constitution upon Japan, depriving its right of waging war. As a result, for a long time Japan was not permitted a whole range of military rights: it could only have a Self Defense Force rather than a state standing force, with its mission to only defend within its territory, without rights to defend outside Japan. For ages Japan only had a Defense Agency, rather than a Department of Defense, and its top official is at bureau level rather than as a Minister/Secretary. Consequently, the Japan-US defense treaty has not allowed Japan to assist the US military action outside Japan, as Tokyo is not permitted a “collective defense” right.

The conservative force in Japan has been unsatisfied with such status and has long pushed to restore Japan’s “normalcy”. Over time, Japan has managed to replace its Defense Agency with a Ministry of Defense, and tapped various opportunities to dispatch its armed force abroad under the terms of UN Peacekeeping Operations. Presently, given China’s rapid rise and increasing tension over Diaoyu Islands, Prime Minister Abe is determined to revise the Japanese Constitution so as to attain its right of collective defense. Through assisting the US military mission in the region, Japan will be able to legitimize its state normalcy and eventually become a “normal” country without constitutional restraint. Facing China’s fast growth and maritime expansion, the Obama Administration has relaxed its reign over Japan’s constitutional change, embracing Japan’s military build-up as a part of Washington’s rebalancing approach. This has been particularly the case as the US has clearly shifted its position on the Diaoyu Islands in the past few years, from being ambiguous to being clear—its Defense Treaty with Japan will be applicable to this dispute.

Since the end of WWII, Japan’s clear move to amend its constitution to allow room for normalcy and collective defense rights has alarmed many, given its persistent reluctance in admitting its imperialist aggression and brutality. In the eye of conservative Japanese, Japan’s colonial rule over East Asia was simply a repetition of American and European colonialism, and Japan’s war with America and European powers was nothing different from inter-imperialist competition.
Though such frank testimony makes sense to some extent, it never cut the sin Japanese imperialists have brought to the victims and the need that Japan shall face its historical wrong with courage and sincerity.

Prime Minister Abe’s aggressive push for revising the constitution and taking a leadership role in East Asia to challenge China’s rise has reached such an extent to pay tribute to the Yasukuni Shrine which hosted 2.5 millions of Japanese war-dead, including 14 A-class criminals and some 2000 B-class and C-class criminals as sentenced by the International Military Tribunal for the Far East. His rampant provocation has invited international criticism—China has announced that he is unwelcome and severed all top-level contact with Japan. Russia has aligned its position with China, and South Korea has indicated that it will consequently re-orientate relations with Japan. The United Nations, the US and UK etc. have all expressed disappointment with Abe’s disrespectful move. Obviously, such a regional environment is not conducive to trust building process on the Korean Peninsula.

**North Korea’s uncertainty**

North Korea is one of the two immediate stakeholders on the Korean Peninsula, which promises great opportunities in the inter-Korea reconciliation process in the long run. At present, however, one has to deal with ongoing challenges due to Pyongyang’s leadership stability and nuclear weapons development, none of them being immediately hopeful in offering an assuring settlement.

The separation among Koreans on the Peninsula is one of the long lasting Cold War remains. Against the trend of development in most other places in the world, Pyongyang has retained its closed system and society, with its per capita GDP much less than 10% of Seoul. With the dissolution of the former Soviet Union, North Korea has lost one of its main allies and economic suppliers. In addition, with China’s peaceful transformation to a market economy, Pyongyang and Beijing have diverted from theory to practice—China has employed international cooperation to boost its competitiveness, while North Korea has maintained its Juche idea and confrontational approach, making its system sluggish and impoverished.

North Korea has played the nuclear card in the recent decade after quitting the NPT Treaty in 2002. On the one hand, Pyongyang might feel that it has gained a free hand in building up its nuclear weapons program, assuring its independent defense sufficiency with its nuclear deterrent. On the other hand, it could use this nuclear tool to trade for external economic collaboration. The Six Party Talks have been used by Pyongyang as an institutional mechanism to seek an interim security haven and economic tradeoff, without honoring its own nuclear abandonment obligation. Since October 2006, North Korea has conducted three nuclear tests and launched two satellites with ballistic missile technology. At this stage, there is no sign that it will cease these programs for good as mandated by various pertinent United Nations Security Council resolutions.

Prior to and during its leadership change of the past few years, North Korea has provoked a number of crises in and around the Peninsula. In addition to its nuclear, missile and satellite tests, it shot artillery shells against Yeonpyeong Island in November 2010, triggering an acute crisis which invited American and Chinese joint intervention. In March 2013, Pyongyang’s new leadership evoked a nuclear threat against the US, in the aftermath of the UNSC resolution against its 3rd nuclear test of February 12, 2013. North Korea’s repeated nuclear threats have so much annoyed the Chinese government that President Xi Jinping delivered his Bo’ao Asia Forum speech in April 2014 by stating that “no single country is permitted to throw the region and the entire world into chaos.” For the rest of the year, the Six Party Talks were still not able to be reopened despite China’s persistent efforts. The chance to have a meaningful dialogue involving Pyongyang in this regard looks gloomy in 2014.

North Korea’s decades-stable regime has often frustrated the outsiders who wish for regime change that can lead to policy alteration. Then the sudden purge of Jang Sung-taek, Kim Jong-un’s uncle and North Korea’s top China hand, in December 2013, has projected both hope and setback—the positive side is to understand that the North Korean regime is not iron clad, while the negative side is its reform-minded faction, though charged as corruptive, could hardly survive the brutal system. This situation also shed light to analysts: while Kim Jong-un still firmly
grabs power, the long-term hyper-stable regime has to pay a big cost including executing its non-compliant top colleagues.

**The US rebalancing strategy**

America is still rising despite frustration. Its GDP increased more than 60% from 2000-2013, despite the two wars it conducted in Iraq and Afghanistan during that period. Its political system has worked to allow military forces to be withdrawn from the two wars in about ten years. Its stock market has re-bounded to historical highs and its social programs such as President Obama’s healthcare reform is advancing despite setbacks. However, America’s rise has been much outshined by China’s during the same period. While the US GDP increased by 60% in 13 years, China’s GDP expanded more than threefold. The anti-terror war in Iraq has been so controversial that both American hard and soft power have been undermined. Its healthcare reform has been ill prepared, especially when its fiscal balance is in deep trouble. Fundamentally, America’s political institution, as demonstrated by its check-and-balance system, has been less effective, since its partisanship has generated one after another federal fiscal cliff, and since its anti-terror surveillance system seems to function out of control.

Despite these, the US is able to quit the two wars and re-orientate itself to the changing regional and global security environment. With its non-traditional security threat receding, the US government is attaching more importance to traditional security again, with state actors as its main focus. In this vein, China’s rise and its future direction has drawn much attention of the Obama Administration, so the White House has put forward its new security strategy of rebalancing in the Asia Pacific, primarily in East Asia.

The US has interpreted this strategy as an overall effort to strengthen its military, economic and trade resources to assure peace and stability in East Asia. In the trade area, America has picked up the Trans-Pacific Partnership (TPP) to lift regional free trade to higher level. Militarily, the US armed forces would redeploy its global asset much in Asia, with 60% of its navy stationing in this area, with an air-sea-battle framework. For this purpose, it is restructuring its force deployment in Japan, and stressing the importance of the Guam. Washington has encouraged Japan to revise its national security strategy with latest national defense program guideline. The US has, for the first time, deployed marines in Darwin, Australia. It is strengthening its military partnership with the Philippines, and offered defense aid to Vietnam.

To relieve China’s security concern, the Obama Administration has repeatedly expressed that its rebalancing strategy, initially termed as “pivoting” and “back in Asia,” is not geared against China. Indeed the US has made gestures to engage in Chinese military for bilateral and multilateral exercises, such as the China-US bilateral naval search-and-rescue drill, and the bi-annual Exercise RIMPAC. However, these may not have had great effect on China’s perception. China has hurried its own version of defense modernization to counter the US rebalance effort. Such lack of trust doesn’t bode well for their cooperation for the trust building process on the Korean Peninsula.

**Trust Building Process on the Korean Peninsula**

Since South Korean President Park Geun-Hye commanded the Blue House in 2013, her administration has set the goal of inter-Korea reconciliation through a trust building process on the Korean Peninsula. She has addressed the essential approach to peace and stability on the peninsula, as without trust among the Koreans, it is hard to build and sustain peace and stability in the region. Just like the incident of the Cheonan sinking of March 2010, South Korea would not trust the North’s denial of the charge against it for torpedoing the corvette. Cheonan sinking, Yeonpyeong shelling, Kaesong Industrial Park closing, and nuclear threatening as aforementioned, are all harmful to build trust on the peninsula. In this context, President Park’s initiative has been embraced by China and the US when she presented the idea during her visit to the two countries in 2013.

Fundamentally, the trust building process on the Korean Peninsula entails the trust fostering among all Koreans. Nevertheless, as far as surrounding security environment in Northeast Asia is concerned, the regional players could also affect the trust building process on the peninsula. In particular, the relationship amongst the relevant stakeholders bears greatly
on the outcome of this process. The trust-building among those external actors, and between external players and North/South Korea, would all affect the process.

Scanning all these relationships, it is noted that the following factors would contribute positively to trust building on the Korean Peninsula:

- the building up of a China-South Korea strategic partnership;
- the sustaining of a China-North Korea relations along a positive direction;
- and, the making of a China-US new type of major-country relationship.

On the negative side, the following factors are unhelpful to trust building on the peninsula:

- the deteriorating Sino-Japanese relationship;
- the difficult South Korea-Japan political relationship;
- North Korea’s internal development and inter-Korea relationship;
- and, the mutual-hedging of the China-US relationship.

China-South Korea relationship

On the plus side, Beijing and Seoul have built a strong relationship since 1992. Despite the incidents of Cheonan and Yeonpyeong in 2010, they have withstood the challenges thereafter. In 2013, the two countries each had its new leadership and their strategic partnership was lifted to the new height. China and South Korea have found respective roles of more strategic importance in stabilizing the peninsula and the entire Northeast Asia. With great fatigue and frustration in dealing with North Korea over the past decade, China has to search for a new regional strategic stabilizer to partner with and Seoul increasingly fits China’s radar screen. With President Park Geun-Hye’s visit to Beijing in 2013, the two countries have strengthened their trust which shall facilitate their cooperation in a trust building process on the Korean Peninsula. Lately China President Xi Jinping has sent a letter to congratulate on President Park on her birthday and expressed his desire to visit South Korea in 2014, under the background that their respective relations with Japan are all souring.

Presently, China has had little interest in covering its dissatisfaction in North Korea’s nuclear weapons development. Interestingly, such nuclear program has, inadvertently, brought China and South Korea closer. Similarly, Pyongyang’s nuclear ambition has largely smoothed Beijing-Washington collaboration for the past decade. However, given the fact that North Korea is still pushing for its nuclear envelope, China’s credibility in managing this issue has been questioned—if Beijing is capable of containing North Korea’s nuclear ambition, and, if it is interested in devoting all its resources in this endeavor. With President Xi’s speech in Bo’ao in the spring of 2013, Seoul and Washington shall pick up their confidence in Beijing’s shared interests with them. It shall be mentioned that America is standing between China and South Korea due to the Washington-Seoul security alliance. Even though South Korea might manage the problem and not to let it be harmful to Seoul’s relations with Beijing at a time of challenge, it remains to be an issue.

China-North Korea relationship

The two long-time allies are re-orientating their relations with difficulty. As China has embarked on reform and opening, the two countries have now much different discourses and practices, and therefore taken divergent contours. Since North Korea first conducted its nuclear blast in 2006, China has, on the record, repeatedly avoided to reaffirm its military alliance with North Korea. In many ways, China is detaching its special relationship with North Korea. Instead, it is building up a “normal” bond with its old ally.

There is an inherent dilemma herein. On the one hand, such trend is helpful to trust building process on the Korean Peninsula, as China encourages North Korea to stage its own reform and opening, and discourages the latter to go nuclear. On the other hand, Pyongyang will definitely feel isolated and could be more inclined to an independent nuclear deterrent. As long as North Korea perceives its alliance with China no longer credible, it will obviously opt for total self-defense, with nuclear deterrent as its core.
Then, China-North Korea relations would become more distrustful, increasingly spiraling down. This has been often manifested by North Korea’s surprise moves without consulting China in advance. For instance, Pyongyang has conducted three nuclear tests, and executed Jang Sung-taek, its top-most China hand, without consulting with China. As such, China’s diminishing influence on North Korea doesn’t much help its promotion of a trust-building process on the Korean Peninsula.

Considering such factor, China has attempted to balance its policy toward North Korea. It has used export control to leverage North Korea’s nuclear and missile development, as part of the international concerted sanctions. It has been reported that China didn’t give ad hoc food assistance despite Vice-Marshal Choe Ryong-hae’s visit to Beijing in May 2013. However, China still offers regular economic aid such as food and energy so as to maintain a normal relationship. It has not supported the conclusion of international investigation on the sinking of Cheonan by a group of countries including South Korea. Though the concept of North Korea as a buffer between China and the US force on South Korea has been lately challenged, Pyongyang’s lingering strategic value in China’s hedging vis-à-vis the US rebalancing cannot be underestimated.

Sino-US relationship

Sino-US relationship is perhaps the most crucial external factor to affect trust building on the Korean Peninsula. As China and the US have much deficit of trust, they tend to tackle the Korean Peninsula as part of their geostrategic competition, traditionally with US-South Korea on one side, and China-North Korea on the other. China-US rivalry, with the Taiwan issue at the core, has seriously undermined their trust building, subsequently affecting their national security perception and behavior. Unfortunately the Korean Peninsula has become their regional play-ground for hedging.

The Taiwan issue is thus the core which has been closely intertwined with the Korean Peninsula. A century ago the Qing Dynasty sent its navy to Korea at the request of the latter in 1894, but the Qing fleet was ambushed by Japan. China lost the war and had to cut Taiwan, including Diaoyu Islands, to Japan. Losing the protection of the Qing, Korea subsequently was colonized by Japan till 1945 when Japan yielded its control over Taiwan and Korea. Then, the Korean War made the US and China archenemies, during which the Truman Administration decided to defend Taiwan which has forged the current separation of the mainland China and Taiwan. But, to reunify with Taiwan remains the mainland’s core mission and from this perspective the US is the main barrier that impacts China’s primary interest.
Against this backdrop, pushing the US armed force in the region away as far as possible has thus been in China’s national security interest. In accordance with classic realism, the Korean issue has been intrinsically interlinked with the Taiwan issue, as the sheer existence of North Korea could provide China with a security buffer. For decades China has committed to sustaining its special bond with North Korea for the sake of ideological and geostrategic reasons, till it reprioritized its mission to develop economy in partnership with the US, Japan and South Korea. China’s expanded interests have made it to redefine its tie with North Korea which in turn makes the latter anxious, building up an independent nuclear weapons program as Pyongyang’s ultimate security guarantor.

Despite China’s altering of development mode, the US is still wary of China’s rapid rise that promises to reshape the regional and even global security balance. America is apprehensive of China’s increasing confidence and perhaps, assertiveness in the air, maritime and cyber space. While collaborating with China to restrain North Korea’s belligerent move, the US has ushered a rebalance strategy so as to sustain its dominance in East Asia. The US support to Japan’s jurisdiction over Diaoyu Islands, its encouragement to Japan’s amendment of its constitution, its continuing arms sales to Taiwan, and its forceful pivoting in collaboration with allies and partners in the region, all bode unwell for China.

Consequently, despite China’s promoting of “a new type of major-country relationship” with America, China is balancing America’s rebalancing. China’s rapprochement with Russia, its proposals of the Eurasia Silk Road Economic Belt and southeast bound Maritime Silk Road etc., are all its geostrategic response to America’s rebalance. Furthermore, Beijing is amending or revamping its tie with quite a number of neighbors such as Pakistan, Cambodia and some other countries in South Asia, Central Asia and Southeast Asia. In Northeast Asia, China has and needs to work with North Korea despite its unwillingness to follow China’s persuasion on reform and nuclear abandonment. Such peculiar partnership has neither made China effective in forestalling North Korea’s nuclear quest and letting Pyongyang to accept Seoul. Subsequently, there is still a long way to go for China to be truly successful in bridging the two Koreas for their trust building.

Inter-Korea relationship

Fundamentally, trust building on the Korean Peninsula relies mostly on the intent of the two Koreas. If North and South Korea are interested in and able to build trust, it is unlikely that external forces will be able to stop them. Likely wise, if they are interested in reaping benefit from sustaining tension, then external players are not possible to impose trust upon them.

Theoretically the two Koreas are of the same Korean ethnic root and it is of their common interests in building a trustful inter-Korea relationship. However, they differ significantly in their definition of and approach to peace and hence, trust. Their different social institution, value system, and security mode render them respective domestic peace and national security. But due to their vast gulf of difference in these areas, their mutual perception of peace is very divergent. A suppressive while stable North Korean regime may not be perceived as peaceful and trustworthy by the South. Similarly, in Pyongyang’s perspective, securing nuclear weaponry would make it most secure and peaceful, but South Korea would exactly view such development as threatening and non-trustworthy.

Presently, the existence of the above-mentioned different notion of peace has prevented the two Koreas from constructing trust. In the near term, it is hard to forge significant change of such a rivalry. Basically, it is up to both countries to exercise tolerance, accommodating with each other, so as to reduce their mutual suspicion. Despite their mutual deny, the two Koreas need to promote exchange to allow incremental improvement of mutual understanding and respect, if not mutual appreciation.

In sum, inter-Korea relations are the core factor which affects trust building process on the Korean Peninsula, with external stakeholders and their mutual interaction playing subsidiary role in this regard. Given the complex regional security environment in East Asia, both positive and negative external circumstances exist at present, promoting as well as discouraging trust building on the peninsula.
Since last summer and through fall, signs of a thaw began appearing in the relationship between Japan and China, which had been frigid since September 2012. In economic exchanges, the formal rank of the Chinese delegation visiting Japan was raised, and a large-scale Japanese delegation also visited China. Chinese patrol vessels continue to intrude into Japan’s territorial sea around the Senkaku Islands, yet with less frequency since October.

It was amid this growing trend for improved relations that the Peripheral Diplomacy Work Conference was held in Beijing on Oct. 24 and 25. There, President Xi Jinping presented China’s conciliatory and amicable policies for neighborhood diplomacy. Along with the existing principles of “helping, stabilizing and enriching neighbors,” he also appealed for the new idea of forging “intimate, sincere, benefiting and tolerant” relationships.

However, that was followed only a month later on November 23 by China’s designation of an Air Defense Identification Zone. The move was disputed since it overlapped with the ADIZ of Japan, South Korea and Taiwan, and was designated to include the Senkaku Islands and other reefs hotly contested between China and South Korea. But that was not all. The international community reacted to the public notice issued by the Ministry of National Defense, which required the submission of flight plans even from commercial aircraft not bound for Chinese airspace, and declared it will resort to force to implement emergency defensive measures should the aircraft fail to comply. The designation of the ADIZ made it increasingly evident that China’s long-term goal lay in eliminating the U.S. forces from the East China Sea.

What was behind the timing of China’s ADIZ designation? Two days before its announcement, on Nov. 21, U.S. National Security Advisor Susan Rice gave a speech in Washington, D.C., on Asian policy, in which she spoke of activating the “new model of major-power relations” advocated by China, managing competition and deepening cooperation. According to one American scholar, hearing such conciliatory words reminiscent of those uttered at the start of the administration of President Barack Obama in 2009 had led China to decide that the United States would not object too strongly to its ADIZ.

In reality, the U.S. government issued statements by the secretary of state and the secretary of defense, and immediately flew two B-52 strategic bombers to the disputed airspace. Yet, following his meeting with President Xi Jinping on Dec. 4, U.S. Vice President Joe Biden spoke to reporters about the “new model of major-power relations” without voicing criticism of China’s ADIZ.

What makes both China and the United States send out such conflicting signals? Perhaps it is caused by the contradiction that exists between their diplomatic policy of seeking benefits through economic and other forms of cooperation and their national defense policy of seeking to expand or maintain their spheres of influence. In any case, the U.S.-China
relationship has been relatively free of stress, due to their clearly stated intentions of increasing mutual cooperation, as well as to the existing gap in military might and geographic distance.

That cannot be said about the relationship between Japan and China. Last year, Japan implemented measures on its national security by establishing the National Security Council, revising its National Defense Program Outline and formulating its National Security Strategy. However, the current administration lacks a long-term diplomatic strategy based on the reality that China will forever remain a neighbor. Although it has called for a summit meeting with China, the visit to the Yasukuni Shrine by Prime Minister Shinzo Abe disappointed even the U.S. government and at once placed Japan on the defensive in the area of diplomacy.

As long as China continues to espouse might, Japan has no choice but to seek to maintain the balance of power. However, we should, at the same time, present a vision for the future and work with other countries toward the creation of a regional order based not on might but on the rule of law. China makes its move after isolating its opponent. Unless Japan makes a diplomatic effort, the possibility of a clash will only grow.
Watch the Russian and Japanese Diplomatic Dance

By Kurt Campbell

(This essay is reprinted from the Financial Times, February 17, 2014)

Tensions are running high in northeast Asia, yet remarkably little diplomacy is taking place. China and Japan are not communicating and there are only infrequent political exchanges between South Korea and Japan. Surprisingly, a notable exception to this dearth of diplomacy is the current dance between Shinzo Abe’s Japan and Vladimir Putin’s Russia.

Asia still struggles with its historical legacy, and the Russo-Japanese experience is no exception. Russia and Japan were the belligerents in one of the most spectacular naval battles of all time – the 1905 Battle of Tsushima, in which the Russian fleet was annihilated by a tactically superior Japanese squadron. Their traumatic history has proved difficult to overcome. In the last days of the second world war, the Soviet Union seized four Japanese islands in the Kurils in the north-west Pacific Ocean and expelled the Japanese citizens who lived there. These four islands (also known as the “Northern Territories” by the Japanese) have been lodged like a bone in the throat of Russo-Japanese relations ever since.

Earlier this month Mr Abe and Mr Putin met quietly in Sochi around the edges of the opening extravaganza of the 2014 Winter Olympic Games. It was part of their highwire effort to build more durable Japan-Russian ties. At the end of that meeting, Mr Putin agreed to visit Japan in the autumn of this year.

In many ways, Japan and Russia are natural economic bedfellows. Russia’s Siberian east has vast resources, including natural gas, oil, timber and other products – just what Japan needs to support its manufacturing and service sectors. Yet the dispute over the Northern Territories has blocked rapprochement over the decades. Attempts to negotiate a phased or partial return of the islands to Japanese control have met with failure. The loss of the southern Kurils to Russia is also a bitter topic in right-leaning political circles in Japan.

The stakes today could not be higher. In recent years, Russia’s policy in Asia has seemed to lack direction. It is a part of important multilateral gatherings, including the six-party talks and the East Asia Summit, but its influence remains limited.

By contrast, Mr Abe has launched the most ambitious diplomatic push in modern Japanese history, reaching out across southeast Asia to India and Australia, seeking to build stronger political ties and to deepen commercial and trade links. Some of this diplomatic activity is inspired by a desire to match China’s growing diplomatic clout across the region.

Even if it has so far proved ineffective in Asia, Russia is an astute player of the great game. It will try to win influence in a region that Kremlin strategists recognise will dominate the 21st century. Russia also knows that its natural gas and petroleum deposits give the country leverage in an energy hungry region.

Mr Putin and Mr Abe may have what it takes to conclude a long overdue peace treaty between their two countries that deals effectively with the status of the Northern Territories and opens the door to deeper commercial ties. Their diplomatic dance is worth watching. The shape of northeast Asian politics is at stake.
Asia Enters an Age of Increasing Uncertainty

By Kurt Campbell

(This essay is reprinted from the Financial Times, January 30, 2014)

Long regarded as a region of unbounded promise and rising prosperity, Asia has been sometimes the lone bright spot on a global balance sheet that featured turmoil in the Middle East, torpor in Europe and tilting at windmills in the US. There have been Asian uncertainties and occasional tensions, historic and regional rivalries, but these have been largely muted, generally, for well over a generation as investment, innovation and manufacturing on the continent shifted into overdrive.

However, this year interested observers and key players collectively confront a much more worrisome set of indicators across a diverse Asian scene. Tensions are up, uncertainties outweigh stabilising constants, and suddenly ominous and dark clouds hover on the Asian horizon. The signs of trouble that are stirring anxieties in boardrooms and senior political councils are no longer confined to any one sector or a single country. Many of the challenges are interconnected and even where they are not, there are worries of spillover and contagion.

A quick survey reveals the risks. Tensions in northeast Asia have not been this high since the Korean War. Relations between Japan and China are at a nadir with political leaders on both sides hurling invective, and their maritime forces circling ominously and ceaselessly around contested barren rocks. With no mechanisms for crisis communication, the situation is primed for an incident or miscalculation. Then there are the usual challenges presented by a still dangerous North Korea but are now compounded by a volatile and unpredictable young despot in Pyongyang. Relations between Japan and South Korea are little better, with recurring political problems triggered from persistent itching of historical scars that still bleed and refuse to heal.

Challenges to stability are not limited to northeast Asia. There are mounting worries over maritime territorial differences in the South China Sea, with Beijing applying a calculated series of salami tactics to underscore its expansive claims, while various members of the Association of Southeast Asian Nations remain divided and uncertain over how to respond. Thailand is facing a profound societal clash that defies democratic remedy and threatens to upend arguably the subregion’s most important economy with potentially enormous spillover effects due to manufacturing and transport connections.

Then there are the leadership transitions ahead in Asia. Indonesia and India are moving towards defining elections with candidates vying for power that range from the unpalatable to the unproven. Challenges in Asia have been compounded by questions about American leadership with the Obama administration forced to deal with domestic political turmoil and flaring problems across a turbulent Middle East.

Add to this swirling political brew a deep uncertainty around various economic questions affecting the continent. How much impact will the “tapering” of quantitative easing have on emerging markets, particularly those already struggling with macroeconomic fundamentals? Perhaps most importantly are the uncertainties associated with the economic transformation that President Xi Jinping is undertaking in China, that both risks short-term domestic unrest but holds the medium-term prospect of a more sustainable model of economic growth.

There are bright spots to be sure across Asia that contrast with this darker picture. China and South Korea are building stronger political ties to complement their robust economic links. The Philippines
is confronting its traditional problems with corruption and enjoying sustained strong economic growth. Myanmar is slowly – if sometimes unsteadily – advancing reform. The Trans-Pacific Partnership negotiations are entering a decisive phase, with the prospect of an historical trend-setting trade arrangement linking Asia and the US within reach. Institution building at the East Asia Summit is being taken more seriously.

Still, the worries outweigh the wonders. Asia arguably is entering a newer, more unpredictable phase – animated by harsh differences over historical memory (and forgetting), disagreements over maritime providence, questions about the durability of democratic institutions, and anxieties over changing economic fundamentals – further complicated by the tectonic political shifts triggered by China’s seemingly inexorable ascent. The continent has escaped other tough scrapes and returned on investment before, but the gathering challenges this time appear more daunting. Only time will tell whether 2014 sees another Houdini act or whether history finally catches up with Asia.
Watch the Rise of Asia’s National Security Councils

By Kurt Campbell

(This essay is reprinted from the Financial Times, January 9, 2014)

China and Japan have little in common these days. But in one area the two countries appear to be proceeding along similar lines: both Beijing and Tokyo are working to establish newly institutionalised National Security Councils to co-ordinate their foreign policy and national security. Why?

Japan’s decision to establish a clearly defined and legislatively supported National Security Council has been long in coming. There had been several attempts in the past to establish such an entity, but this effort has more heft and strategic design than any previous push.

In China the recently concluded third plenum of the Chinese Communist party also outlined a prospective National Security Council-like entity at the centre of the Standing Committee to help facilitate the work of the Leading Groups and augment the daily responsibilities of the foreign and defence ministries. Chinese diplomats explain that the normal practices of Standing Committee meetings are overwhelmed with backed up decision-making, and there is a profound need for greater co-ordination at the centre, including to provide guidance on urgent and rapidly developing situations such as maritime disputes.

The decisions to centralise some of foreign policy and national security decision-making around the Japanese prime minister and Chinese president are being reinforced by national and international factors. (For regional context, Australia has also taken steps to establish a smaller version of a co-ordinating entity such as an NSC in the prime minister’s office, as has South Korea in the presidential office, the so-called Blue House.)

There is a larger trend across Asia to bring deliberations and decision-making into presidential or ministerial offices in an effort to better respond to the rapidly changing security environment in Asia. The reasons for these efforts are varied and complex. Greater centralisation of authority and decision-making around leaders and their most trusted staff reflects the relentless demands and expectations of the 24-hour news cycle, in which rapid response is increasingly essential to effective policy formation. Gone are the days that countries could wait days or weeks before responding to a crisis and expect not to get hammered in the media. There is a premium on timely response, and centralised co-ordination at least in theory creates the potential for prompt and effective engagement.

Then there is the matter of political trust. Nationalism is intensifying across Asia and there is an increasing linkage between foreign policy performance and domestic political perception. No country can afford a major mishap or misstep on a maritime security issue or a burgeoning spying scandal. As such, there is a strong temptation among chief executives to bring decision-making in from sometimes little understood – and often distrusted – agencies and departments. There is perhaps an inevitable wariness in many political corners about foreign ministries as well as defence ministries. Many are staffed with career personnel with unknown political biases and alliances – potential wild cards in times of crisis. Leaders want to at least have the option to explore complex problems in a more defined and centralised environment with their most trusted confidantes.

A national security council allows for leaders to huddle in closed confines with their closest confidants on decisions that could have major ramifications for their public or international standing. This is a natural
bureaucratic response to the growing power of central executive offices over other parts of the government.

Another reason for this bureaucratic innovation is the US. The US National Security Council was established by the 1947 National Security Act, but it was not until the Kennedy administration that the organisation took on greater significance. In recent years, however, under both Republican and Democratic presidents, the National Security Council has taken on greater responsibility, not only in setting the larger framework for foreign policy but in implementation as well.

This is particularly notable in recent years with respect to the management of post-9/11 anti-terror operations and in the conduct of conflicts in Iraq and Afghanistan. As Asian governments observe the growing power and influence of the US National Security Council, it is only logical that they would want to establish effective bureaucratic counterparts who can engage the White House directly and not through sometimes cumbersome foreign ministry communications. So it is both the American model and the necessity of communicating and dealing effectively with the US National Security Council that has created the imperatives for bureaucratic innovations.

All told, these trends are probably now decisive across the region, and efforts to further centralise policy making on foreign policy and national security issues will probably spread to other corners of Asia. The question remains whether these new institutional actors are a prelude to a less peaceful Asia or rather to an Asia where the inevitable challenges are managed more smoothly and with less chance of misunderstanding. Or more likely, rising tensions but greater capacities to deal with them.
How China and America can Keep a Pacific Peace

By Kurt Campbell

(This essay is reprinted from the Financial Times, January 2, 2014)

In an incalculably high-stakes game of naval chicken, a US guided missile destroyer last month narrowly avoided a collision with an escort ship accompanying China’s aircraft carrier during routine deployments by both navies in the South China Sea. The Chinese ship cut across the bow of the USS Cowpens, missing a clash by a stone’s throw. The Cowpens had been helping with the Philippine typhoon relief effort, and was deployed to observe close to where the carrier was undergoing sea trials.

The Pentagon and US Vice-President Joe Biden, speaking during a trip to China, strongly objected to these “provocative” acts and called on Beijing to implement effective communication protocols and crisis prevention mechanisms to help prevent misunderstandings and potential escalation scenarios in the future. The Chinese response has been characteristically vague.

Such close calls between the two sides at sea or in the air are increasingly frequent as Chinese military forces deploy beyond national borders in greater numbers, rubbing up against US military patrols and deployments. Yet China is reluctant to enter into agreements defining the “rules of the road” for incidents of this kind. It has also demurred from establishing crisis communications protocols in the event of a misunderstanding between two ships’ captains. Why?

There are several possible reasons. Foremost is the matter of confidence. China recognises that US naval and air forces remain the gold standard in terms of military capabilities and operational experience. It wants to avoid exposing its own vulnerabilities – particularly in a potential crisis.

Then there is divergence over ultimate objectives. China views these mechanisms rather like providing seatbelts to a serial speeder. It wants the US to refrain from operations so close to its borders and draw down deployments – not to feel assured that things can be peacefully resolved after a mishap.

There are also different interpretations of sovereignty. China is concerned that even a narrow operational accord might undermine claims of legitimacy for its disputed “nine-dash line”, which encompasses most of the South China Sea.

Until recently, there was a subtle tension between the party and the military over rules of engagement for People’s Liberation Army assets. It appears, however, that there is greater co-ordination under Xi Jinping, his successor.

Global optics also come into play. The kind of operational protocols requested by the US were a feature of the cold war; Beijing, in public diplomacy, seeks to avoid triggering in America a sense that China is a global adversary in the way that the Soviet Union was.

Finally, China and the US have very different ways of seeking deterrence. America often employs overwhelming displays of military capability – shock and awe – to create apprehension in the minds of potential adversaries or competitors. For China, deterrence – or, perhaps better, doubt – is achieved not through overt displays of power, but through creating uncertainty in the perceptions of others. So, by this avenue of logic, the less operational intimacy and understanding with PLA forces, the greater the deterrent value.

The upshot is that the US and China have very distinct strategic cultures with different objectives when it comes to operational encounters, and finding an acceptable paradigm will be challenging. Yet find it they must: global stability depends on avoiding a collision.
North Korea is an Asian Hybrid of Orwell and Hobbes

By Kurt Campbell

(This essay is reprinted from the Financial Times, December 16, 2013)

North Korea’s formerly powerful number two, the ill-fated Jang Song Thaek, was very publicly and brutally executed, along with key aides — either as part of leader Kim Jong Un’s plan to consolidate his unrivalled power; as retaliation for fomenting a military coup against the boy leader; or as punishment for simply “not clapping with sufficient enthusiasm” (as mentioned in the litany of charges against him).

The state’s propaganda organs were in rare form when they denounced him: “Despicable human scum Jang, who was worse than a dog, perpetrated thrice-cursed acts of treachery,” pronounced the official news agency. “Every sentence of the decision served as a sledgehammer blow brought down by our angry service personnel and people on the head of Jang, an anti-party, counter-revolutionary, factional element and despicable political careerist and trickster.”

The problem with closed, totalitarian states is that we cannot truly know why things happen. Jang’s sentence was handed down perhaps because of some combination of the above — or it could have been because the “Great Successor” (as Kim Jong Un is occasionally called, to remind all of his lineage) did not like the look in his eye during a sideways glance at a military parade. This macabre exhibition both appals us and draws us to look more closely: how is this Asian hybrid of Hobbes and Orwell even possible in 21st century northeast Asia, the veritable cockpit of the global economy?

Jang was seen in China and in the South Korean security establishment as a kind of human bellwether for North Korea’s trajectory. How he went would tell us how the country goes. He had long been viewed as the most experienced, cosmopolitan member of the elite — and the one best positioned to perhaps help embark the cloistered country on a path towards gradual opening and reform. Married to the aunt of Kim Jong Un and bestowed with military honours and privilege, he was regarded by some as almost family, which did not save him from the executioner.

In truth, he was the favoured son of China, the only senior official in Pyongyang in whom Beijing had any confidence or indeed hope. Now that he has been dispatched, the anxiety levels have crept up perceptively along Beijing’s corridors of power.

There are indications that China has grown steadily more concerned by the brutal goings-on in Pyongyang and the provocations staged against its neighbours. Jang’s elimination will only add to the worry. The repeated nuclear tests, the sinking of a South Korean warship, the shelling of disputed island territories, and repeated missile tests and military exercises have dialled up tensions in China’s immediate neighbourhood. They have served as the driving force behind defence modernisation and military deployments for the US and its friends — certainly not in a rising-China’s best interests. There have been many reasons posited for China’s reluctance to entertain regime change in the North. There is, of course, the desire to maintain a kind of buffer state on its periphery, and the fear of instability immediately on the border. There is also the very reasonable fear of North Korean instability triggering the intervention of outside powers, with the potential for profound geopolitical miscalculations and large armies clashing.

But there is also, in all likelihood, a kind of recognition and form of empathy in Beijing for the bizarre machinations and public trials of Pyongyang. Strip away the hereditary power transitions and unique qualities of juche (a North Korean concept of self-reliance verging on deprivation), and North Korea most resembles Stalin’s Russia or Mao’s China going through the horrors of the cultural revolution. Surely it would be painful — even for the current generation
of modern, technocratic Chinese leaders — to consider abandoning a fraternal progeny, even one as horribly deformed and so belonging on the ash heap of history as North Korea. No, China will not cast away its ideological cousin and comrades from the Korean war, but instead continue to counsel patience, gradual reform and restraint — and, bluntly put, hope for the best.

Jang obviously did not survive this hoping for the best, and looks remarkably like an Asian version of Arthur Koestler’s protagonist in Darkness at Noon. Jang, like the old Bolshevik Rubashov, probably had an inkling of his destiny. Before he is carefully excised from all the photographic history of North Korea, examine one of the few existing pictures of Jang with Kim Jong Un. There he is at a factory site with the young genius still with his baby fat, standing just in the background, uncomfortable, knowing his ultimate fate, but still hoping for the best.
How America Should Handle a Changing Japan

By Kurt Campbell

(This essay is reprinted from the Financial Times, November 6, 2013)

Change — fundamental change — can be difficult to discern in Asia. Too often it is measured by rapidly changing skylines and cityscapes; change as reflected by new buildings, architectural marvels and ambitious public works projects. In this way, every trip to China is a visit to a new country, with cities sprouting from rural landscapes virtually overnight. These cement and steel structures reflect new trends in Asia’s inexorable urbanisation but they are only one manifestation of change.

Sometimes profound change can take place with little by way of physical structures or outward manifestations. It is measured in evolving mindsets.

Take Japan. A drama is playing out that promises to alter the fundamentals that have guided the country’s policies at home and approach to the world for generations. It manifests itself in a very different way from those changes taking place elsewhere in Asia. Look at the renowned hotel near the Ginza district that has been frequented by western visitors for decades. In one of the long passageways, a small area of carpet was worn through in the early 1990s, and was replaced with a bright green patch. It is still there, strikingly out of place and crying out for renovation, 20 years on.

The change in Japan is reflected more in public attitudes than anything else. Almost overnight, polls reflect dynamic new trends: rising suspicion and even hostility towards China; growing exasperation with South Korea; greater interest in developing more robust defense capabilities; and more ambivalence about the experience and legacy of the second world war in Japan.

The country’s history has been marked by long (sometimes exacerbating) periods of constancy, abbreviated by infrequent episodes of profound change. After recent “lost decades”, we it is likely we are entering one of the latter periods. The fundamental change in attitudes and the attendant politics is best exemplified by the landslide election and return to power last year of Prime Minister Shinzo Abe of the Liberal Democrats, after a brief spell out of office for the party. He and his senior advisers have implemented a bold set of macroeconomic and (it is hoped) structural reforms designed to jolt the nation out of its generation-long lethargy. The short-term improvements in exports and the stock market are encouraging.

Yet Mr Abe’s agenda extends well beyond economic reform. He came to power with a clear and unambiguous determination to change Japan’s international role. The country sees its neighborhood as increasingly unpredictable, even dangerous, with provocations from North Korea and rising regional ambitions in China. Japan has not fired a shot in anger in about seven decades, but Tokyo is gradually shedding the historic inhibitions that have kept it from playing a role in any defence or security effort beyond strict interpretations of self-defence.

While Mr Abe’s motivations are a direct result of 2013 conditions on the ground in Asia (and in the surrounding seas), some of the rhetoric from Tokyo, tinged with suggestions of historical revisionism, have led some in the region (read China and Korea) to interpret Japanese intentions through the lens of 1937 and the rise of Japanese militarism. While pacifism has deep roots in Japanese society, some parts of the elite feel they do not get enough respect. And they want it.

So Japan is changing, and rapidly. The US has essentially two courses of action it can take. It can stand back and let the country change on its own, with little regard for the unique historical role it has played...
in ensuring Japan’s security. Or it can stay close to Tokyo, providing counsel on how to chart an uncertain course towards the status of what some Japanese strategists longingly describe as a “normal” country. The latter path offers risks and uncertainty, but it is also the best way to help preserve one of the most important bilateral relationships in Asia, the one on which the region’s economic miracle has been built.

It is better for Japan to change and evolve in partnership with the US than to strike out in Asia alone.
America’s Rebalance toward Asia:
Trade, Security and Resource Interests in the Pacific

PARTICIPANTS

April 11-18, 2014

Members of Congress
Senator Tammy Baldwin
Representative Earl Blumenauer
and Jon Blumenauer
Senator Sherrod Brown
and Connie Schultz
Representative Vern Buchanan
and Sandy Buchanan
Representative Jason Chaffetz
and Julie Chaffetz
Representative Ander Crenshaw
and Kitty Crenshaw
Representative Scott Garrett
and MaryEllen Garrett
Senator Tom Harkin
and Ruth Harkin
Senator Mazie Hirono
Representative Zoe Lofgren
and John Collins
Representative Billy Long
Representative Doris Matsui
Representative Mike McIntyre
and Dee McIntyre
Senator Barbara Mikulski
Representative George Miller
and Cynthia Miller
Representative Alan Nunnelee
and Tori Nunnelee
Representative David Price
and Lisa Price
Representative Peter Roskam
and Elizabeth Roskam
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former Director of National Intelligence

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Student Group Leaders In Kyoto

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Kohei Kamikihara, Doshisha University
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Yamato Nezu, Doshisha University
Ryo Ohyama, Kyoto University
Taichi Shimamura, Ritsumeikan University
Ryo Suzuki, Ritsumeikan University
Asako Tomotani, Ritsumeikan University
America’s Rebalance Toward Asia: 
Trade, Security and Resource Interests in the Pacific

AGENDA

April 11-18, 2014
Tokyo and Kyoto, Japan

FRIDAY, APRIL 11
American participants travel to Japan

SATURDAY, APRIL 12
All participants arrive in Japan
Working dinner

SUNDAY, APRIL 13
Welcome and Framework of the Conference

Dan Glickman, Executive Director, Aspen Institute Congressional Program

A Cultural and Historical Overview of Japanese Perspectives and Demographic Trends

- Why is Japan nationalistic and insular, and how does this worldview affect both its economic and foreign policies?
- How does the aftermath of WWII impact today’s reality? Specifically, how will Japan’s neighbors react to its plan for a more proactive military?
- Are women poised to take a more active role in the Japanese workforce, and if so, what will be the impact?
- What are the long-term demographic trends for Japan and their global implications?

Kurt Campbell, former Assistant Secretary of State;
Chairman, The Asia Group

Yoichi Funabashi, former Editor of Asahi Shimbun;
Chairman, Rebuild Japan Initiative Foundation, Tokyo

The Economic Interdependence between the U.S. and Asia:
Policy Implications of the Terms, Trade Ratios and Future Prospects

Asia has been the driver of global economic growth. The proposed Trans-Pacific Partnership trade agreement has not advanced as quickly as proponents wish, and there is evidence it may face challenges in the U.S. Congress.
Economic reforms undertaken by the Abe administration in Japan have devalued the yen, led to a soaring Japanese stock market, and changed factors in bilateral trade. China’s high annual growth rates of recent years are forecast to slow as it focuses more on domestic consumption; a trend that can have global implications.

- What are the pros and cons of the proposed Trans-Pacific Partnership and what are its prospects for adoption?
- What are the export and import trends between the United States and Korea, China and Japan—what is the impact for U.S. consumers and producers?
- What is the role of these Asian countries in financing American debt, and is there a linkage to greater policy concerns?
- What is “Abe-nomics,” and how has it impacted both Japan and the United States?
- Is currency manipulation a significant factor in the economic interchange between the United States and Asia, and if so, what could or should the United States do about it? Is it advantageous or disadvantageous, and to which parties?
- Have the World Trade Organization enforcement mechanisms been honored? If so, how, and if not, why not?
- When will the development pace in China slow down, and what are its long-term implications?

Kurt Campbell, former Assistant Secretary of State; Chairman, The Asia Group

David Dollar, Senior Fellow, John Thornton China Center, The Brookings Institution

Charles Lake, President Emeritus, American Chamber of Commerce in Japan; member of the Board of Directors of the U.S.-Japan Business Council, Tokyo

Tsuyoshi Sunohara, Senior Diplomatic Writer, The Nikkei Newspaper, Tokyo

Working lunch

Luncheon speaker

The Economic Interdependence between Asia and the United States: A Japanese Business Perspective

Yasuchika Hasegawa, CEO, Takeda Pharmaceuticals; Chairman, Japan Association of Corporate Executives

Working dinner

Scholars and Members of Congress will explore topics covered in the conference. Seating is arranged to expose participants to a diverse range of views and provide opportunity for a meaningful exchange of ideas. Scholars and lawmakers are rotated daily.

MONDAY, APRIL 14

Breakfast speaker

The Role of Agriculture in U.S.-Asia Trade

Yoshimasa Hayashi, Japan’s Minister of Agriculture
Nuclear Arms Concerns in Northeast Asia

The volatile nature of nuclear North Korea heightens concerns about nuclear security in Northeast Asia. China also has nuclear weapons. Japan, which reprocesses nuclear waste, has more plutonium than any other state not known to have a nuclear weapon.

- Is Japan’s practice of reprocessing nuclear waste to generate plutonium sensible or irresponsible?
- How can nuclear-weapons threats in Northeast Asia be minimized?
- What is the United States’ role in minimizing nuclear arms concern

Shen Dingli, Vice Dean, Institute of International Studies, Fudan University, Shanghai

Sharon Squassoni, Director, Proliferation Prevention Program, Center for Strategic and International Studies

The Energy and Environment Profile in Asia: Implications for the U.S. and the World

The disaster at the Fukushima Daiichi Nuclear Power Plant three years ago led to the suspension of electricity generation at all 50 of Japan’s civilian nuclear power reactors. Consequently, Japan has imported more coal and seeks to import liquid natural gas (LNG) from the United States. China’s unceasing appetite for energy resources has had global implications, making it the largest user of renewable energy. China also seeks to increase its use of nuclear power and maintains a heavy reliance on coal—with negative health consequences for its own citizens. China is the second largest consumer of oil, relying heavily on imports.

- What is the energy consumption profile of Japan, the Koreas and China, and do they have the production capacity to meet their future energy needs? If not, how do they plan to meet their energy demands, and what are the implications for the United States?
- Do these countries rely on the U.S. Navy to keep shipping lanes accessible for oil imports from the Middle East, and if so, how does this dynamic affect our relationships?
- What are the prospects for these countries to become energy independent? What role does the United States have in supporting their energy supplies?
- What is the future of nuclear energy in Asia and Japan, in light of the Fukushima disaster?
- What factor are coal and LNG exports from the United States in Asia’s energy mix, and is this a positive or a negative for the United States?
- Is China’s notorious air-pollution problem symptomatic of a larger Asian challenge, and what is its impact to China, its neighbors and the United States?
- What are the long-term energy impacts, if any, on climate change, and what are appropriate adaptation strategies?

Sharon Squassoni, Director, Proliferation Prevention Program, Center for Strategic and International Studies

Nobuo Tanaka, former Executive Director, International Energy Agency; Global Associate, The Institute of Energy Economics, Tokyo

Working lunch

Discussion continues between Members of Congress and scholars on the challenges and opportunities for U.S. policy in Asia.
Meeting with Members of Congress Only

*Shinzo Abe*, Prime Minister of Japan (arrangements pending)

Working dinner

Scholars and Members of Congress will explore topics covered in the conference. Seating is arranged to expose participants to a diverse range of views and provide opportunity for a meaningful exchange of ideas. Scholars and lawmakers are rotated daily.

**TUESDAY, APRIL 15**

**U.S. Security Concerns With China, Korea and Japan: Does the ‘Rebalance toward Asia’ Adequately Address American Interests?**

Tensions have been rising in Northeast Asia in recent months. China imposed an Air Defense Identification Zone in the East China Sea. Japan established a new national security council. The dispute between China and Japan over the Diaoyu (Chinese name) or Senkaku (Japanese name) islands has contributed to escalating tensions. China and Japan have increased their military spending in recent years, and Japan is exploring a revision to its constitution to allow its forces greater military flexibility. The U.S.-Japan alliance is a constant factor in these scenarios.

- What is the current U.S. force posture in Asia, and is it appropriate for current security concerns?
- How might the U.S. treaty alliance with Japan be put to a test?
- What are the current threats to U.S. security interests in Northeast Asia?
- What is the appropriate response to China’s imposition of the Air Defense Identification Zone?
- Will the projected reduction in size of U.S. military forces have an impact on protecting U.S. security interest in the Pacific?
- How much of a factor are U.S.-Taiwan relations in the context of Northeast Asian security concerns?
- Does China’s space activity have a military element?
- What are the cybersecurity concerns among these countries?

*Yoichi Funabashi*, former Editor of Asahi Shimbun
Chairman, Rebuild Japan Initiative Foundation, Tokyo

*Mike Green*, Senior Vice President for Asia, Center for Strategic & International Studies

*Susan Shirk*, Chair, 21st Century China Program, School of International Relations and Pacific Studies, University of California at San Diego

*Kim Tae-Hyo*, former Principal Secretary to the President for National Security, Sungkyunkwan University, Seoul

*Wang Dong*, Director, School of International Studies, Center for Northeast Asian Studies, Peking University, Beijing

Working lunch

*Caroline Kennedy*, U.S. Ambassador to Japan and Senior U.S. Embassy staff
Working dinner with English-speaking members of Japan’s Diet

Keiichiro Asao, House of Representatives (Your Party)
Kuniko Inoguchi, (House of Councilors (LDP)
Shintaro Ito, House of Representatives (LDP)
Tadahiko Ito, House of Representatives (LDP)
Katsuyuki Kawai House of Representatives (LDP)
Taro Kono, House of Representatives (LDP)
Kenji Kosaka, House of Councilors (LDP)
Hideki Makibara, House of Representatives (LDP)
Jin Matsubara, House of Representatives (DJP)
Asahiko Mihara, House of Representatives (LDP)
Masako Mori, House of Councilors (LDP)
Akihisa Nagashima, House of Representatives (DJP)
Masaharu Nakagawa, House of Representatives (DJP)
Yasuhide Nakayama, House of Representatives (LDP)
Yasutoshi Nishimura, House of Representatives (LDP)
Takashi Shinohara, House of Representatives (DJP)
Yasubisa Shiozaki, House of Representatives (LDP)
Keisuke Suzuki, House of Representatives (LDP)
Naokazu Takemoto, House of Representatives (LDP)
Mayuko Toyota, House of Representatives (LDP)
Isamu Ueda, House of Representatives (New Komeito)
Kouyzou Yamamoto, House of Representatives (LDP)

Scholars and Members of Congress will explore topics covered in the conference. Seating is arranged to expose participants to a diverse range of views and provide opportunity for a meaningful exchange of ideas. Scholars and lawmakers are rotated daily.

WEDNESDAY, APRIL 16

Breakfast speaker

Myanmar’s Democratic Evolution: A Report From the Field

Yuhei Sasakawa, Special Envoy of the Government of Japan, National Reconciliation in Myanmar

Regional Relationships in Asia and Their Relevance for the U.S.:

- China-Japan
- North and South Korea, and their Neighbors
- Taiwan and China
- The Role of ASEAN, Russia and Multilateral Institutions
The visit to the Yasukuni memorial by Japan’s Prime Minister Shinzo Abe last December contributed to increased tensions in Northeast Asia and a rare expression of disappointment by its U.S. ally. Korea’s Prime Minister refuses to meet with Japan’s leadership. Japan’s use of “comfort women” during WWII and perceived inadequate apologies is continually cited by Korea and China as an irritant in their relationships. Yet on the commercial level, China is Japan’s largest trading partner. There is evidence that China’s relationship with Taiwan has reached a level of acceptance. The U.S. ‘rebalance toward Asia’ can be seen by all these players as a factor in each of these relationships.

- How does the historical context of relations between China and Japan contribute to today’s tensions?
- Is the conflict over the disputed islands potentially serious?
- Is there an eventual scenario of reunification of the two Koreas? Might North Korea become a failed state?
- What factor does Japan’s possible constitutional change to allow a stronger military self defense pose to regional security?
- Have China-Taiwan relations stabilized, or do they remain a flashpoint with broader implications?
- What is the role of ASEAN, Russia and multilateral institutions in the region?
- Are new frameworks necessary to security and economic concerns?

*Chan Heng Chee*, Ambassador at Large, Ministry of Foreign Affairs, Singapore

*Chu Yun-Han*, Professor of Political Science, National Taiwan University, Taipei

*Kim Tae-Hyo*, former Principal Secretary to the President for National Security, Sungkyunkwan University, Seoul

*Shen Dingli*, Vice Dean, Institute of International Studies, Fudan University, Shanghai

*Akio Takahara*, Japan Institute of International Affairs, University of Tokyo

Working lunch
Discussion continues between Members of Congress and scholars on the challenges and opportunities for U.S. policy in Asia.

Site visit for **Members of Congress only** to Yokosuka Naval Base in Tokyo Bay, the largest overseas U.S. Naval installation in the world, home to 24,000 U.S. civilian and military personnel

Working dinner
Scholars and Members of Congress will explore topics covered in the conference. Seating is arranged to expose participants to a diverse range of views and provide opportunity for a meaningful exchange of ideas. Scholars and lawmakers are rotated daily.

**THURSDAY, APRIL 17**

Depart Tokyo on Shinkansen High-Speed Nozomi Train #207

On-board briefings from Central Japan Railway officials

The experience on this high-speed rail system, which has been operational for 50 years, will give Members of Congress a chance to engage directly with railway officials, and provide a comparative reference point regarding high-speed rail discussions in the U.S.
Educational Site Visits in Kyoto

Upon arrival in Kyoto, we will split into small groups co-led by teams of university students, each comprised of an English-speaking Japanese and an American student studying in Japan (many of whom are studying in Japan on congressionally-funded Fulbright scholarships).

Each group will have their own van and experience a unique itinerary of educational site visits in Kyoto, through the eyes of the student teams, before we return to Tokyo in late afternoon. The site visits will illustrate different elements of Japanese business, society, and culture that will provide insights into Japanese and Asian perspectives. The types of sites to be visited will range from manufacturing facilities, small businesses, as well as venues with religious, historical, or contemporary significance to contribute to a deeper understanding of how modern Japan operates. Groups will meet with local innovators, others with educators, and some may visit a typical Japanese home. This structure is intended to give Members of Congress a unique opportunity to see aspects of Japanese business and society through the eyes of young students who have an appreciation for both American and Japanese points of view. The 9 U.S. students and 9 Japanese students come from the following educational institutions: the University of Chicago, the University of Hawaii, the University of Michigan, the University of Rochester, the University of Pennsylvania, American University, Doshisha University, Kyoto University Otani University, and Ritsumeikan University. The student teams have been organized under a consortium of the U.S.-Japan Research Institute managed by Dr. Keiji Nakatsuji, Professor of International Relations, at Ritsumeikan University.

AMERICANS:

Anna Andriychuk, University of Chicago
Hadley Hauser, University of Chicago
Erika Hsu, University of Pennsylvania
Akira Ishikawa, University of Hawai’i
Cameron LaPoint, University of Rochester/Kyoto University
Jenna Linkeke, American University
Aaron Proffitt, University of Michigan
Sho Tetsutani, University of Hawai’i
Alex Hughes Scott, American University

JAPANESE:

Aina Inoue, Ritsumeikan University
Kobei Kamikihara, Doshisha University
Akito Kinoshita, Kyoto University
Yamato Nezu, Doshisha University
Ryo Ohyama, Kyoto University
Taiichi Shimamura, Ritsumeikan University
Ryo Suzuki, Ritsumeikan University
Asako Tomotani, Ritsumeikan University

Working Dinner

Scholars and Members of Congress will explore topics covered in the conference. Seating is arranged to expose participants to a diverse range of views and provide opportunity for a meaningful exchange of ideas. Scholars and lawmakers are rotated daily.
American participants return to the United States.