

THE UNITED STATES AND JAPAN IN GLOBAL CONTEXT: 2018



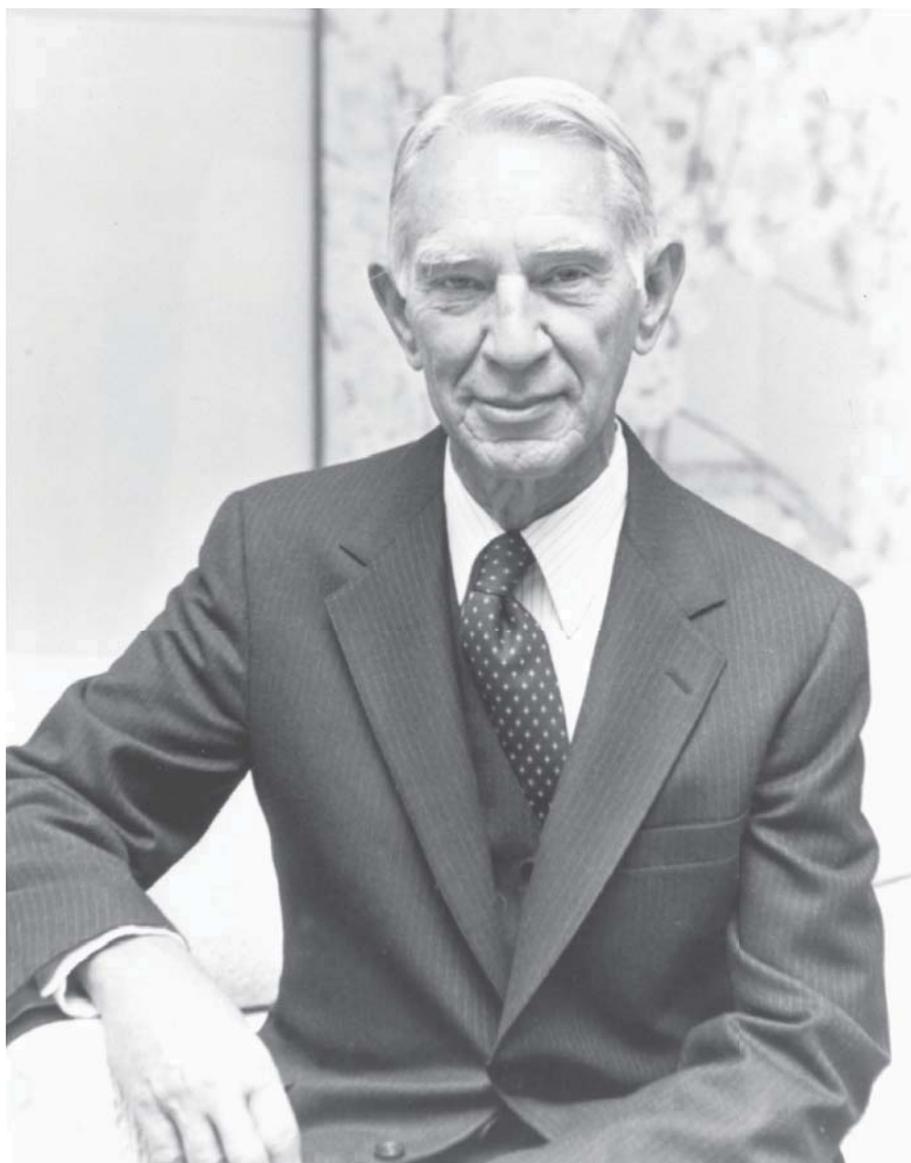
THE EDWIN O.
REISCHAUER CENTER
FOR EAST ASIAN STUDIES
WASHINGTON D.C.

Johns Hopkins University The Paul H. Nitze School of Advanced International Studies
tel. 202-663-5812 email: reischauer@jhu.edu

THE EDWIN O. REISCHAUER CENTER FOR EAST ASIAN STUDIES

Established in 1984, with the explicit support of the Reischauer family, the Edwin O. Reischauer Center for East Asian Studies at the Paul H. Nitze School of Advanced International Studies (SAIS) actively supports the research and study of trans-Pacific and intra-Asian relations to advance mutual understanding between North-east Asia and the United States.

The first Japanese-born and Japanese-speaking US Ambassador to Japan, Edwin O. Reischauer (serv. 1961–66) later served as the center’s Honorary Chair from its founding until 1990. His wife Haru Matsukata Reischauer followed as Honorary Chair from 1991 to 1998. They both exemplified the deep commitment that the Reischauer Center aspires to perpetuate in its scholarly and cultural activities today.



EDWIN O. REISCHAUER

(Oct.15, 1910 - Sept. 1, 1990)



YEARBOOK CLASS OF 2018

From Left to Right: Research Assistant Yuka Inomata,
Visiting Scholar Dr. Asuka Matsumoto, Visiting Scholar Kazutaka Kuga,
Ji Hoon Yoo, Elisabeth Sweeney, Jon Foissotte, Professor William Brooks,
Jane Schott, Joon Young Kwon, Steven Pelcovits, Zhuxuan Fang, Menglei Lin,
Ruohao Shen, Peng Gui, Visiting Scholar Masataka Ambashi, Yiou Zhang

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The Year at the Reischauer Center

The 2017-2018 academic year was a memorable one for the Reischauer Center, with a diverse range of intellectual offerings. For the first time, we took up the pressing global and national issue of infrastructure, through both a conference and a related academic course, exploring how trans-Pacific cooperation might aid in resolving deepening connectivity challenges. We also held paired conferences on emerging and receding security flash points in Asia, focusing first on the Bay of Bengal and then two weeks later on Afghanistan.

This year we began the third increment of a five-stage curriculum development project in partnership with the Japan Foundation's Center for Global Partnership. The project as a whole is intended to generate instructional modules, tested in the classroom, that sensitize post-graduate students interested in public-policy careers to policy challenges that the US and Japan jointly face that might be addressed through international cooperation. In the first year of the project we addressed energy issues; then health-care issues; and this year infrastructural questions, such as high-speed rail transport; liquified natural-gas production and transport; automotive advances, including infrastructure for unmanned as well as electric vehicles; and advanced telecommunications connectivity.

Under the auspices of the CGP project, I taught a Spring Semester 2018 course on "Infrastructure and Trans-Pacific Cooperation", considering the topics outlined above, and including in-class presentations by practical infrastructure specialists. The course was followed on May 8th by a major conference on "The Infrastructure Challenge: US-Japan Cooperation in Global Context", involving current and former US government officials, business professionals, and Reischauer Policy Research Fellows.



Infrastructure Conference – May 8, 2018

The conference consisted of two panels the first of which was "America's Deepening Infrastructure Challenge" moderated by Mr. Larry Greenwood, Former Minister-Counselor for Economic Affairs for the U.S. Embassy, Tokyo. First, Mr. Brian Pallasch from the Government

Relations & Infrastructure Initiatives Department of the American Society of Civil Engineers discussed the emerging issues and challenges in infrastructure implementation in the United States including the United States' investment gap in infrastructure and the future of autonomous vehicles and bikeshare programs. In addition, Mr. Masahiro Nakayama discussed the train investment projects Japan is investing in both in Japan and in Texas. To complement Mr. Nakayama, Mr. Evan Sankey discussed the lack of public transport in the United States and the need for public transport franchises. Finally, Ms. Yuki Numata presented the opportunities for Japanese hydrogen fuel technologies to supplement the U.S. growing electricity needs.

The second panel of speakers discussed topics on the theme of "Prospects for U.S.-Japan Global Infrastructure Cooperation." This panel was moderated by Reischauer Senior Fellow, Mr. Daniel Bob. First, Bart W. Édes, Representative for North America of the Asian Development Bank, presented on Asia's Infrastructure needs and the ways the U.S. and Japan could cooperate to meet those needs. Mr. Tony Padilla, Senior Advisor for International Affairs and Acting Director of Congressional Affairs at the Maritime Administration, U.S. Department of Transportation discussed the increasing importance of maritime trade as the world becomes more globalizes, fast-delivery becomes more prevalent, and the security issues surround the global supply chains. Doug Midland, Director at the Structured Finance and Insurance Division, Overseas Private Investment Corporation (OPIC), discuss the cooperation between OPIC and the Japan Bank for International Cooperation and Nippon Export and Investment Insurance (NEXI). Tom Hines, Economic Unit Chief of the Japan Desk, U.S. Department of State, analyzed the recent economic dialogue between Taro Aso and Mike Pence. Finally, Larry Greenwood spoke about his career working with the U.S. government and multilateral organizations for U.S.

Apart from the ongoing five-year project on areas for "win-win" cooperation in US-Japan relations described above, and the *Yearbook of US-Japan Relations* presented in the following pages, the Reischauer Center's research work during the 2017-2018 academic year was concentrated in four strategic clusters, including: (1) Japanese politics, foreign policy, and political economy; (2) Eurasian political-economic transformation; (3) global cities in international relations; and (4) US-Japan relations. The research effort was supported by a gifted multinational corps of nine Visiting Scholars; four Reischauer Policy Research Fellows: Yuki Numata, Jonathan Hall-Eastman, Sherry Kim and Neave Denny; one research analyst, Evan Sankey, and three research interns: Yuka Inomata, Wonsuk (Jasper) Choi, and Jayoung Ahn, generously supplied to the Center by the Cultural Vistas and Korea West programs. Reischauer Center research efforts were coordinated expertly across the first months of the academic year by Alex Evans, and then from March during the latter part of the year by Neave Denny.

In the tradition of Edwin O. Reischauer, distinguished historian of Japan that he was, a continuous research concern of the Center across the 2017-2018 academic year was the past, present, and future of Japan itself. The year began with a publication seminar based on my new book from Stanford University Press, "*Circles of Compensation: Economic Growth and the*

Globalization of Japan”, published in August, 2017. Shortly thereafter Professor Bill Brooks and I joined forces to comment on the October, 2017 Japanese general election. Visiting Scholars, faculty, Reischauer Fellows, and interns then visited the Johns Hopkins Homewood campus during November for a seminar on “Circles of Compensation”, as well as a joint workshop with JHU East Asian Studies on Japan’s future prospects in a broad Asia-Pacific context. Shortly thereafter Professor Michael Plummer, Director of SAIS Europe, spoke at the Center on “New Scenarios for Economic Cooperation in the Asia Pacific”, in the wake of the Trans-Pacific Partnership’s repudiation by the Trump administration. In March, Professor Shujiro Urata, Director of the Graduate School of Asia-Pacific Studies at Waseda University, spoke on trends in the Japanese economy, and broader implications thereof for US-Japan relations.



Dr. Shujiro Urata – March 1, 2018

Later in the year, Visiting Fellows at the Reischauer Center presented their own personal research. Those seven seminars all dealt with different aspects of Japan’s domestic policy processes and broader global role. Among the topics covered were Japanese government budgeting; transformation in Japanese domestic policymaking; Fukushima revitalization efforts; and Japanese perspectives on UN peacekeeping in the wake of the South Sudan mission.

Perhaps the most ambitious dimension of Reischauer Center research this past year was the extensive treatment of Eurasian political-economic transition. Two of the Center’s conferences—on the Bay of Bengal and Afghanistan’s relationship with Eurasia—were in that area. Developments in six specific countries were also highlighted separately, and treated by distinguished specialists: Korea; China; Singapore; Mongolia; and Afghanistan. The Center was favored by major addresses from high-level policy makers from the last two: the Foreign Minister of Mongolia, Tsogtbaatar Damdin, who spoke on the role of small nations in international affairs; and the Ambassador of Afghanistan, Hamdullah Mohib, who spoke on Afghanistan’s deepening Eurasia relationships.

The Center also, of course, took up the issue of China's role in the emerging global order, in seminars led by Amitav Acharya and Cheng Li.



Eurasia and Afghanistan Conference with Ambassador Mohib – May 2, 2018

Although not as visible as the conferences and commentary on Eurasia, the Reischauer Center research team worked intensively in-house on the emerging role of global cities in international affairs. In late February, 2018 the Center held a joint mini-conference with SAIS Europe in Bologna, dealing with a major aspect of the emerging role of global cities: “Europe’s Idea Industry in Comparative Perspective”. It also supported a research seminar at SAIS during the Spring Term 2018 dealing with “Global Cities in International Affairs”, and conducted research, coordinated by Neave Denny, on “Japanese Cities and Globalization: Comparative Perspectives”, which will culminate in a future conference.

In the Reischauer tradition, our Center came back again and again in our research effort over this past year to one bedrock concern: deepening mutual understanding between the United States and Japan, in an effort to reinforce that central pillar of a stable and prosperous world. Our Center involves researchers from many nations and many political persuasions, but always core researchers from those two—the United States and Japan. The two countries are both advanced and mature industrial nations now, with much deeper economic and political ties between them than was the case in Reischauer’s day. Yet the “broken dialogue”—the difficulties of cross-cultural understanding of which Reischauer wrote, in his landmark article for *Foreign Affairs* in the shadow of the 1960 Security Treaty crisis-- remains a recurrent danger in the twenty-first century, despite all the routine contact. For as Reischauer put it so eloquently, well over half a century ago, “Japan and the United States face each other only across an ocean...but it is the broadest ocean of them all.” I hope the reader will concur that this yearbook helps in some small way to help us bridge that chasm, which holds such potential importance today for world affairs.

Kent Calder

Vice Dean for Faculty Affairs, SAIS; and

Director, Reischauer Center for East Asian Studies



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9/14/2017 Rome Auditorium 4:30 – 7:00	Dr. Kent E. Calder Director of the Reischauer Center, Johns Hopkins SAIS	Publication Launch: <i>Circles of Compensation: Economic Growth and the Globalization of Japan</i>
9/28/2017 Rome 806 4:30 – 6:00	Dr. Amitav Acharya Distinguished Professor of International Relations, American University	<i>China, World Order, and Global Governance</i>
10/05/2017 Rome 806 4:30 – 6:00	Dr. Cheng Li Director, John L. Thornton China Center, The Brookings Institution	<i>The Power of Ideas: The Rising Influence of Thinkers and Think Tanks in China</i>
10/13/2017 Rome 806 12:00 – 1:30	James Schoff Senior Fellow, Asia Program Carnegie Endowment for International Peace	<i>Luncheon Discussion</i>
10/19/2017 Rome 812 12:30 – 2:00	Dr. Valerie Mercer-Blackman Senior Economist, Macroeconomic Research Division, Asian Development Bank	<i>Sustaining Development through Public-Private Partnership: The Asian Development Outlook Update 2017</i>
10/25/2017 Rome Auditorium 4:30 – 5:30	Dr. Kent Calder and Dr. William Brooks Reischauer Center, Johns Hopkins SAIS	<i>Japan's General Election: Regional and Global Implications</i>
10/26/2017 Rome 806 4:30 – 6:00	Dr. John Curtis Perry Henry Willard Denison Professor of History, Fletcher School, Tufts University	<i>Singapore: The Unlikely Rise of a Smart City</i>

<p>10/27/2017 1819 L Street NW, Suite 600 12:30 – 2:00</p>	<p>Dr. Kent E. Calder Director of the Reischauer Center, Johns Hopkins SAIS</p>	<p><i>Singapore and a Changing Nation</i> hosted by the East-West Center</p>
<p>11/07/2017 Johns Hopkins University, Homewood Campus 3:00 – 5:30</p>	<p>Dr. Kent E. Calder Director of the Reischauer Center, Johns Hopkins SAIS</p> <p>Reischauer Center Visiting Scholars</p>	<p><i>Workshop on U.S.-Japan Relations in the Era of Trump and Abe</i></p>
<p>11/09/2017 BOB 500 9:00 – 10:30</p>	<p>Dr. Michael G. Plummer Director, SAIS Europe</p>	<p><i>New Scenarios for Economic Cooperation in the Asia Pacific</i></p>
<p>11/16/2017 Rome 806 4:30 – 6:00</p>	<p>Dr. Jargalsaikhan Enkhsaikhan Former Permanent Representative of Mongolia to the United Nations</p>	<p><i>The Role of Small States in International Security: Lessons from Mongolia</i></p>
<p>11/17/2017 The Chastleton 6:30 – 8:30</p>	<p>Dr. Kent E. Calder Director of the Reischauer Center, Johns Hopkins SAIS</p>	<p><i>Reischauer Center Fall Reception 2017</i></p>
<p>12/07/2017 Rome 640 4:30 – 6:30</p>	<p>Samuel H. Kidder Former Executive Director, American Chamber of Commerce in Japan</p>	<p><i>American Efforts to Join Japan's Infrastructure Development – A Front Row Seat for 30 Years –</i></p>
<p>2/16/2018 12:30 – 2:00 Rome 812</p>	<p>Tony Padilla Maritime Subject Matter Expert and Johns Hopkins SAIS Graduate (2011)</p>	<p><i>Alumni Perspectives: Global Shipping and its Geo-economic Implications</i></p>
<p>3/01/2018 10:30 – 12:00 Rome 806</p>	<p>Dr. Shujiro Urata Professor, Graduate School of Asia- Pacific Studies, Waseda University</p>	<p><i>The Japanese Economy: Recovery, Challenges, Foreign Economic Policy, and U.S.-Japan Relations</i></p>

<p>3/02/2018 12:30 – 2:00 Rome 812</p>	<p>Dr. Dan Slater Ronald and Eileen Weiser Professor of Emerging Democracies, University of Michigan</p>	<p><i>Democracy through Strength: Asia's Development and Democratization</i></p>
<p>3/08/2018 4:30 – 6:00 Rome 806</p>	<p>Dr. Junya Nishio Professor, Department of Political Science, Faculty of Law and Politics, Keio University</p>	<p><i>The Future of Japan-Korea Relations: Looking Ahead 20 Years after the Japan-South Korea Joint Declaration of 1998</i></p>
<p>3/15/2018 4:30 – 6:00 Room 806</p>	<p>Dr. Alexandre Mansourov Adjunct Professor of Korea Studies, Johns Hopkins SAIS</p>	<p><i>The DPRK's Political and Military Changes and Future Prospects under Kim Jong Un</i></p>
<p>3/28/2018 12:30 – 2:00 Rome 812</p>	<p>Mr. Masato Takamatsu Minister's Secretariat, Secretarial Division, Japanese Ministry of Defense</p>	<p>Visiting Scholar Seminar Series: <i>Japanese Views on UN PKO after the South Sudan Mission</i></p>
<p>3/29/2018 12:00 – 1:30 Rome 812</p>	<p>Mr. Jeongseok Lee Ph.D. Candidate in Public Affairs (Security Studies), Woodrow Wilson School of Public and International Affairs, Princeton University</p>	<p>Visiting Scholar Seminar Series: <i>Unforced Concession: The Unexpected Origins of the U.S. Bilateral Alliance System in the Asia-Pacific</i></p>
<p>4/05/2018 12:00 – 1:30 Rome 806</p>	<p>Mr. Tadashi Noda Environmental Policy Division, Japanese Ministry of Economy, Trade and Industry</p>	<p>Visiting Scholar Seminar Series: <i>Recent Changes of Policy-making Mechanisms in Japan</i></p>
<p>4/13/2018 12:30 – 2:00 Rome 812</p>	<p>Mr. Kazutaka Kuga Budget Bureau, Japanese Ministry of Finance</p>	<p>Visiting Scholar Seminar Series: <i>The Japanese Government Budget: How is It Coexisting with the High Debt Load?</i></p>

<p>4/19/2018 12:00 – 6:00 Rome Auditorium</p>	<p>Keiichiro Nakazawa Director General, South Asia Department, Japan International Cooperation Agency (JICA)</p> <p>Comments by Dr. Joshua White, Fellow at the Reischauer Center</p>	<p><i>Emerging Economic and Security Challenges in the Bay of Bengal</i></p>
<p>4/27/2018 12:30 – 2:00 Rome 812</p>	<p>Mr. Masataka Ambashi Nuclear Reprocessing Organization of Japan (NuRO), Tokyo Electric Power Company (TEPCO)</p>	<p>Visiting Scholar Seminar Series: <i>Fukushima Revitalization and TEPCO's Efforts</i></p>
<p>5/02/2018 12:30 – 2:00 Rome 812</p>	<p>Mr. Yasuhiro Sakata Air Staff College, Japan Air Self- Defense Force</p>	<p>Visiting Scholar Seminar Series: <i>Regional Comparisons and Perspectives of the Self-Defense Force</i></p>
<p>5/04/2018 12:30 – 2:00 Rome 812</p>	<p>Dr. Asuka Matsumoto The Japan Institute of International Affairs (JIIA)</p>	<p>Visiting Scholar Seminar Series: <i>Current Politics in the U.S. and Japan</i></p>
<p>5/08/2018 10:00 – 6:00 Rome Auditorium</p>	<p>Dr. Kent Calder Director of the Reischauer Center, Johns Hopkins SAIS</p> <p>Supported by the Japan Foundation Center for Global Partnership</p>	<p><i>The Infrastructure Challenge: US- Japan Cooperation in Global Context</i></p>
<p>5/21/2018 4:30 – 5:30 Kenney Herter Auditorium</p>	<p>Discussion with H.E. Mr. Tsogtbaatar Damdin, Minister for Foreign Affairs of Mongolia</p> <p>Discussants: Dr. Kent Calder & Dr. Alicia Campi</p>	<p><i>Changing world: Changing role of Smaller States</i></p>

Introduction

By William L. Brooks

The Reischauer Center of Johns Hopkins University's School of Advanced International Studies (SAIS) annually offers a unique course on U.S.-Japan relations in which the students, mainly M.A. candidates, most of whom are Japan concentrators, write original research papers of publishable quality that reflect some of the main themes chosen as representative of bilateral ties between the United States and Japan in a global context. The papers are then edited and published in a SAIS yearbook, *United States and Japan in Global Context*.

The essays in this issue of the yearbook, which covers mid-2017 to mid-2018, take a hard look at the vagaries of the US-Japan relationship during the first year and a half of the administration of President Donald Trump, focusing on the current state of the alliance, US-Japan trade relations and Prime Minister Shinzo Abe's trade policy agenda, and cooperation on regional issues between the two countries. This year's topics examine the challenges to the bilateral relationship, such as the heightened North Korean threat, the US' sudden shift from multilateralism to bilateralism, the vexing Okinawa basing issue, Japan's changing relationships with Asian neighbors, and bilateral trade and economic issues. Also covered is the ramification of Prime Minister Abe's drive to revise Japan's Constitution on the Alliance.

US-Japan Relations: From Honeymoon to Living Dangerously

Although under President Donald Trump, America's relations with most countries have been rocky, for Japan, the year 2017 was one of deepening ties, thanks in part to Prime Minister Shinzo Abe's successful efforts to build personal ties with the US President, centered on golf diplomacy at two of their summit meetings. A commonality of interests and stances over the North Korea nuclear and missile threat also served to cement the relationship, with both leaders agreeing to apply "maximum pressure" on the DPRK, centered on UN Security Council sanctions. By the end of 2017, the US-Japan alliance was arguably stronger than ever. Indeed, the two leaders met five times, spoke by phone 17 times, and played golf twice (in Florida and Japan) during that year.

Having built and cultivated close ties with President Trump, Prime Minister Abe has sought to use that relationship in facing a number of challenges with the US on the trade front, with Japan being hit with severe tariffs on steel, and, more recently, the shifting dynamics of Korean Peninsula politics as South Korea and then the US engaged in summit diplomacy with the DPRK leader Kim Jong-un.

However, the period since mid-2017 has been fraught with danger for Prime Minister Shinzo Abe in trying to cope with the ever-changing policy stances, and even moods, of President Donald Trump. The themes covered in this yearbook reflect the challenges that Japan

under Abe has faced in dealing with the Trump administration on foreign affairs, security, and trade.

Abe's Political Future?

Shinzo Abe is one of Japan's longest serving prime ministers, coming into office in December 2012. But his longevity is being threatened politically, and may depend on his being able to score a breakthrough in the impasse in relations with North Korea over the issue of missing Japanese abducted by DPRK agents decades ago. Until recently, it looked increasingly unlikely that he would be reelected a third time this fall as LDP president (and thus prime minister) in the party election. That scenario could change, of course, if for example the Prime Minister could land a productive meeting with North Korean leader Kim Jong-un.

In the meantime, the two likely party challengers are former defense minister Shigeru Ishiba, who beat Abe in the party members election in 2012 but lost in the crucial Diet member election, and former foreign minister Fumio Kishida, who leads a large faction in the LDP. Ishiba, as a defense hawk, would not likely change Abe's policy agenda toward Constitutional reform, based on the LDP's draft proposals, but he may not be in such a hurry. Abe has been driven by the goal of fulfilling his grandfather Nobusuke Kishi's dream of revising the Constitution. Kishida, who comes from the dovish wing of the LDP and represents the Hiroshima district, is not as committed to changing Article 9 to allow explicit mention of the SDF as the nation's army as his former boss Abe.

Moreover, polls consistently show that the public is opposed to an early revision of the Constitution under Abe. Kyodo's May poll, for example, had 57.6% opposed to revising the Constitution while Abe is prime minister. Abe's dream of constitutional reform while he is in office may not be realized.

Although polls have stabilized in June and even given him a bump, Abe had been losing popularity mainly due to political scandals involving himself that have dragged on in the Diet debates for at least a year. His non-support rates have been in the 50s and support rates in the 30s in recent opinion surveys. The main reason for disapproval in the Kyodo poll was Abe's being "untrustworthy." In a Kyodo poll for mid-May, the Abe Cabinet's disapproval rate was at 50.3%, outpacing the 38.9% approval rate.

If his popularity drops below 30 percent and stays there, he would be unlikely to survive the upcoming election. His rivals are ready to challenge him, and polls show that Ishiba already is more popular than Abe as the public's choice for the next prime minister.

Other factors working against Abe: the economy in 2018 has been slipping, the scandals continue to tie up the Diet, and his bromance with Trump is seen as not paying off on the trade front, Japan having been slapped with steel tariffs for "national security" reasons. Moreover,

Japan is now seen as being left behind as the ROK and US pursue summit diplomacy with North Korea.

At this writing in mid-June, Abe continues to be hit hard in the Diet, media, and the public sphere by cronyism accusations and criticism of some of his policies. Public discord is also centering on a labor reform bill passed by the House of Representatives in May that would allow companies to exempt skilled employees from working-hour regulations. This comes at a time when workers are dying from overwork, creating a national call for regulation to prevent such worker abuse. On June 10, about 27,000 protesters gathered in the rain in Tokyo to demonstrate against the Abe government's "destroying of parliamentary democracy."

Public support for Abe improves

Peace diplomacy on the Korean Peninsula, however, has given Abe a new chance. In June, the national dailies in their respective opinion polls found public approval of Prime Minister Abe inching up. Asahi put support for the Abe cabinet at 38%, up two points from last month, and nonsupport at 45%, up a point. Yomiuri's poll registered a three-point recovery in public support for the Abe cabinet at 45%, with nonsupport at 44%, down three points. According to Kyodo, support for the prime minister was 45%, up six points, whereas nonsupport stood at 43%, down seven points. Yomiuri attributed the improvement in public support of the Prime Minister to higher expectations for his diplomacy toward North Korea in the wake of the Trump-Kim summit. But respondents were still highly critical of his handling of domestic affairs, such as the Moritomo and Kake Gakuen scandals.

If Abe were able to meet with North Korea's Kim Jong-un, as did South Korean President Moon Jae-in and then President Trump this spring, and in so doing, resolve the abduction issue in some way, it would clinch his third-term election this fall. But it will not be easy because North Korean media continue to say that the issue has been "resolved."

Japan willing to help shoulder costs of North Korea's denuclearization

If US talks with North Korea on denuclearization come up with a new international framework that other countries will join, like KEDO (Korean Peninsula Energy Development Organization) in the mid-1990s, Japan may have to shoulder some of the costs. Prime Minister Abe has indicated a conditional willingness to do so. In the KEDO agreement, which was set up to construct two light-water reactors in North Korea, Japan as a key member was willing to put up \$1 billion out of a total cost of \$4.6 billion, but other project financiers were slow in coming. Unfortunately, as a result of opposition to the project by the US Congress and the revelation that North Korea was carrying out a secret nuclear project, KEDO by 2003 was effectively moribund, and formally scrapped in 2005.

Summit diplomacy in early 2018 has started the peace process on the Korean Peninsula again. This time, according to Japanese press reports, Prime Minister Abe already has indicated that Japan would be willing to shoulder some of the cost of North Korea's denuclearization under an international framework. Abe told a TV network: "Since Japan and other nations would be able to enjoy peace if the nuclear threat were removed, it makes sense for us to shoulder the costs. For example, we could create a new organization as a way to move forward on the issue." Abe also stressed that this would not be tantamount to directly funding North Korea since economic assistance would be offered "after comprehensively resolving the nuclear, missile, and abduction issues and normalizing diplomatic relations."

In another press interview, Abe said: "A big decision by Chairman Kim is necessary" to resolve the abduction issue. He added: "Ultimately, Kim and I will have to meet. I want to foster a relationship of trust with North Korea." Abe stressed that a Japan-DPRK summit would be premised on the resolution of the abduction issue. Although the press has speculated that such a summit meeting could be as early as August or September, Chief Cabinet Suga has dismissed such reports as speculation.

With Abe's stated willingness to pay in part for North Korea's denuclearization expenses, what do the Japanese people think? Sankei's latest opinion poll showed that almost 70% of respondents expressed opposition to a GOJ plan to shoulder some of the cost of verifying the steps toward denuclearization taken by the Kim regime. According to the daily, 82.5% said the denuclearization of North Korea is unlikely despite the Singapore summit, whereas almost three out of five were pessimistic about progress on the abduction issue. Some 37% said Kim outperformed President Trump in the Singapore sit-down, while approximately 19% said the opposite.

US Expects Japan to Pay for DPRK's Denuclearization

On the issue of North Korea's denuclearization, the United States expects Japan to play a "significant" role in shouldering the costs of such, as well as provide the DPRK with economic development assistance. In an interview to Kyodo News on June 15, US Ambassador to Japan William Hagerty said: "Japan is the most logical partner given its proximity to help with the economic development of North Korea. It's very logical that Japan's role would be significant in this area."

After his summit with Kim Jong Un on June 12 in Singapore, President Trump said Japan and South Korea as US allies would be prepared to help North Korea "very greatly" with the cost of denuclearization. At the summit, Trump also promised to provide Pyongyang with "security guarantees" once it committed itself "to work toward complete denuclearization of the Korean Peninsula." Those guarantees include suspending large-scale military exercises with South Korea in order ease tensions and allow US-North Korea negotiations to proceed more

smoothly. Ambassador Hagerty, however, rejected concerns that the suspension of the exercises means a reduced US commitment to the Northeast Asia region, saying Washington's "security to this region remains unchanged." He added that maximum pressure and sanctions will remain in place until Pyongyang makes verifiable progress in denuclearization.

On the issue of past abductions of Japanese nationals by North Korea decades ago, Hagerty said Trump raised the issue "twice" during the one-day meeting with Kim, following Japanese Prime Minister Shinzo Abe's requests to do so. "The US has been Japan's most reliable partner on this issue in the world and I don't expect to see any change in our posture there," Hagerty said.

To put everything into perspective up until the historic Trump-Kim summit in June, **Jon Foissotte** has written an insightful paper that greatly deepens our understanding of the dynamics of Korean Peninsula geopolitics over the years until now.

Foissotte's essay explores the challenges and opportunities facing the US-Japan relationship as it evolves to cope with the rapidly shifting state of affairs centered on North Korea. He does so by examining how joint policy responses over time have shaped the institutions which govern the relationship. Drawing on the literature of institutional change, Foissotte builds an analysis of how joint planning in defense and diplomacy between the two alliance partners has been shaped across the history of relations among North Korea, Japan, and the United States. Following this, a review of the recent whirlwind of summitry between regional stakeholders aims to place these broader trends into a contemporary context. The paper then integrates these elements together to evaluate the shifting tectonics of contemporary regional diplomacy and identifies specific vulnerabilities in the alliance that should be addressed by policymakers and alliance managers.

The paper concludes by emphasizing the United States and Japan must deepen coordination in ways that enable the alliance to guard against the potential for North Korea to drive wedges between the two countries' strategic and diplomatic postures, as well as between those of the alliance and other regional actors.

No Clear Path for Improved Japan-South Korean Ties

Due to the sudden decision of South Korea's President Moon Jae-in to pursue peace on the Korean Peninsula by meeting North Korean leader Kim Jong-un, followed by the historic summit meeting between Trump and Kim, Japan has had to scramble to keep up with the rapidly changing environment. Abe has moved from a maximum pressure stance toward North Korea to one that favors dialogue. At the same time, it has become even more important that trilateral cooperation among the US, ROK, and Japan be maintained so that all are on the same policy

pages, and can again ratchet up pressure toward the North if the denuclearization process ends up still born.

But what has this tectonic shift of Korean Peninsula policies meant for Japan's heretofore icy ties with South Korea? While the comfort women issue remains as an irritant in the bilateral relationship, President Moon has shown himself to be willing to promote better political ties with a receptive Japan.

According to Kyodo Press on May 28, 2018, South Korea's Foreign Ministry has launched a task force for promoting better cultural and grass-roots ties between the ROK and Japan. Until now, historical and territorial issues have dominated the rhetoric between the two countries. The task force consists of government and private-sector individuals and will come up with a set of "bold proposals" that will improve ties between the two peoples.

For decades, popular views in each country have been negative. What about now? Japan's Genron NPO and South Korea's East Asia Institute released in mid-June (Kyodo, June 19) an annual survey of views of the public in each country. Only 28.3% of South Koreans had favorable toward Japan. The figure was 26.8% in 2017. And in Japan, only 22.9% of the public had favorable feelings toward South Korea, down from 26.9% in 2017.

In December 2015, Japan and South Korea reached an agreement on the long festering issue of comfort women (women forced to serve the Japanese military during WWII) that was supposed to have resolved it forever. But the agreement was never accepted by the Korean public. Moreover, the current government under Moon has raised questions about the agreements validity. In addition, the South Korean government now plans to draw international attention to the comfort women issue as "sexual violence against women during wartime."

Foreign Minister Taro Kono, whose father Yohei Kono authored the first official statement of apology for the comfort women in 1993, was quoted in the press on June 19 as saying: "It runs counter to the spirit of the comfort women agreement.... As I just agreed in talks with my South Korean counterpart to improve bilateral relations, I am skeptical about the new policy. South Korea must be fully aware that that if such a policy is pursued, it would make it difficult to build a future-oriented relationship." The Abe government considered the problem resolved and has no intention of pursuing conciliation on that historical issue any further.

Abe's Defense Strategy Driven by Changing Security Environment

Japan's military buildup is not necessarily the simple result of having a prime minister with nationalistic views; it indeed started during the liberal rule of the Democratic Party of Japan (2009-2012) and the need to respond to both the escalating North Korean threat and China's maritime aggressiveness in the East China Sea, as well as the South China Sea (through which most of Japan's commercial shipping traverses). Second, the urgings and expectations of Japan's

ally, the U.S., starting with the Obama administration's rebalancing to Asia have put pressure on Japan to upgrade its equipment, strategy, and enhance cooperation with the US forces. Recently, alliance coordination has started to include the ROK, positing a trilateral response to a Korean Peninsula contingency.

So the current level of the SDF's capabilities, including internal coordination, has been evolutionary and a logical reaction to external forces that threaten Japan, including its very existence (North Korea). The proactiveness of PM Abe has helped focus policy to counter China, but it did not create the problem that China poses to Japan in regional waters.

Realization of the increasingly dangerous security environment is why there has not been a strong public reaction to that buildup and the upgrading of the Alliance with the US. True, there were demonstrations against the reinterpretation of the Constitution to allow a limited use of the right of collective self-defense, incorporated in the updated US-Japan defense guidelines and the security legislation (2015) that enabled them. But that brief outburst of open disapproval has subsided and the new legislation has largely been accepted by the public.

The defense budget has been rising under Abe but incrementally and largely for big-ticket items that are needed for the defense of Japan. It is still under the traditional 1-percent of GDP cap.

There has been talk about introducing controversial long-range missiles but that seems to have subsided, perhaps because of public disapproval. The new helicopter-carrier Izumo has not stirred up much public anxiety, either, mainly because its activities to date have been linked to escorting US naval vessels in international waters, as well as in defense exchanges with ASEAN military officers for training in disaster relief and search and rescue operations.

The breakout of peace on the Korean Peninsula with ROK-DPRK and US-Japan summits in early to mid-2018 has changed Japan's defense equation in ways that have yet to play out. If US negotiations with North Korea reduce not only the ICBM threat to the US, but also the medium-range missiles aimed at Japan, Abe's strategy to build up Japan's capabilities could be blindsided. If so, the shift in regional security could ensure that the SDF while Abe is in office will likely not ratchet up precipitously its capabilities to defend the homeland and cooperate with the US in the region.

The Japan fiscal-year 2018 defense budget, up for the 6th year in a row, includes spending to address China's maritime expansion. The Japanese government plans to put in place capabilities to prevent the invasion of outlying islands and to retake them if such a need were to arise. The Defense Ministry (MOD) last March launched the Amphibious Rapid Deployment Brigade to handle such operations on Japan's outlying islands. The brigade, based in Sasebo, when fully formed will include about 3,000 troops and their armored vehicles, heavy weapons, and helicopters.

Japan's Maritime Self Defense Force also last March commissioned a second vessel in its newest class of destroyers with amphibious application, since they can carry up to nine helicopters. The Japanese marines will depend on those ships in a contingency.

In the JFY 2018 defense budget, MOD will procure a variety of equipment, including Ospreys, vertical takeoff and landing transporters capable of transporting troops to outlying islands. MOD is also requesting funds to introduce air-to-surface missiles that can attack enemies on the ground from the air. Over 300 Japanese troops have been undergoing amphibious training with US Marines at Camp Pendleton, twice in 2017 and again this year.

Obviously, the new amphibious unit is no match for China's mammoth amphibious force, so Japan would still need to heavily rely on the US Navy and Marines stationed in Japan to balance out. Its existence, though, adds somewhat to the deterrent capability of the US-Japan Alliance.

The new Brigade, when it is up to full size, could in theory take back one of Japan's remote islands if it is invaded by a foreign force. In reality, the chance that that capability would ever be used is quite low. But it does demonstrate that Japan is gradually filling in the gaps in its defense armor so that when the SDF is eventually recognized as an armed force by an explicit mention of its existence in the amended Constitution. And that capability must be looked at in the context of all of the other changes in the roles and missions of the SDF under the new defense cooperation guidelines with the US — and the equipment that is gradually being acquired to accomplish them.

The roll-out of the new amphibious unit is no surprise to the Japanese public; it has been covered by the news media since Prime Minister Abe first placed it on his priority agenda after he took office. Since it is designed to protect the exposed southern flank, hundreds of small, remote islands (including the Senkakus, still a potential flashpoint with China), it seems likely that the public views the development of such a capability as a positive step in the defense of Japan. It will not likely get swept up in the debate over changing Article 9 that will come later this year after the LDP releases its proposed amendments to the Constitution.

China knows of the unit's existence and capability, and that it is intended to deal with Chinese aggression against the remote islands. It would be surprising if Beijing reacts strongly to something it has long ago factored into its strategic thinking.

Oddly enough, however, pressure on Japan to reduce the trade deficit by buying state-of-the-art US military equipment could become a new rationale for the Abe government to build up

the SDF's capabilities, even to the extent of undermining Japan's defense-only procurement policy. According to press reports in early 2018, the MOD is considering the purchase of dozens of additional F-35s to deflect US pressure to correct Japan's perennial trade imbalance with the US. Japan already has committed to buying a total of 42 F-35s for the Air SDF to replace superannuated F-4s. But now, MOD is thinking of buying more to replace F-15s. The aircraft in mind is the F-35B, a marine variant designed for amphibious assault operations. It could be used to defend Japan's remote islands, but it also has potentially offensive-like capabilities.

This issue of the yearbook has two papers on Japan's security arrangements with the United States. **Ji Hoon Yoo** examines with expert detail the implications for the Alliance of Abe's plan to revise Article 9 of the Constitution to explicitly mention the Self-Defense Forces as Japan's armed force, as well as the new roles and missions of the SDF from the reinterpretation of that article in 2015. **Peng Hui** in his paper takes a long look at the US nuclear umbrella both in historical retrospect and as now challenged by the changing security environment in the region.

Okinawa Basing Issue: Never Ending Story

The key question for solving the Okinawa basing problem is why over the past 22 years have the governments of the US, Japan, and Okinawa been unable to reach a satisfactory resolution to the political dispute over closing a US Marine base, MCAS Futenma, and relocating a part of its function elsewhere in the prefecture. Futenma has become symbolic of the overall basing problem in Okinawa, where over 70% of US bases in Japan are concentrated.

Jane Schott, in a penetrating paper on that dilemma, traces the political history of the Futenma relocation issue and concludes that the fault for its remaining open lies in all three political directions. The US, Japan, and Okinawa must all share responsibility for the failure to fulfill a 1996 promise to relocate and close a base that is deemed "dangerous" because of its location in a densely populated part of Okinawa. Because of the stalemate, other installations slated for reversion and troop transfers off Okinawa have been delayed.

At this writing, the project to relocate Futenma to a remote part of northern Okinawa is again going forward, despite the many legal blocks thrown in its way by the governor. In the meantime, however, Futenma remains open and may or may not be finally closed in 2022, when the replacement project at Henoko in northern Okinawa is expected to be completed. If the past is our guide, it would be no surprise if there are more twists and turns of this seemingly never-ending story lying ahead.

Japan Skirts Direct Security Role in the South China Sea Dispute

A great part of the regional responsibility of US naval forces stationed in Japan lies in the waters of the South China Sea. It is clear why the US has opposed China's maritime assertiveness in South China Sea, with claims on waters and islands covering most of the region. For most of its history, the US has actively promoted freedom of the seas for economic and security reasons. The South China Sea is a vital thruway for global commerce, linked to the Asia-Pacific region's economic progress. The importance of Asia-Pacific sea lanes for global trade cannot be overstated. Eight of the world's 10 busiest container ports are in the Asia-Pacific region, and almost 30 percent of the world's maritime trade transits the South China Sea annually, including approximately \$1.2 trillion in ship-borne trade bound for the United States. Approximately two-thirds of the world's oil shipments transit through the Indian Ocean to the Pacific, and in 2014, more than 15 million barrels of oil passed through the Malacca Strait per day. For Japan, too, commercial shipping through those waters is its very lifeline. For that reason, the US Navy continues to carry out freedom-of-navigation operations in the South China Sea

Ruohao Shen, in his thoughtful paper on the subject, places Japan into the South China Sea equation. He examines in detail the policies of the Japanese government toward that region as they evolved. He then posits the possible role that the US-Japan Alliance might play and what joint approaches would be feasible. Of importance, however, is not the military component of Japan's policy agenda toward the region. Japan, under Prime Minister Abe, is tightening ties with ASEAN countries through finely tuned diplomacy and official development assistance in order to build regional capacity for further engagement as China's military presence continues to grow. The question, however, is what will come next? How will China respond to Japan's increased involvement in regional affairs, and how will Japan deal diplomatically with China in a way that is not directly confrontational?

Shen's conclusion is that Japan is shifting from an assistant balancer to a regional capacity-builder thanks to Abe's efforts. But such a tactical change may sooner or later run up against bigger challenges, given Japan's averseness to becoming directly engaged militarily in the region, even in tandem with its ally the US.

Japan's Foreign Aid Takes on Strategic Proportions

Official Development Assistance (ODA) has long been one of Japan's leading foreign policy tools. This soft-power approach to international relations is unique – rooted in that democracy's commitment to peace under its pacifist Constitution. Since its emergence as a diplomatic tool in the 1950s, Japan's aid program has been transformed with the times, evolving from a reparations system following World War II to a vehicle for mercantilism during its reconstruction and high-growth years, then to an instrument that quietly supported democratic

ideals, as well as US strategic goals throughout the Cold War, and then over the past several decades to a leading global institution for the promotion of human progress. Today, the nature of Japan's aid program is changing once again – and, this time, it is tilting in the direction of becoming an instrument linked with Japan's security policy.

In her meticulously researched paper, **Elisabeth Sweeney** argues that the strategic transformation of Japan's ODA under the administration of Prime Minister Abe was largely the natural culmination of a policy evolution, spurred on in recent decades by a changing international environment affecting Japan's national interests and compelling it to enhance its role in the international community. Still, the implication of this strategic transformation is significant, since it could threaten the legitimacy and effectiveness of Japan's overall development efforts. Traditional ODA policy emphasized: humanitarian considerations; recognition of interdependence among nations of the international community; environmental conservation; and support for self-help efforts of recipient countries (ODA Charter 1995).

Today, Japan is deploying aid strategically in three ways: 1) promoting economic growth initiatives to benefit its own private sector and domestic economy; 2) making aid policy decisions of a strategic nature without coordination with the United States; and 3) advancing Japan's national interests abroad, especially in Asia, through security-related uses of ODA resources. These policy shifts are understandable, given the dangerous international environment around Japan and in various other key regions of the world, but using ODA in such uncharted waters for Japan could seed new challenges for it in the future. That is to say, Prime Minister Abe's diplomatic agenda – the use of soft power tools with hard power features – may not be sustainable, creating a contradiction between traditional human development programs and others intended to explicitly forward national security and economic growth.

Tense Relations with China Easing

Prime Minister Abe's recent moves to ease strains with China add a new dimension to his China strategy that had been based on countering Chinese military assertiveness in the East China Sea and encircling China diplomatically and economically by building partnerships with states on China's periphery, such as India. The chances of conflict between Japanese and Chinese vessels in the waters around the contested Senkaku Islands (Diaoyu in Chinese) have been decreased. A hotline between Japanese and Chinese military commands is now being set up. Still, Japan is not letting down its guard. Even if such moves lead to reduced tensions in the East China Sea, Japan's buildup in that region remains as a strong deterrent factor in the future.

By the beginning of 2018, the Abe administration quietly surfaced a plan to improve relations with China and thus improve regional stability, starting with building an economic partnership. Earlier, at the beginning of December 2017, Prime Minister Abe indicated his

willingness to work with China on its “One Belt One Road” Initiative, which aims to pour investment into infrastructure development in Asia. Newspapers reported in early January that the administration was planning to finance environmental and energy conservation projects sought by Chinese enterprises as part of President Xi Jinping’s signature initiative.

The papers also reported that Tokyo plans to seek partnerships for four infrastructure projects in Africa, including bridge and road construction in Kenya. According to the report, the Abe government hopes to use improved ties with China to elicit Beijing’s cooperation in dealing with the North Korean nuclear and missile threat.

Improved political and economic ties with China are being reflected in opinion polls. According to a Saitama University-Yomiuri Shimbun poll of Japanese views carried out since 2014 and released in late December 2017, affinity with China was at its highest in four years, reversing a trend of souring relations set off by the territorial dispute in 2010.

Interestingly, the same poll showed affinity toward the US in 2017 dropped sharply, reflecting the Japanese public’s views of the Trump administration’s policies rejecting TPP, the global climate change accord, and favoring protectionist trade policies.

Abe’s Indo-Pacific Strategy: Containing China?

Prime Minister Abe since his first time in office (2006-2007) has been building a broad diplomatic strategy toward the Indo-Pacific that has now become his brand foreign policy. But it soon became type-cast as a policy to encircle or contain China’s influence in the region. The Abe administration is now pushing back on that categorization of the policy. According to a Kyodo News report on March 23, 2018, an aide to the Prime Minister denies that the Abe administration’s Indo-Pacific strategy is aimed at containing China or any country. Nor was it intended to threaten the unity of ASEAN nations, as some critics have charged.

Speaking at the Mekong-Japan Cooperation Forum in Phnom Penh, Kentaro Sonoura, special adviser to Prime Minister Abe, said: “Certain people take the position that this ‘strategy’ is aimed at containing some countries. But let me stress that that sort of perception is completely wrong.” “We think it is possible to cooperate with any country that supports the principles of the strategy. Also mistaken is the opinion that this strategy threatens ASEAN’s unity and centrality,” Sonoura argued.

The concept of a Free and Open Indo-Pacific Strategy is not new as Abe was a strong advocate of it during his first term from 2006-2007, Sonoura said. He noted that Abe had given a

speech entitled “The Confluence of the Two Seas” to the Indian parliament in 2007, in which he referred to the Indian and Pacific oceans as remaining a free and open region.

But is this necessarily true, particularly after the Trump administration has come into office? Responding to such concerns, Sonoura clarified that Abe’s strategy is designed to maintain and strengthen a free and open maritime order in the Indo-Pacific region based on the rule of law. Reaching that goal involves promoting peace and stability in the region centering on ASEAN, and improve connectivity between the Asia-Pacific region, now experiencing dynamic growth, and the Middle East and Africa, which are set to take off economically.

Yiou Zhang, in her paper on the Japan-India ties, puts Abe’s strategy into a specific context. The relationship between Japan and India has witnessed a tremendous improvement over the past decade, especially with its elevation to a “strategic partnership” in 2014. Under that rubric, both countries have committed to implement a wide range of projects from infrastructure investing to defense equipment sales to Japanese language promotion. Many of these initiatives exhibit a strategic angle in terms of geopolitics, regional security and long-term economic prosperity, but the policy goes far beyond being a device to “contain” China’s growing influence. The aim of mutually benefiting each other’s economy remains paramount.

But ambitious as these projects are, the intended gains from these activities are largely unfulfilled at this moment due to challenges with on-the-ground implementation. While Zhang’s paper details the success side of the Japan-India partnership and its five different features, drawn from international relations theory, her analysis also gives due attention to the persistent constraints on achieving such a partnership.

Japan in a Maelstrom of International Disorder?

The postwar liberal international order created and led by the United States seems to be unraveling, what with global power shifts, regional challengers and disputes, rivalry among the major powers, and the destabilizing forces unleashed by the presence at the helm in the US of an unpredictable and unstructured president who has removed the US from the TPP, abandoned the climate change agreement, and, in violation of WTO rules, threatens to launch a global trade war with unilateral tariffs and other actions.

Where is Japan in this maelstrom of international disorder? Some of the papers in this yearbook seek to answer this question. To their credit, the authors not only see the challenges for Japan but also the opportunities. In essence, Japan may emerge from the international ordeal stronger, wiser, and taking an uncommon leadership role, as we will see in the remaining papers summarized below.

Trade: Is Japan Taking the US to the Cleaners?

Prime Minister Abe must have been quite upset when his friend Donald Trump hit Japan and other US allies with steep tariffs on steel and aluminum, citing “national security” as the reason (Section 232 of the Trade Expansion Act of 1962). All of Abe’s input of political capital including golf summits and numerous phone calls did not pay off. Even more disconcerting was the Trump administration’s announcement that it was considering slapping a 25% tariff on imported autos, again for a “national security” reason. Abe has repeatedly told the US President essentially that 75% of Japanese brand autos sold in the US are already manufactured in the US, creating numerous American jobs. Abe blasted the planned tariff as “unwarranted and offensive.” The impact of the possible tariffs could amount to over 1 trillion yen or about \$10 billion.

The Japanese auto industry has begun to push back. The Japan Automobile Manufacturers Association (JAMA) issued a report on June 18 that Japanese automakers directly hired 92,710 employees as of 2017, more than triple the 28,571 taken on in 1990. Cumulative investment amounted to \$48.3 billion last year, up from \$6.2 billion in 1990 (Kyodo News, June 20, 2018).

The report, based on data by Toyota and other carmakers, including Nissan Motor Co. and Honda Motor Co., said of the 92,710, 65,526 are employed in manufacturing, 5,759 in research and development and design, while 21,425 are in sales or working at company headquarters.

Responding to automaker concerns about a punitive tariff on auto imports into the US, JAMA Chairman Akio Toyoda said on June 8 (Kyodo), “JAMA member companies today operate 24 manufacturing plants and 44 research and development or design centers in 19 US states, and in 2017 nearly 3.8 million vehicles were produced by American workers at those facilities.”

Japanese automakers also are concerned that the Trump administration may demand more imports of US autos since it has repeatedly accused Japan of maintaining nontariff barriers for its automobile market. The Japanese side has responded that such do not exist, citing the increasing sales in Japan of European autos.

Japan’s economy could be threatened by a trade war launched by the Trump administration. Economists agree that Japan as a mercantile state has to export in order to survive. Void of natural resources, it is not self-sustainable like the US. Almost all of its raw materials and energy resources are imported, and the country is only 39% or so food self-sufficient. Much of that gap is imported from the US. So economic interdependence with major trading partners like the US is essential for Japan’s very survival. In short, the structure of

Japan's economy requires it to heavily import low value-added goods and export high value-added goods. And a structural bilateral trade imbalance with the US has existed for Japan since the 1970s. The US' trade deficit with Japan in 2017 was \$69 billion, about the same as in 2016. The US traditionally has run substantial surpluses in trade in service with Japan, a fact that is ignored in trade politics.

In his penetrating paper probing the growing bilateral trade spat, **Steven Pelcovits** sees both the negative and positive aspects of the trade policy of the Trump administration. While the president's protectionist tendencies have damaged trade, some of his actions have the potential to directly or indirectly promote two-way investment. The question is, however, whether the Trump administration gives credit to the vast amount of investment that Japan has already put into the American economy and will continue to do. While it is too early to assess the impact of the Trump tariffs so far, the outlook for a trade war between the US and its trading partners does not bode well for either the US or the global economy.

But the US administration continues to double down. Ambassador Hagerty, in his Kyodo Press interview on June 15, said that the US and Japan must now address through bilateral talks outstanding trade issues, such as the tariffs on aluminum and steel imports as well as the national security investigation into auto imports. The first round of a new cabinet-level dialogue on trade and investment will be held in July. It is not at all clear, though, what Japan could possibly do, once it has been branded as a national security threat for selling goods in the US market.

The Trump administration in levying such tariffs provides no solutions, either. Ambassador Hagerty denied the possibility of the US returning to the Trans-Pacific Partnership (TPP) fold, saying that the US Congress would not allow it. Trump pulled the US from TPP in January 2017. Since then, Japan and the 10 remaining TPP member states have signed a revised version of the pact without the United States, hoping to implement it by the end of this year. Japan has said it is open to the United States rejoining the group after Trump said earlier this year Washington will consider doing so if it is able to negotiate a "substantially better" agreement.

But is there anything better coming down the trade negotiation track? The Ambassador stated, "I hope the people in Japan can understand the political reality is that we do not have adequate support for the TPP. That is a dead-end conversation. We have to find a new path to work together on trade." It is not at all clear what that new path might look like.

Beyond TPP: Japan Takes Lead for Regional Architecture

Yet, as **Menglei Lin** argues in her well-researched paper on the TPP-11, the US by leaving the agreement has ushered in a new regional architecture, ostensibly led by Japan, that leaves the US isolated and losing out on the benefits of the new regime.

In essence, Lin asserts, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) or TPP has become a game-changer for Japan, which up until now had stayed in the background of the globalization scene, and a slap-in-the-face for the United States, which has under Trump abdicated its role as leader of the international order. With the US abandoning its long-held principles and institutions, the other country is rushing to build new ones.

President Trump's rejection of the international trade order in favor of unilateral protectionism not only has shocked US trading partners but also has perplexed the globalized American business world and other free traders. In contrast, Japan, which has eschewed regional leadership for decades since its last try failed, now recognizes the value of a liberalized and open regional system that the US under President Obama had fought to achieve. For Japan, therefore, the implications of its taking the lead on forging a CPTPP agreement extend far beyond immediate economic calculations.

Japan's LNG Strategy

One area that is overlooked in the trade rhetoric is the fact that Japan has the potential of becoming one of the US' major importers of LNG, derived from the seemingly bottomless fount of shale gas now being extracted across America. In her well-researched and insightful analysis on LNG trade, **Zhuxuan Fang** not only explores the rich cooperation that is bringing US LNG to Japan, but also the new potential for the US and Japan to develop other LNG markets in the world.

The Fukushima Daiichi nuclear power plant accident in 2011 shocked Japan and pressed the country to further diversify its sources of energy, including the relatively clean fossil fuel, natural gas. In the meantime, the shale revolution has transformed the United States from a natural gas importer to a major exporter. The arrival of US-produced natural gas on the global market in turn has created a new dynamic, based on supply and demand. To track those changes, Fang starts by introducing the trajectory of US-LNG trade, especially the changes after the world natural gas price fell. She then analyzes the advantages of, as well as the constraints on, the development of US-Japan LNG trade.

The advantages of purchasing US LNG are obvious: it has no destination restrictions, and it increases the diversity of Japan's LNG import by region, contributing to its energy security. But there is a down side, in that complex constraints, legal and otherwise, on US-Japan

LNG trade exist, making it hard to predict the future of this market. Nevertheless, at this point, US-produced LNG serves as an important part of Japan's energy map.

Moreover, the LNG connection becomes even more significant when considering bilateral LNG cooperation outside of the United States, such as the LNG infrastructure building in Asia's developing countries and the integration of a global LNG market. The takeaway from it is that both countries need to develop a strategic plan on how they intend to involve with the future growth of LNG demand in Asia together.

Abe's Infrastructure Export Policy Meets Receptive US Environment

There is another aspect of US-Japan trade relations that the Trump administration again seems to be overlooking: Japan's willingness to provide for infrastructure investment in areas of the US economy where such is lacking.

Joon Young Kwon's paper fills the academic gap on this important subject. In describing the driving forces that have let the Abe government to focus on infrastructure exports to help grow Japan's sluggish economy, it uses the case study of the US in contrast to the standard focus on emerging markets in Asia. He concludes , this paper found that Japan's infrastructure export strategies to US entail much more global implications than their bilateral relationship and aim to further cement their presence in Southeast Asia markets and revitalize their economy.

In using the case study of JR Central, Kwon sheds light on what Japanese companies have been doing in their efforts to promote infrastructure exports. But he also puts Japan's infrastructure exports strategy into a global context by assessing Japan's fledgling cooperation with third countries like the US in emerging markets.

Acknowledgements

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For many of the authors of the papers in this yearbook, the research trip to Tokyo in mid-semester is the highlight of the course, allowing them to gather unique information and insights into their topics from living experts, supplementing their research into the libraries and Internet resources at home. Our special thanks to Dr. Kent Calder, Director of Asian Studies and the Reischauer Center, for helping to set up this trip with his invaluable advice and guidance and incredible access in Tokyo. Our deep appreciation goes out to the Japan Foundation's Center for Global Partnership (CGP) for again sponsoring this year's trip.

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support in Washington and Tokyo that made the trip possible. Our special thanks to Ms. Izumi Sano, the Reischauer Center's agent in Tokyo for her expert handling of lodging and other important details. We also thank our visiting fellows for their advice and in some cases helping to arrange meetings with their home institutions or agencies in Japan.

It is impossible to thank all of the individuals from government, academic, think-tanks, business and political circles who made themselves available for meetings and interviews in DC and Tokyo. We thank the Public Affairs Officer Margot Carrington at the US Embassy in Tokyo for facilitating another outstanding group briefing on key aspects of the US-Japan relationship. We also appreciate the willingness of the Japan Institute for International Affairs (JIIA) to set up an illuminating briefing by several experts on issues relevant to this year's research topics. We sincerely thank Mr. Robert Dujarric, director of the Institute of Contemporary Asian Studies at Temple University Japan for again arranging a group briefing tailored to the students' research projects.

Again this year, the cultural highlight of the trip to Tokyo was an introduction to Chano-Yu, the Way of the Tea, at the Urasenke School of Tea Ceremony's most distinguished institute in Tokyo, Horaian, located in the Roppongi area. After witnessing the making and taking of tea, under the guidance of Tomoko Abe-Sensei, the students were given the chance to make their own bowls of tea with various degrees of success.

LNG Trade and Cooperation between Japan and the United States

By Zhuxuan Fang

Introduction

Japan's high demand for fossil fuels after the 2011 Fukushima Daiichi nuclear power accident that shut down plants across the country, coinciding with the US shale-gas revolution, opened the way to an increase of exports of US liquid natural gas (LNG) to Japan. In short time, in order to replace lost nuclear power capacity, Japan invested heavily in US LNG projects to secure additional supply for its electric power plants. However, when the first cargo of US shale LNG arrived at Chubu Electric's Joetsu LNG terminal in 2017, the market had already changed. As the price of natural gas subsided after mid-2014 due to oil price decline and a supply glut appeared around the globe, US LNG – delinked from oil prices -- became less attractive. Moreover, after the shock of the Great East Japan Earthquake that resulted in nuclear power plants being turned off line, Japan went through a national debate about nuclear and other sources of power, including renewables. National consensus not only became wary of continuing with nuclear power, but also favored a shift toward renewables, in order to keep Japan's international commitment to reducing greenhouse gas emissions. Such a commitment works against continuing to increase the use of fossil fuels, LNG included.

This is not to say that US-Japan LNG trade and cooperation will be short-lived. On the contrary, such trade and cooperation will remain a relevant issue for both economic and political reasons. For example, in February 2017, as Prime Minister Shinzo Abe was about to meet with President Trump in Washington on the 10th, he put together a package of plans for Japanese companies to invest in infrastructure and job-creation projects in the United States. One of the ideas was to offer to increase liquid natural gas (LNG) imports from the United States. Once Abe determined that Trump would focus on the trade gap, Japan would offer to increase imports of US shale oil or gas on top of the investment package.²¹ The political sway of US-Japan LNG trade should not be overstated, since LNG trade in both countries is largely market-based, and Abe, in putting such an offer into effect, would need to first persuade the firms to go along with his proposal. But the very idea of using LNG trade as an instrument to improve US-Japan ties testifies that LNG trade will likely continue to receive political push, despite the many market-related challenges.

Interestingly, the United States and Japan are planning to expand LNG cooperation to focus on third countries. There will be a major increase of natural gas demand in China, India and ASEAN countries over the next 15 years. Both Japan and the US, using their advanced LNG infrastructure-building experiences, now envisage investing to satisfy such rising demand. In

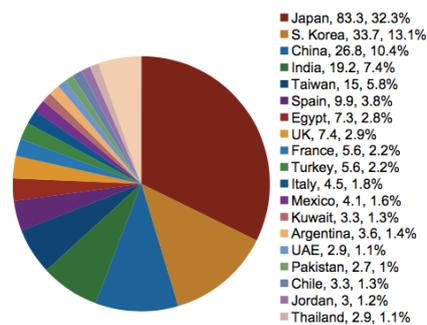
2017, Japan and the US signed an initiative called the Strategic Energy Partnership (JUSEP), aiming to work in tandem with each other on LNG development and infrastructure building.² In addition, the notion of reselling of Japan-bought US LNG emerged in recent years. Since US LNG has no destination clause, Japanese firms could take advantage of the low price of LNG in the domestic market and sell it to third countries.

Given these rapidly changing developments in the US energy market, this paper analyzes the current state and future prospects of US-Japan LNG trade and cooperation. It will further point out that while US-Japan LNG trade remains important today, predicting future trends is complex and difficult. Still, it is still useful to have a clear picture of the current situation at this stage, if Japan and the United States are to benefit from energy trade relations in the future. This paper is divided into three parts: the first part will focus on the current state of US-Japan LNG trade, the second will introduce the benefits as well as the constraints for Japan of importing LNG from the US, and the third part will introduce how the US and Japan are cooperating on LNG projects in other countries.

Part 1: The Current State of US-Japan LNG trade

Japan imported the first shipment of US LNG from Alaska in 1969, which continues today, though it is only 1% of the total coming from the US. Today, Japan has become the world's largest LNG importer, comprising about 30% of world LNG import (Figure 1.), but little of that comes from the US.

Figure 1. LNG Imports and Market Share by Country (in MTPA)

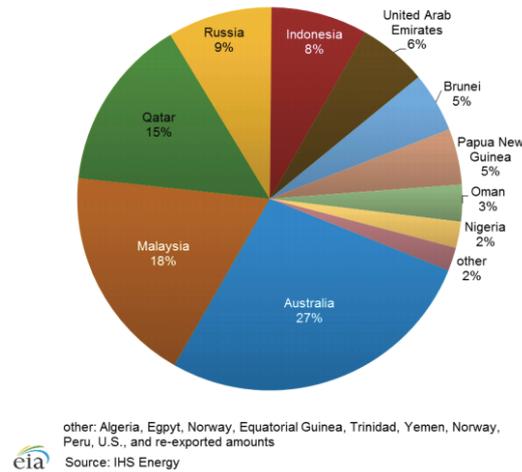


Note: Number legend represents total imports in MT, followed by market share %; "Other" includes countries with imports less than 2.5 MT (by order of size): Singapore, US, Portugal, Puerto Rico, Belgium, Malaysia, Brazil, Lithuania, Poland, Dominican Republic, Greece, Netherlands, Israel, Canada, Jamaica, and Colombia. Sources: IHS Markit, IGU

(Source: IGU 2017 World LNG Report)

From 2010 to 2016, Malaysia, Australia, Qatar, and Russia were the four largest suppliers of LNG to Japan by origin (Figure 2).³ On this graph, LNG from the US is not even listed, it is still so small.

Figure 2. Japan's LNG Imports by origin, 2016



(Source: HIS Energy)

It is worth noting that even after the US shale revolution, the export of US LNG to Japan did not grow immediately. This is because US authorities have strict regulations on shale gas export to non-free trade agreement (FTA) countries. On top of that, there is always a time lag between LNG contract making and actual shipment. Indeed, as early as 2012, Sumitomo Corporation and Tokyo Gas started to negotiate a Terminal Service Agreement (TSA), enabling Dominion Energy of Virginia to build a new LNG liquefaction plant to export LNG to Japan.⁴ As a result, the first cargo of Cove Point LNG arrived in Japan in 2018. In fact, the very first cargo of shale LNG did not arrive in Japan until 2017, which means that there is a long lag between the negotiation of contracts and the building of LNG infrastructure (especially the liquefaction plant).

At this point, Japanese firms have negotiated 3 major LNG projects with US firms, namely Cove Point Project, Freeport Project and Cameron Project. If all the LNG purchased by Japanese firms were shipped back to Japan, it would reach almost 20% of Japan's total volume of LNG imports (using 2016 figures), which would be more than enough to serve the Japanese energy market.

Cove Point Project

In February 2014, Sumitomo Corporation and Tokyo Gas established ST Cove Point LLC, aiming to work in collaboration with Dominion, which is the operator of the project in Maryland. The plan is to procure 2.3 million tonnes (a tonne is a metric unit of weight equal to

1,000 kilograms (2,205 lb)) LNG per year liquefied by Cove Point Project and sell it to Japan. The project has a license of export of US LNG to non-FTA countries issued by Department of Energy (DOE) in 2013. While 1.4 million tonnes are to be sold to Tokyo Gas Plus Co., Ltd, another 0.8 million will be sold to Kansai Electric Power.⁵

The construction of the liquefaction facilities began in October 2014. It now being complete, the first cargo of Cove Point LNG arrived in Japan in early 2018.⁶

Freeport Project

In July 2012, Osaka Gas and Chubu Electric Power executed a 20-year, use-or-pay, binding liquefaction tolling agreement with a subsidiary of Freeport LNG Development, L.P.⁷ According to this agreement, a new train for liquefaction will be built in Freeport, Texas, and Osaka and Chubu Electric will each obtain 2.2 million tonnes of LNG per annum, together 4.4 million tonnes of LNG capacity. According to the plan, Freeport LNG Development would obtain US government permission to export LNG to Japan and other countries without an FTA with the United States. The imported LNG will be based on Henry Hub price (Pricing of natural gas is based on the price at Henry Hub, Louisiana, a distribution center). In 2013, DOE gave Freeport LNG the authority to export more LNG from its planned LNG terminal, making Freeport LNG the second company in the United States to obtain permission to export LNG to non-FTA countries with the United States. Also, Freeport LNG has reached liquefaction tolling agreements with Toshiba.

In 2014, the two Japanese companies decided to invest in the Freeport LNG Project, so the construction of natural gas liquefaction and LNG loading facility on Quintana Island near Freeport, Texas, involving the development of three trains, could proceed smoothly. Other companies also invested in the construction of the three trains.⁸

The first cargo of LNG purchased by JERA, a joint venture of Tokyo Gas and Chubu Electric Power, was loaded at Sabine Pass Terminal in Louisiana, and arrived at Joetsu LNG Terminal of Chubu Electric Power Company in January 2017.⁹

But problems occurred when the price of natural gas dropped. Toshiba signed a 20-year contract with Freeport LNG project in 2013, procuring 2.2 million tonnes of LNG from 2019, in the hope of selling LNG and power generation equipment to customers as a combination. However, it was difficult for Toshiba to find a buyer, increasing the risk of it suffering a loss of up to \$9 billion during the 20-year period of the contract. To make matters worse, Toshiba had

other woes, suffering a full-year net loss of about \$8.7 billion. Toshiba was hit hard by a huge loss when its former US nuclear subsidiary Westinghouse Electric, filed for Chapter 11 bankruptcy at the end of March 2017. In order to cope with the problem of finding a buyer, the struggling Toshiba signed a cooperation agreement with JERA, a joint venture (JV) between Tokyo Electric Power Co. (TEPCO) and Chubu Electric Power, in which JERA committed itself to help Toshiba find buyers. JERA will help sales and marketing of the fuel from 2019, when the contract with Freeport goes into effect.

Cameron Project

Cameron LNG is jointly owned by Sempra LNG & Midstream, Engie (formerly GDF SUEZ), Mitsui & Co., and Japan LNG Investment, which is a joint company owned by Mitsubishi Corp and Nippon Yusen KK. While Sempra owns a 50.2% stake in the Cameron LNG project, Mitsui and Japan LNG Investment each owns a 16.6% stake. France's GDP Suez holds the remaining 16.6% stake. Since the Cameron LNG consists of three trains, the three companies will divide the capacity evenly, with each one getting 4 million tonnes per year.

In 2013, Mitsui and Mitsubishi signed a 20-year tolling agreement with Cameron LNG, which is operated by Sempra LNG & Midstream.¹⁰ In February of the same year, Tokyo Electric Power (TEPCO) planned to procure an amount of 8 million tonnes per annum from the US Cameron project covering the 20 period starting in 2017. Later, the Cameron project obtained permission to export LNG to countries without an FTA with the US.

The project was due to start construction in 2014, and the first phase of liquefaction operation was schedule to start in 2017. The full operation of the project was expected to begin in 2018. However, in 2017, it was reported that the Cameron LNG project in Louisiana was "running behind schedule"¹¹, which is the second time the construction had been delayed in a year. As a result, the operation of Train 1 would be delayed well into 2019. The reasons of the delay were not disclosed, but there was heavy rain and flooding which first started the slowdown.¹² How much the cost would rise was uncertain.

LNG Price and Pricing Mechanism

When the global price of natural gas reached a high point just before 2015, US LNG seemed to be extremely attractive since the Henry Hub price was far lower than the Asia Premium price. However, such proved to be problematic for three reasons.

The first is that the Henry Hub price is the price of natural gas traded in the Henry Hub distribution center in the United States. The background behind this is that, Asian buyers mostly apply Japanese Crude Cocktail (JCC) and Brent price to long-term contracts. The function of JCC price is as follows:

$$P = C + \beta X + S$$

P is the LNG price (\$/MMBtu)

C is the base price (\$/MMBtu)

β is the price slope

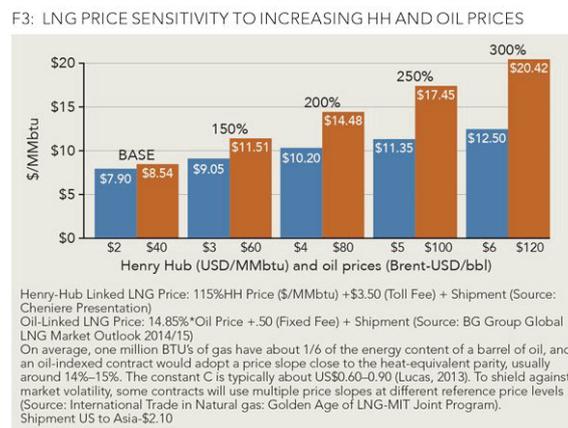
X is the Oil Price index (JCC in Japan)

S is the Shipment Charges¹³

This reveals that JCC price is directly linked to oil price. The oil-indexed price of natural gas can be dated back to 1960s, when a natural gas market had yet to be shaped, and natural gas producers linked natural gas price to oil price inasmuch as it would be attractive. Today, an Asian natural gas market is neither big nor mature, and thus the oil-indexed natural gas price continues to be maintained. But when oil prices soar, the natural gas price in Asia also soars.

The Henry Hub price is less sensitive to oil prices (Figure 3.). Also, the shale revolution largely decreased the natural gas price in the domestic market. However, US LNG exports to Japan are costly due to transportation added to the cost of liquefaction and regasification.

Figure 3. LNG Price Sensitivity to Increasing HH and Oil Prices

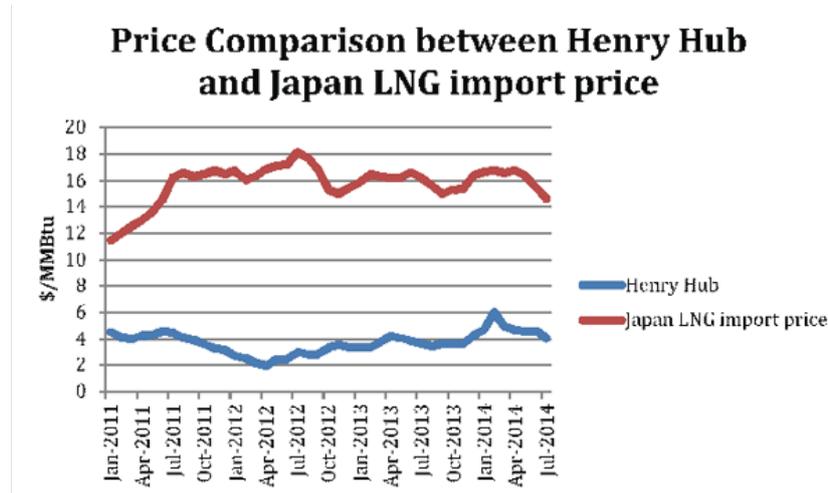


(Source: Cheniere Presentation, retrieved from <http://www.ogj.com/articles/print/volume-13/issue-4/features/lng-price-sensitivity.html>.)

The two figures below (Figure 4. and Figure 5./Figure 6.) shows the difference between Henry Hub price and Henry Hub price with other costs. While Figure 5 shows the trajectory from

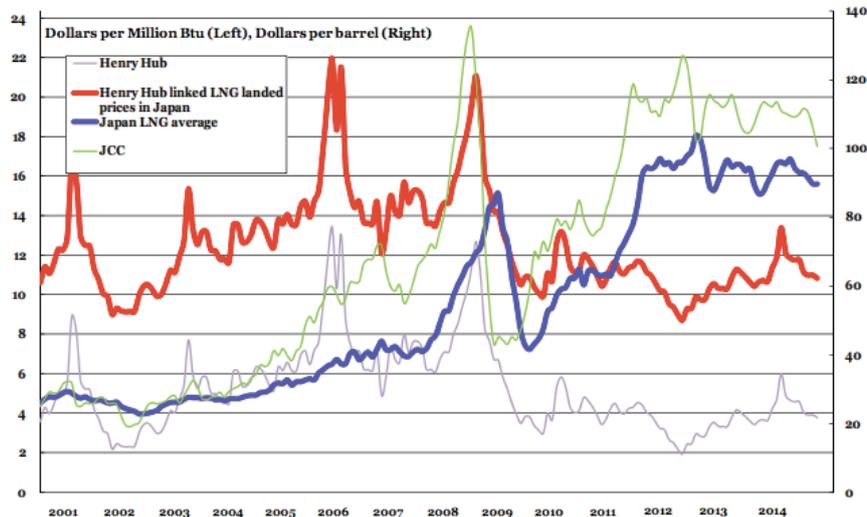
2001 to 2014, the data is complemented by Figure 6, which shows a further convergence of Henry Hub price LNG to Japan and Japan LNG import price.

Figure 4. Price Comparison between Henry Hub and Japan LNG Import Price



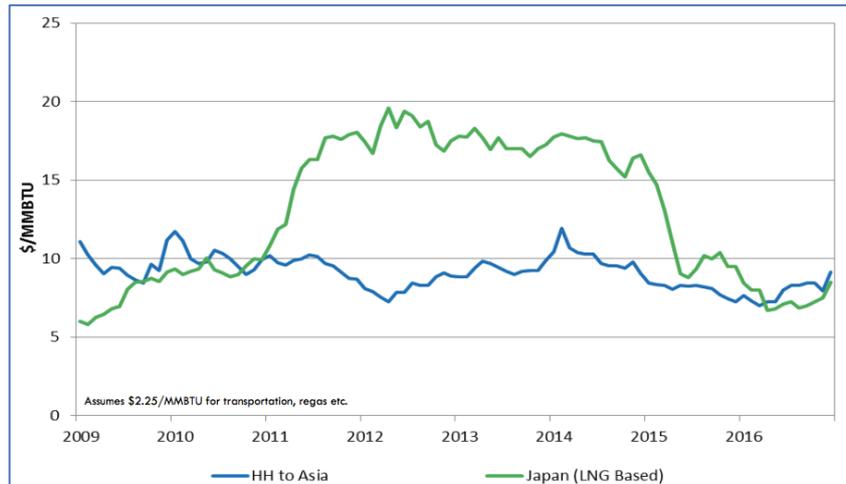
(Source: <https://www.mjenergy.com/MZINE/2014/september14art.html>.)

Figure 5. Comparison of LNG prices in Japan and hypothetical Henry Hub linked LNG prices landing in Japan (2001-2014)



(Source: Retrieved from the article *Issues surrounding planned and proposed LNG procurement from the United States*(2015), written by Shigekazu Horiike, Hiroshi Hashimoto, and Seishi Fukuoka. The figures are calculated by authors based on EIA statistics.)

Figure 6. HH LNG Delivered to Japan Vs. Japan LNG Prices (2009-2016)



(Source: Moyes&Co.)

The charts indicate that while the Henry Hub price alone is low, when other costs are added, such LNG loses its attractiveness. A prediction published by Global LNG Info shows this better (Figure 7.) by depicting the US LNG price at Japan and the oil-indexed LNG price in 2020. Thus, it is a question whether it is worthy to ship US LNG to Japan if only price is considered. If oil prices continue to drop, the oil-indexed price of LNG will also continue to drop, making it relatively easy to obtain natural gas from other places which are nearer to Japan at a relatively low price.

Figure 7. Assessment of the US Gulf LNG Price at Japan in 2020 (\$/MMBTU)

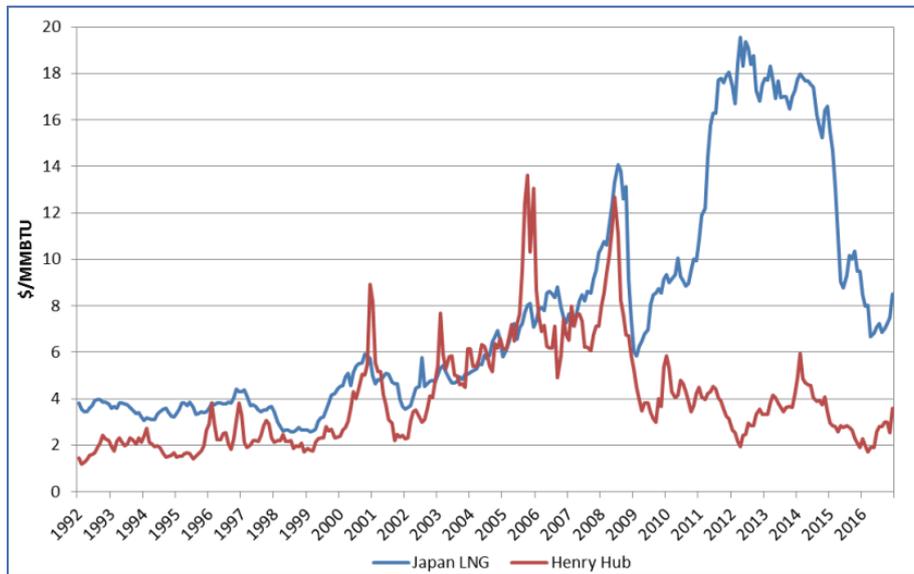


(Source: *The US LNG Price and Beyond That*, published by Global LNG Info in 2016.)

The second reason is that Henry Hub price is not historically cheap. When oil prices started to soar from 2009, the natural gas price also went up, leading to the saliency of Asia

Premium. However, before 2009, the Henry Hub price was not significantly cheaper than oil-indexed natural gas price in Japan (Figure 8.).

Figure 8. Japan LNG Prices and HH Spot Prices



(Source: Moyes & Co.)

It is hard to say whether the price advantage of Henry Hub price will be constant in the future, since the advantage only started to emerge from 2009.

The third reason is that oil prices have declined since late 2014, and the natural gas price naturally dropped as well. The shock of the Fukushima Daiichi accident, as well as the oil price spike are now past, so the dominant thinking in that period will not be apply to the current period since the context has changed. At this point, Japan will have more room to think about whether large infrastructure investment and time-consuming construction in the United States will bring about a good return on investment at the end of the day. Relying on the market may seem more cost-effective.

Thus, imported LNG based on the Henry Hub price is not necessarily cheap. Despite all these factors, two of the US LNG projects invested in by Japanese companies sell LNG based on the Henry Hub price, which does have the advantage of being flexible. Natural gas traded at Henry Hub has a price reflecting more accurately market supply and demand forces, while the oil-indexed LNG price can be twisted by the market.

Part 2: US-Japan LNG Trade Advantages and Restraints

The last part discussed LNG pricing in Japan. When the oil price soared, US LNG had its price advantage, but when the oil price dropped, the price of US LNG was not so attractive. The question now is whether US-Japan LNG trade is attractive at all.

Advantages

After the Great East Earthquake and ensuing tsunami crippled several nuclear reactors in Japan, the Kansai region suffered serious power shortages. Before the accident happened, 30% of Japan's electricity was generated by nuclear power. However, 11 of the 54 nuclear reactors that operated prior to the accident were shut down and underwent safety inspections, which caused trouble for millions of people from the northeast coast to the south of Tokyo, such as disruptions to gas, water supply and even medical treatment¹⁴. Temporary rail service restriction caused huge traffic jams in central Tokyo, and ATMs for a while were not functioning. Such difficulties inevitably caused a sense of panic among residents. A person in Kanagawa prefecture, when interviewed by BBC news, described it as “a sense of quiet panic” when people found that fuel was sold out at gas stations, and that food had run out in local shops. The power shortage expanded into the manufacturing sector, forcing major auto makers including Toyota and Honda to halt production. During that summer, the Tokyo region needed to face the summer peak demand with 20% less electricity, making a series of rolling blackouts an unavoidable choice. Although people cooperated by reducing electricity usage, and countries like Russia offered to help by providing additional fuel, the severe impact of nuclear plant shutdowns was painful.

In response to the power crisis, the Japanese government put in huge efforts to prevent blackouts from happening again. In 2014, it formulated a “strategic energy plan”, or “basic energy plan”, that stressed the importance of maintaining a stable energy supply as part of the whole package.

In this context, US LNG can complement Japan's main energy supply by providing diversity to Japan's energy sources, offering more flexible procurement plans, placing no restrictions on destination, and securing Japan's energy safety.

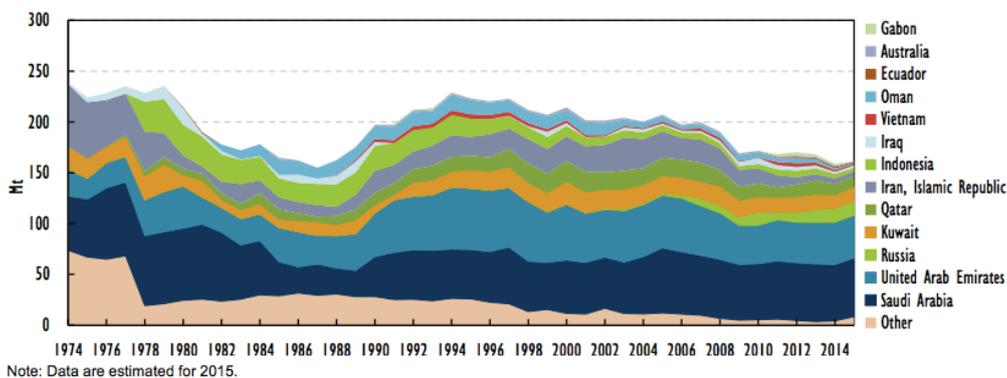
Diversity of energy supply

Japan's “energy angst” is legendary, owing to its lack of domestic energy resources. The country, having suffered during the “oil shocks” of the 1970s, learned to comb the globe for diverse and stable supplies and to invest in energy development wherever feasible. With its

almost total reliance on energy imports, Japan has long been heavily dependent on oil and gas imports from the Middle East. The Strategic Energy Plan in 2013 noted that Japan depends on the Middle East for 83% of its oil imports and 30% of its LNG imports. But political instability and turmoil in the Middle East have had a profound, direct impact on the structure of Japan’s energy supply. Oil is no longer a short-term problem in case of a stoppage, thanks to a stockpiling system established after the first oil shock. Japan now keeps in reserve stocks corresponding to 190 days’ worth of demand. Natural gas, however, remains a problem. Even though supply sources have been diversified and shipments are guaranteed, the use of natural gas for electric power generation has been rapidly increasing. If a situation resulting in disruption of shipments of LNG from a major supplier occurs, it is likely to have a serious impact on the production of electricity.”¹⁵

With growing concerns about the heavy dependence on oil and natural gas from the Middle East (Figure 9.) on a constant base, Japan has started to put its efforts into finding new sources of energy supply, and reducing the ratio of energy imported from the Middle East.

Figure 9. Crude oil imports by source, 1974-2015



(Source: IEA (2016c), *Oil Information 2016*.)

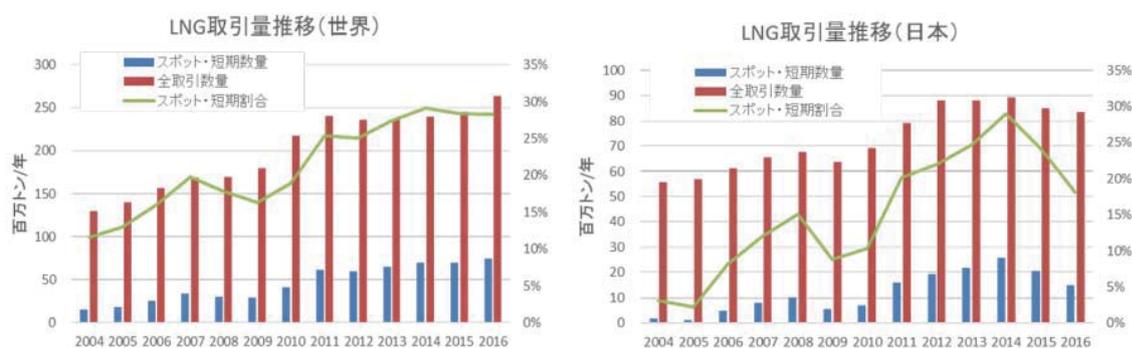
As a result, the natural gas from North America (both the US and Canada) serves as a safe and convenient alternative for Japan’s energy imports. In the LNG Producer-Consumer Conference held in Tokyo in 2017, the US representative conveyed the message from DOE that “US government would respect contracts and would not suspend exports unilaterally”¹⁶. US LNG now can ideally contribute to the diversity of Japan’s energy picture.

Flexible Procurement Plans

In the past, long-term contracts comprised almost 90% of Japan's LNG contracts. In a seller's market, long-term contracts had many restrictions and inflexibility, which deepened Japan's energy safety concerns. Asian LNG Sales and Purchase Agreements (SPAs) are traditional long-term off-take contracts, in which buyers commit to purchase an appropriate quantity of LNG at a price that benefits the LNG projects economically.¹⁷ In negotiation rounds, upstream gas facilities, construction and/or charter of LNG ships and construction of liquefaction facilities are all considered in the final decision to invest. The high cost of SPAs limited traditional Asian LNG buyers to local utility monopolies, Japanese electric companies before liberalization reforms.

As the global natural gas market gradually shifted from a seller's market to a buyer's market, buyers had more bargaining power when inking LNG contracts. Japan saw a major increase in the ratio of short-term LNG contracts since 2010 (Figure 10.), which made Japanese companies more flexible when negotiating about the price.

Figure 10. Transmission of LNG Volume of Business in World and Japan



(Source: JOGMEC, 2017)

The United States can help Japan with this process. By providing spot priced LNG, the United States has propelled Japan into the global natural gas market, further weakening the impact of the Asia Premium pricing system. Japan now has a wider range of choice of LNG imports and more bargaining power.

Another business brought about by the rise of US LNG is the international arbitrage of LNG. The Henry Hub price was around \$3.3/MMBtu (one million British Thermal Units) in 2017. Japanese companies investing in US LNG projects have secured an amount of LNG which exceeds the domestic demand, implying that they are reselling LNG procured from the United

States to third parties and earning profits, since the Henry Hub price is quite low. The new LNG supply market in the United States allowed this to happen. This kind of business can lead to further growth in US-Japan LNG trade in the future.

Final Destination Clause (FDC)

FDC refers to the clause attached to LNG long-term contracts that the destination of LNG cargoes can only be the buyer's LNG receiving terminals at home. Before the change in the Asian natural gas market, Japan and other buyers of LNG had long complained that the destination clauses on multiple-year term contracts placed an unfair restriction on trade of the fuel. Japanese buyers like Tokyo Gas Co had been pressing for destination clauses to be removed so they can trade their contractual purchases in other markets if they wished.

As Asian LNG market started to change during the 1980s and 1990s, a growing LNG market started to emerge in the Asia region. As this happened, accompanied with the liberalization of traditional monopolistic companies, Asian buyers started to reconsider what their best choice would be. Thus, the abolition of FDC included in the terms of free on board (FOB) contracts has been promoted by the Japanese government. US LNG played a large role in boosting this kind of transaction, since LNG from the United States does not have a destination clause.

Abolishing destination clauses will also help Japan develop an LNG portfolio, which it has already begun to do with BP. An LNG portfolio allows the suppliers to distribute LNG between different regions, enabling them to supply LNG in a more effective way. This practice can further decrease the LNG price received by buyers.

Thus, the United States, not having a destination clause, became a game changer in Japan's energy market. In the future, further removal of destination clauses opens the way for Japan and the United States to work closer on LNG trade to third countries.

Other benefits arise from the US LNG production for Japan's LNG market and for its energy security in general. Japan's Strategic Energy Plan reiterated the long-standing principle of energy policy, which is dubbed "3E+S", or energy security, economic efficiency, environment and safety. For Japan, it is equally important to "ensure a stable energy supply", "realize low-cost energy supply by enhancing its efficiency on the premise of safety", and "make maximum efforts to pursue environment suitability".¹⁸ While the future growth of Japan's demand on natural gas is predicted to be limited, a redistribution of its natural gas suppliers under the current volume is

still meaningful to consolidate Japan’s energy security, in which US LNG can play an essential role.

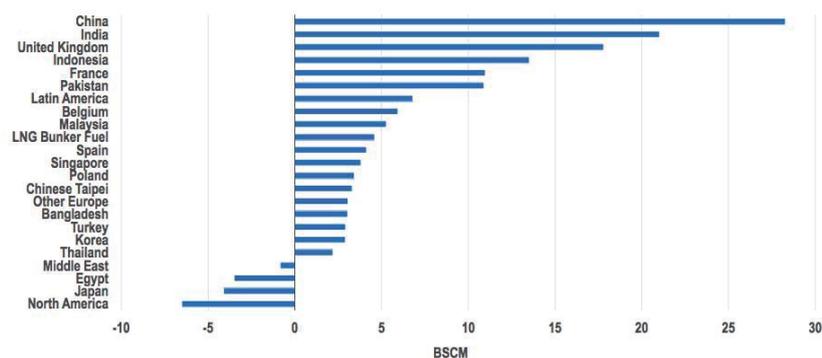
Restraints

There are still many restraints on and challenges to the future growth of US-Japan LNG trade. The price issue has overshadowed bilateral LNG trade in recent years, as discussed above. Other than the price, many other factors are impeding US-Japan LNG trade from growing substantially. These factors are partly Japan’s fault and the US’s fault. In Japan, the decline of demand, liberalization of electric power, and greenhouse emission cuts are three major factors shaping Japan’s trade behavior with the United States on LNG. In the United States, pressure from the industrial sector and government regulations primarily affects LNG exports to other countries, including Japan.

Decline of Demand

When asked about Japan’s energy mix over the next 20 years, the director of METI’s petroleum and natural gas division explained: “The 2030 targets will be almost the same as what was announced in 2015,” adding, “[although] Japanese demand for LNG in 2030 could be higher than the previously forecast 62 million tons...Japan's demand in 2030 had been predicted to drop by 27% from 85 million tons in 2015, the reference year, to 62 million tons, largely due to gains from competing fuels and the country's aging population”.¹⁹ This trend can also be observed in Figure 11.

Figure 11. Change in LNG Imports (2015 to 2020)



(Source: Nexant, *Global LNG Outlook, 2017*. Retrieved from IEEJ.)

This outlook coincides with the observation in Japan’s Strategic Energy Plan, which attributes a future decline of LNG demand primarily to three factors. The first cause is

population decline, which is projected to shrink to 97.08 million persons by the year 2050. The second is increased energy efficiency. Energy saving plans implemented by Japan will fundamentally alter the structure of demand in the future. Technological innovation also will contribute to energy efficiency. The third cause is the rapidly aging Japanese society.

A decline in overall demand will not necessarily lead to a future decline in US-Japan LNG trade. The more important question is to what extent Japan needs US LNG, other than energy security considerations. In other words, how attractive will US LNG be simply as a commercial good? Despite all the benefits that US LNG can bring to Japan, the situation will not be significantly improved if Japan suddenly decides to heavily increase US LNG imports. Rather, what US LNG brings is a structural change that is more linked to quality rather than quantity.

In that sense, it is arguable whether a decline of demand would lead to a decline in US-Japan LNG trade, if US LNG is not especially appealing. But if US LNG becomes significantly cheaper, or if it is used to balance against other sources of LNG, the situation may well change. Also, the resale of US LNG procured by Japanese companies and investment in upstream and midstream projects are two different issues related to overseas demand instead of demand in the domestic market.

Liberalization of Gas and Electricity Market

After the Fukushima Daiichi accident, the Japanese government decided to liberalize the electricity and gas market in the attempt to make the energy sector more competitive and thus better the overall welfare of the society.

Japan's electricity market was divided up among 10 regional companies: Chugoku Electric Power, Chubu Electric Power, Hokuriku Electric Power, Hokkaido Electric Power, Kyushu Electric Power, Kansai Electric Power, Okinawa Electric Power, Tokyo Electric Power, Tohoku Electric Power and Shikoku Electric Power. All of them were the sole provider of electricity in their respective areas. There were a lot of problems as these electricity monopolies were controlled by local governments. For example, after the Fukushima Daiichi accident, one city had a complete electricity failure for 24 hours because east and west Japan have a different utility frequency. By deregulating the electricity market many new companies can now sell electricity to customers.

This move will increase competition in Japan's gas market and increase the number of firms seeking to procure LNG from overseas. But it will also fragmentize the gas market in Japan. For example, Tokyo Gas found itself losing 300,000 customers at the beginning of gas liberalization, according to one of its spokesperson.²⁰ Toho Gas was also expecting to lose customers when liberalization reform kicked in. Although it was likely that the harsh competition in the domestic energy market would drive firms to look for overseas business, liberalization shrunk the market power of power companies. Given that LNG projects involve huge infrastructure investment, Japanese firms would be less likely to mobilize such amounts of capital and take the high risk of such projects. If they wanted to try, they had to establish joint ventures to enlarge their market power, which was what Tokyo Electric Power and Chubu Electric Power did in 2011.

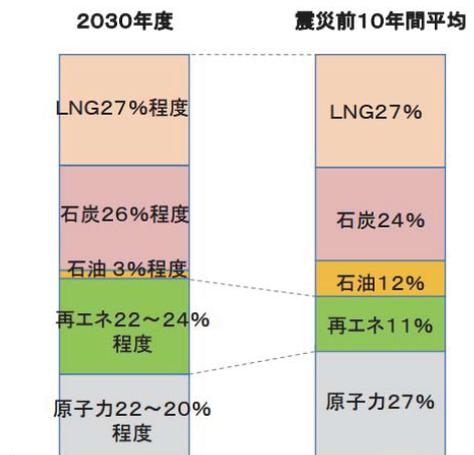
On the other hand, the new situation also limited the type of LNG projects that Japanese companies would be willing to invest in. So far, most Japanese firms invest in downstream projects in the United States, which is the process of liquefaction, transportation, regasification and the like. There is some investment in midstream and upstream projects, but the amount is quite small because of the high risk of these projects. After liberalization finishes, it will simply be too risky for most Japanese companies to invest in midstream and upstream projects, because they cannot face the high possibility of the failure of those projects.

Still, the effect of the liberalization of the energy market in Japan will be offset by the development of short-term contracts and small-and medium-sized LNG projects, which will not be too risky and costly. As the cost of liquefaction largely decreases, the development of Japan's overseas LNG business will also receive a boost. The end result is that the purport of energy market liberalization in Japan is not a crackdown on the overseas energy business. Just the opposite, a healthier and more transparent energy market in Japan will make Japanese companies more competitive in the global energy market over the long run. But this can be achieved only through government endeavors to make sure that attempts to grab market power by traditional electric power companies, as in the past, will fail.

Greenhouse Emission Cut

As its contribution to the 2015 Paris Climate Conference, Japan pledged to slash greenhouse emission by 26% by 2030 from the 2013 level. In 2015, METI released a Long-term Energy Supply and Demand Outlook that abides by this commitment (Figure 12.). While the picture seems quite different in 2030 comparing to 2013's electricity generation mix, it is not that

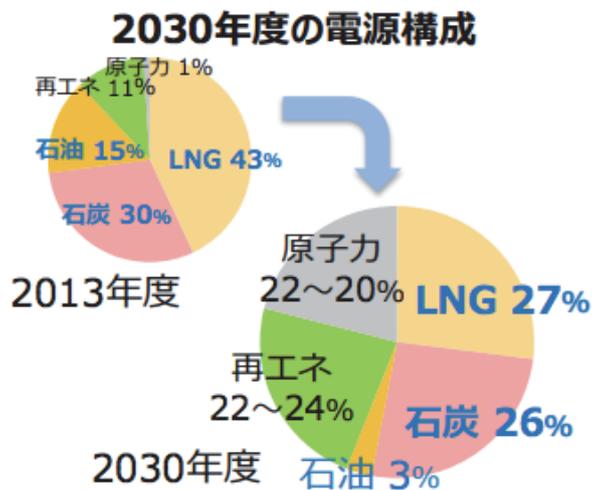
Figure 13. Japan's Electricity Generation by Source (2030 & The average of 10 years before 2011)



(Source: Agency for Natural Resources and Energy, METI, 2015.)

different from the electricity generation mix of the 10 years on average before the 2011 accident happened (Figure 13).

Figure 12. Japan's Electricity Generation by Source (2013&2030)



(Source: METI, 2016.)

During the 10 years before 2011, LNG generated 27% of electricity, coal 24%, oil 12%, renewable energy 11%, and nuclear power 27%. In the 2030 goal, LNG is scheduled to generate 27% of electricity, coal 26%, oil 3%, renewable energy 22-24%, and nuclear power 20-22%. The LNG ratio remains the same, except that METI further lowers the proportion of oil-generated electricity and substitutes it mainly with renewable energy. In other words, the 2030 goal aims to

recover Japan's electricity generation mix to the level before the 2011 accident happened, or restart using nuclear power while promoting the use of clean energy.

If this goal is to be achieved by 2030, and electricity volume remains at the same level over the next 15 years, there will not be high demand for additional LNG imports, given that power generation has accounted for 70% of natural gas demand in the past five years²¹. US LNG encounters the same problem of demand stagnation here: if it is not particularly attractive, it is hard to say that Japanese companies will be eager to bring more US LNG back to Japan.

Still, there are barriers to achieving this goal. Even though the cost of renewable energy is dropping fast, the rapidly increasing Feed-in-Tariff (FIT) surcharge cost is becoming an issue for electric utilities. In addition, the grid constraints are also a problem that needs to be solved. The frequency in West Japan is 60Hz, while in East Japan, it is 50Hz. While a small amount of electricity can be transferred between East and West, the transmission is limited to Chubu and Tokyo, which means that if Hokkaido needs to transmit electricity to Hokuriku, the electricity has to go down to Tokyo, Chubu, and then merge into the grid system in West.²² Thus, the Japanese government needs to think of a way to either reconstruct the grid system, or transmit electricity more efficiently with the deregulation in electricity market. The third major barrier of promoting renewable energy is land use regulations and environmental concerns raised by renewable energy facilities such as solar photovoltaic (PV) panels.

As for nuclear energy, although a seventh Japanese reactor will begin the restart operation process this year, various opinion polls have shown that a majority of Japanese people remain opposed to or have deep concerns about restarting nuclear power plants. For example, a *Mainichi Shimbun* survey conducted in 2017 showed that 55% of the public were against the restart of nuclear power. Whether, and to what extent, nuclear energy can be restored is still uncertain due to this huge gap between the government and the public.

If the proportion of renewable and nuclear energy is to be adjusted downwards, it is quite likely that the two energy sources would be substituted by LNG, since it is the closest one to clean energy among all fossil fuels. But if not, there will not be a major change in Japan's LNG demand, and the chance of increasing imports from the United States would be slim.

US Domestic Companies

Since the US shale revolution, the government has gradually swung policy toward supporting the growing market of natural gas exports, though tough restrictions exist for exports

to non-FTA countries. DOE approvals to export US natural gas to countries with which the United States has an FTA are easy, which is seen in its automatic granting of licenses. But DOE approvals for exporting to non-FTA countries are strict and time-consuming. There were only two approvals for exporting to non-FTA countries as of 2013, despite the fact that the amount of natural gas exported to non-FTA countries is large than that to FTA countries.

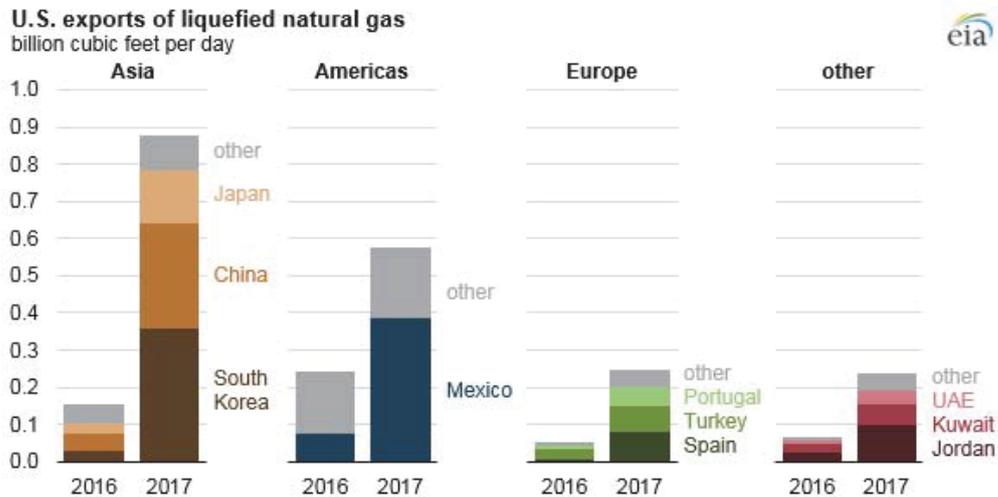
After President Trump took office, his administration has been working to increase natural gas exports as an effort to support domestic energy suppliers. However, American manufacturers are unhappy with this policy, believing that the export of US LNG will raise natural gas prices domestically and hit the sectors relying on cheap energy to fuel factories. The “America First” policy in this case could backfire, they fear.

The calls of oil and gas companies for lifting restrictions on natural gas exports thus conflict with the interests of American manufacturers. They argue that this will not only harm domestic industries, but will be strategically unwise to export such a large volume of LNG to other countries over the next 20-30 years, especially to countries that do not have an FTA with the United States.²³ But gas companies rebut the claim that the United States will eventually run out of supply. Instead, they argue that this is an opportunity to improve the US national security interests by diversifying the energy sources of its allies. Indeed, there are a growing number of countries that want to import US LNG. Nevertheless, the question here is how the government can ameliorate the diverging views of different interest groups representing big business.

The difficulties of promoting LNG exports may well hurt the confidence of natural gas companies, as well. When the licensing of LNG exports to countries that don’t have an FTA with the United States, including Japan, takes up to 4 years, fear of soaring costs could dissuade investors.

But the linchpin here is how much the views of US manufacturers will weigh against the enormous economic temptation to export LNG as a commodity. The US LNG export has already quadrupled in 2017 (Figure 14.), and even under the restrictions on LNG export to countries that don’t have an FTA, there has been major growth in US LNG exports to China and Japan. In other words, even though the procedure of getting a license is time-consuming and a huge amount of paper work is needed, when companies get the license, they can export a huge volume. In this sense, economic drive is essential to the prospect of LNG export, which will be hard for domestic manufacturers to oppose.

Figure 14. US exports of liquefied natural gas by region

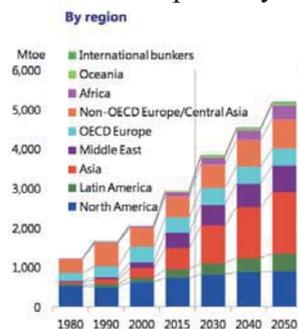


(Source: EIA, 2018. Retrieved from <https://www.eia.gov/todayinenergy/detail.php?id=35512>)

In sum, declining demand in Japan, deregulation of the gas and electricity market, commitments to cut greenhouse gas emissions, and US domestic opposition to natural gas exports are the main restraints impeding the future growth of US-Japan LNG trade. Going further, the key to the future of US-Japan LNG trade will be if Japan's demand for US gas changes and how attractive US LNG will be to meet that demand. However, it still will be difficult for it to shift its LNG contracts from other countries to the United States over the short term.

A simple calculation can be made here. Many of Japan's long-term contracts will expire around 2020. If Japanese companies start to negotiate new deals in US LNG projects, it takes at

Figure 15. Natural Gas Consumption by Region (1980-2050)



(Source: IEEJ Outlook 2018-Prospects and challenges until 2050: Energy, Environment and Economy, 2017.)

least 5 years for an LNG project to be completed and put to commercial use, meaning that the newly scheduled LNG will arrive around 2024. However, the Japanese companies cannot end long-term contracts with other regions dramatically for several reasons. The first is that the ratio of short-term contracts in Japan's LNG contracts has already reached the world average level, and there is little room for short-term contracts based on spot price to increase. The second is that traditional long-term contracts are usually concluded under long-time partnership. Even if the global LNG market has shifted to a buyer's market, the foreign partners that have worked with Japanese companies for a long time still have a greater bargaining power over Japan than US companies. The third is that the restrictions on US LNG exports indicate that investors need to well prepare for possible delays in shipping schedules due to regulation issues. And Japan, in pursuit of energy security as a priority, needs stable suppliers of LNG, which means that US LNG may be less attractive if Japanese buyers assume that such is not the case.

In that context, even if Japanese companies start to negotiate new deals with US companies, there is reason to believe that they will not make a major shift away from Japan's other LNG suppliers. It is probably the case that most of LNG negotiated will not be shipped to Japan but to a third country.

Part 3: US-Japan LNG cooperation

US-Japan cooperation on future LNG development in other parts the world, however, has great potential. While this is still a new area still in the planning stage, it is nonetheless a significant opportunity for the United States and Japan to take advantage of the LNG global market that is ripe for rapid growth in the future.

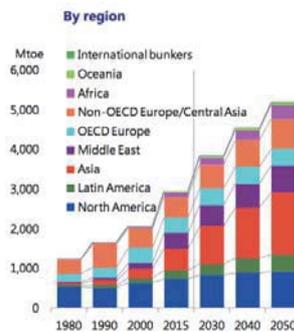
According to a prediction by IEEJ in 2015 that looks ahead to 2050, 50% of world's natural gas demand growth will come from Asia, (Figure 15.).

Breaking down this growth, around 85% will come from China, India and ASEAN countries (Figure 16). At this point, Japanese companies are extremely interested in becoming involved in this growing market, since Japan's domestic LNG demand is predicted to decline in the future and companies need to look for new consumers to keep their business viable.

It is in this context that Japan has pledged \$10 billion for LNG infrastructure building in Asia. The money will be invested in upstream, midstream and downstream LNG projects in Asian developing countries in order to boost their demand. Japan also will offer programs to train the labor force in those countries that will work on gas producing and consuming projects.²⁴

Japan's commitment is based on an agreement between Japan and the US in 2017, the Japan-United States Strategic Energy Partnership (JUSEP). The pact looks to facilitate

Figure 16. Natural Gas Consumption in Asia by Region (1980-2050)



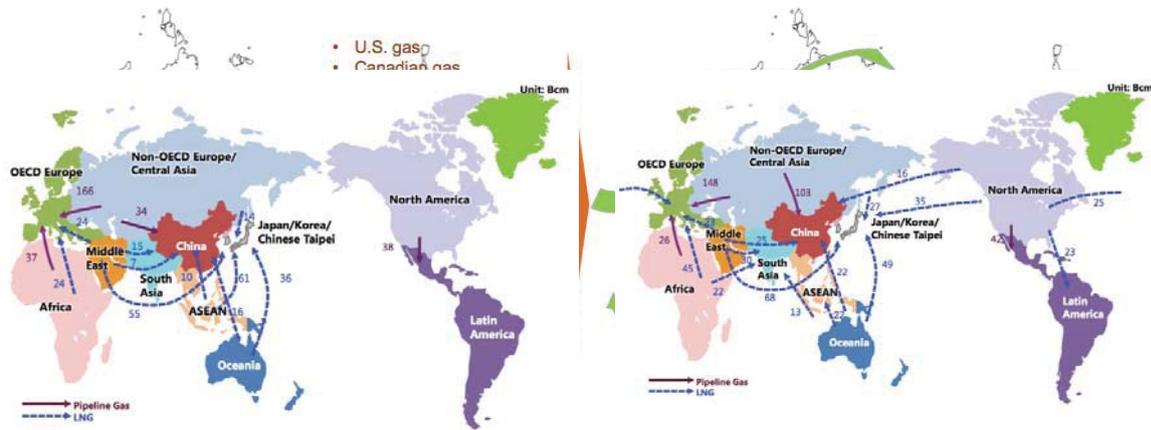
(Source: IEEJ Outlook 2018-Prospects and challenges until 2050: Energy, Environment and Economy, 2017.)

“development of a global market for natural gas; and energy infrastructure development in the developing world that promotes regional integration; adheres to principles of good governance, respect for the interests of all stakeholders, and transparency in bidding and financing; and expands access to the global energy market.” Also, in the attempt to offer an alternative to BRI, METI and the USTDA (the United States Trade and Development Agency) signed a Memorandum of Cooperation “to help bring high quality energy infrastructure solutions to the Indo-Pacific region”²⁵. In addition, the Overseas Private Investment Corporation (OPIC) signed an understanding with NEXI and JBIC to “offer high-quality United States-Japan infrastructure investment alternatives in the Indo-Pacific region”²⁶. A wide range of networks are being constructed for the United States and Japan to seize the opportunity to access to the large market in Asia’s developing countries.

Another opportunity for Japan and the United States to cooperate on is an emerging LNG trading hub in Asia and the integration of the LNG market in the future. As yet, the volume of LNG traded in Asia is small compared to that of the market in Europe and North America. But comparing the natural gas trade flows in 2016 and 2030, it is clear that natural gas trade is shifting to the Asia market (Figure 17.).

Aware of this trend, energy planners are focusing on the growing Asia LNG market, and even talking about an LNG trading hub in Asia in the future. If Japan and the United States plan to closely work together on LNG procurement and resale to third countries, it would help to bring the Henry Hub price to Asia, as well as to integrate the North American and Asian gas markets. When gas from Europe to Asia is connected with gas from North America to Asia, an intertwined global LNG market will come into being (Figure 18.).

Figure 17. Major Natural Gas Trade Flows (Left: 2016, right: 2030)



(Source: : IEEJ Outlook 2018-Prospects and challenges until 2050: Energy, Environment and Economy, 2017.)

With that in mind, the United States and Japan can work on promoting a market-based LNG price in Asia, and the US can help building a pricing mechanism in Asia market to institutionalize and normalize LNG trade in Asia, since the pricing of LNG traded in Asia is still nontransparent. Still, this process requires a lot of initiative, and efforts to promote such a development may be slower than expected. However, working towards a transparent and institutionalized global LNG market can benefit both Japan and the United States enormously, in terms of easier access to other markets and a better trading environment.

LNG cooperation between the US and Japan should now focus on developing an Asian LNG market and integrating LNG markets into a global one. The convergence of LNG market in different regions of the world is still at a primitive stage. For that reason, US-Japan LNG cooperation with a strategic purpose is required so that both countries can benefit from this process, without wasting time and money on unworthy projects.

Conclusions

In the aftermath of the Fukushima Daiichi accident, Japan turns to the United States for new supplies of LNG with a relative low price, made possible by the shale gas revolution. It found, however, that LNG trade with the US is enormously complicated due to a host of different factors. The main advantages of the US LNG market are pricing that is linked to the market, contracts that did not set the destination for the LNG, and adding to the diversification of energy sources. On the other hand, declining natural gas demand in Japan, deregulation of the domestic

gas and electricity market, and a commitment to lower greenhouse emissions all paint an opaque future for US-Japan LNG trade. In addition, US manufacturers have lobbied against natural gas exports. Thus, it is unlikely that major growth in US-Japan LNG trade is possible in the near future.

However, US-Japan LNG cooperation that focuses on third country market is equally, if not more, important in the sense that both countries are eager to take advantage of the huge potential in the Asian LNG market, especially in developing countries. The US and Japan can cooperate on improving LNG infrastructure in Asia, training workers germane to the gas sector, and bring about a transparent and fair LNG market in Asia. More broadly, such cooperation could help bring about a global LNG market, in which every country can benefit, not just Japan and the United States.

In conclusion, US-Japan LNG trade and cooperation is extremely important and relevant today. It is important not in terms of its volume, but in terms of its fundamental importance to Japan's energy security, closer ties between Japan and the United States, and its significant role in future convergence of LNG market in different regions. Above all, it is important for both countries to think strategically about the LNG market and develop a plan with a timeline. Otherwise, it will be too late to come if other countries move quickly to grab a substantial role in the growth of LNG markets in Asia

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North Korea's Wedge Diplomacy Challenges US-Japan Alliance

By Jon Foissotte

Breakthrough on the Korean Peninsula

On Friday April 27, 2018, the world looked on as South Korean President Moon Jae-in wrapped North Korean leader Kim Jong-un in a tight embrace. The two had just finished signing



Kim Jong-un and Moon Jae-in at Pyeongchang, April 27, 2018 (Source: AP)

the Panmunjom Declaration, an agreement to pursue an official end to the Korean War. Earlier, on March 8, President Trump agreed to meet with Kim Jong-un, starting a process leading to a summit in Singapore that may take place in Singapore on June 12 or later. How and why has the situation evolved to this point, and what does it mean for the US-Japan alliance? While more optimistic observers may be tempted to hail the recent breakthrough as a hopeful harbinger of long-awaited regional peace, in fact the danger to the region and to the effectiveness of the US-Japan alliance could not be greater. North Korea's rapid turnabout early this year from the brink of war to the brink of peace has raised eyebrows, and rightly so. Kim's skillful diplomatic dance betrays an underlying choreography rooted in the lessons in history and North Korea's fundamental national interests.

In past negotiations, North Korea has aimed to exploit gaps which exist between the interests of South Korea, China, Japan, and the United States and to drive wedges between these actors in order to maximize concessions, first by raising tensions and then by raising expectations.¹ If the schema is the same this time around, however, the intensity – and one could say the euphoria – has reached a level not seen before. Only months before the historic South-North summit, the danger of nuclear war with North Korea had never been higher. Now, for the first time a sitting US president, as of this writing (late May 2018), is preparing to meet with the North Korean leader face-to-face – although there have been glitches, including a late May decision by Trump to cancel the meeting, only to be followed the next day by a statement that it was on again.

In the same vein, the danger of North Korea's signature diplomacy has magnified considerably in that the breadth and depth of the potential wedges have expanded. Among these is the potential for one to be driven between the United States and Japan, a development which would not only hamstring the effectiveness of both countries in responding to an already rapidly changing situation but also weaken the bilateral relationship more broadly by eroding the trust which undergirds the close coordination the relationship has historically enjoyed. The abruptness of the President's decision to meet with Kim, followed by the unexpected decision to cancel the meeting over alleged slights by Pyongyang, followed by still another decision to try to go ahead with the summit as scheduled – all of these seemingly impetuous switches have created confusion and the seeds of distrust of the Trump strategy in Tokyo.

Japan's Challenge

Even before North Korea's diplomatic turnabout earlier this year, which seems to have been at least in part a response to the "maximum pressure" tactic of the United States and its allies, Japan has been struggling to adjust to a shifting geopolitical landscape after years of policy stagnancy. The Obama administration, as well as the Abe administration since 2012, had heightened the rhetoric of denunciation, increased UN-related sanctions, and enhanced readiness, but there was neither an apparent US outreach to seek dialogue with North Korea nor at that time in South Korea a government that wanted to do the same.

The year 2017 saw more North Korean missile launches than any year previous, with some landing in Japan's territorial waters and others passing directly over.² US policy toward North Korea under the Trump Administration became increasingly confrontational in the second half of 2017 and beyond after an exchange of insulting rhetoric between President Trump and Kim Jong-un. The possibility of a targeted strike or "bloody nose" attack on North Korea by the United States, exacerbated by the recent appointment of defense hawk John Bolton as National Security Advisor, heightened concerns among members of Japan's defense community about the possibility for Japan to be enveloped in a regional war with North Korea.³ The level of regional tension created by the US brinkmanship policy on North Korea clearly exceeded Japan's threshold of stress tolerance. Tokyo was forced to prepare for a worst-case scenario – conflict on the Korean Peninsula.

Now, however, the pendulum, as far as Tokyo is concerned, may have swung too far in the opposite direction: the prospect of a deal threatens the potential for giving too much away to North Korea for too little in return. In agreeing to meet directly with Kim Jong-un, President Trump has created a high-risk, high-reward situation. If a grand bargain is struck which focuses exclusively on eliminating North Korea's nuclear and ICBM capabilities while leaving

unaddressed the problem of North Korea's short and medium-range missile stockpile, Japan's security will continue to be threatened. Additionally, resolution of the abduction issue – which concerns Japanese citizens kidnapped by North Korean agents between 1977 and 1983 – remains



North Korean missile trajectory (Source: Japanese Ministry of Defense, August 29, 2017)

a top priority for Japan. In the event President Trump is unable to make meaningful progress on this point during his on-again-off-again summit meeting with Kim after having delivered such strong assurances to Prime Minister Abe, the resulting frustration of Japan's expectations could contribute to the creation of no small fissure in the relationship. In short, Japan, as its media has oft trumpeted, fears that in any case, it is being left behind the United States and South Korea in advancing its interests vis-à-vis the North Korean threat.

Left scrambling to adjust its policy stance in the wake of the surprise announcement of a Trump-Kim summit on March 11, Japan became increasingly isolated in the subsequent months. While the hastily-arranged summit between Prime Minister Abe and President Trump at Mar-a-Lago from April 17-20 represented an effort to shore up Japan's involvement in the situation surrounding North Korea as a central US ally, Japan still remains the only major regional stakeholder (apart from Russia) yet to plan a summit with Kim. The North has expressed its distaste for such a meeting in view of Japan's demand for an accounting of the abductee issue.

Japan's position is complicated further by the fact that its involvement in the current diplomatic process is not required to end the Korean War, since, unlike the United States, South Korea, and China, it did not directly participate in that conflict. Japan's best toehold for engaging with North Korea remains the 2002 Pyongyang Declaration (signed between then Prime Minister Junichiro and DPRK leader Kim Jong-il), which sets resolution of the abduction issue as a prerequisite to the normalization of relations and offers the prospect of Japanese economic assistance following normalization, a position that Japan continues to adhere.⁴ This means that unless the Trump-Kim summit produces a change in North Korea's current position that the abduction issue is settled, Japan will likely continue to remain walled off from the ongoing diplomatic process.⁵

Warding off the Wedges

In examining the North Korean problem, including the recurrence of Pyongyang's "smile diplomacy," as it affects Japan's interests, this paper will proceed in three stages. First, it will lay out a theoretical framework to examine coordination within the institution of the US-Japan alliance and evaluating how security ties have evolved over time to cope with the threat to regional stability posed by North Korea. Throughout this analysis, it will be important to draw attention to patterns in North Korean behavior over time in order to apply these to the contemporary situation. Second, the relevant points will be extracted from the recent round of summitry conducted between stakeholder countries with an eye to the foundation these meetings have set for the Trump-Kim summit, assuming that it will happen. Finally, these elements will be brought together to evaluate the shifting tectonics of contemporary regional diplomacy and identify specific vulnerabilities in the alliance that should be addressed by policymakers and alliance managers in order to guard against the potential for North Korea to drive strategic wedges between Japan and the United States as well as between that alliance and other regional actors.

Part I: Little Drift in a Turbulent Storm

In the past, the concept of "drift" has periodically surfaced in academic discourses on the history of the US-Japan alliance. Sometimes used as a broad conceptual standard to measure the strength of the alliance or the level of cooperation between the two countries, scholars have invoked the term when questioning the response capabilities of the alliance to changes in international sphere. It will be argued here that where the issue of North Korea is concerned, there has been little to no drift in alliance cooperation, and periods which did experience some drift were quickly followed by the introduction of new guidelines or initiatives that resolved any discrepancies in coordination. Under Prime Minister Shinzo Abe, indeed, the alliance has been updated with new defense cooperation guidelines to make it more asymmetrical, much to Washington's satisfaction. Instead of relying on that outdated standard, the current issue for the alliance is better conceived through an alternative conceptual framework as be explained below.

Definitions of the drift concept abound. Keith Nitta offers one through his concept of paradigm drift, "in which old ideas have begun to lose their salience but new dominant paradigms have yet to emerge . . . [and relations] become less stylized, less predictable, and more fluid."⁶ As examples, he points to the end of Japanese high economic growth as well as the end of the cold war which challenged the longstanding paradigms of the Yoshida Doctrine and containment, arguing that "the old logics underlying [these two paradigms] have become frayed and inconsistently applied, destabilizing expectations."⁷ More recently, the idea of drift in the alliance has been invoked to characterize the beginning of the brief period during which the DPJ

held power in Japan.⁸ While these instances of separate usage suggest that drift can arise from exogenous shocks (changes in the international system) or endogenous shocks (changes in domestic politics), a more robust definition of drift and what constitutes it is necessary.

Types of Gradual Change

	Displacement	Layering	Drift	Conversion
Removal of old rules	Yes	No	No	No
Neglect of old rules	–	No	Yes	No
Changed impact/enactment of old rules	–	No	Yes	Yes
Introduction of new rules	Yes	Yes	No	No

(Source: James Mahoney and Kathleen Thelen, “A Theory of Gradual Institutional Change”)

Such a definition emerges from the work of James Mahoney and Kathleen Thelen. The framework they outline in *A Theory of Gradual Institutional Change* finds an appropriate application here, given that evolutions in US-Japan alliance coordination have assumed a gradual character across the decades. To begin, they define institutions as “distributional instruments laden with power implications . . . [which] are fraught with tensions because they inevitably raise resource considerations and invariably have distributional consequences.”⁹ In the context of the US-Japan alliance, this idea of distribution is articulated through the question of alliance contribution and the ongoing process of Japan’s evolving security role within the framework of the alliance. The concept of institutional drift emerges in Mahoney and Thelen’s theory as one of four types of institutional change. They define drift as, “the changed impact of existing rules due to shifts in the environment.”¹⁰ In this circumstance, “institutional change grows out of the neglect of an institution, or more precisely, the *failure to adapt and update* an institution so as to maintain its traditional impact in a changed environment” (emphasis mine).¹¹ Evaluating institutional drift in the context of the North Korea issue, then, pivots around the following question: at each of the critical points, either to what extent was the bilateral alliance reconfigured to cope with the evolving threat posed by North Korea or to what extent were necessary updates to the alliance neglected?

As will be shown in each of the critical periods, what appears to be taking place in the context of Mahoney and Thelen’s model in cases of successful adaptation of the alliance is *layering*, which they define as “the introduction of new rules on top of or alongside existing ones.”¹² They explain that this process, “chang[es] the ways in which the original rules structure behavior . . . [and] involves amendments, revisions, or additions to existing [institutions or rules].”¹³ The multiple revisions of the US-Japan Defense Cooperation Guidelines are solid examples of this very process. In all but the most recent of the critical periods examined, it was found that institutional layering was pursued as a strategy either to remedy or to avoid institutional drift. Alliance coordination across time will therefore be evaluated by gauging the extent of institutional layering against the extent of institutional drift, or in other words, the degree of policy synchronicity at that given time. An effort to chart out the ways in which the

alliance managed to coordinate at key moments will aim to shed light on some of the alliance's deeper structural challenges and serve as a useful tool for guiding joint policy formation at a time when cooperation on the North Korea issue is more crucial than ever.

Period I, 1993-1998: First Nuclear Crisis and Taepodong-1 Launch

During the First Nuclear Crisis (1993-94) when North Korea threatened to withdraw from the Non-Proliferation Treaty, limitations were discovered in security cooperation between the United States and Japan in joint planning for contingencies on the Korean Peninsula which threatened to undermine the alliance's deterrence capabilities. According to Michael Green, "The Japan Maritime Self-Defense Force (JMSDF) commander informed the US Navy that Japan probably could not provide ships for surveillance and minesweeping unless Japan was directly attacked or the United Nations provided an appropriate mandate."¹⁴ During this time period, "it became apparent to US officials that their interlocutors would not have the legal authority to support US war plans."¹⁵ The Nye Initiative announced by the United States in the subsequent year aimed in part to address this issue by reaffirming the importance of the bilateral alliance and highlighting the necessity of establishing credible deterrence vis-à-vis North Korea, leading to more comprehensive defense planning procedures.¹⁶

In 1998, North Korea's launch of a Taepodong-1 missile over Japan decisively altered Japan's threat perception by demonstrating that the reach of the DPRK's ballistic missiles encompassed the entire country. In recognition of this threat, Foreign Ministry spokesman Sadaaki Numata stated at a press conference the following day that "missile development by North Korea is a matter that affects our security directly," adding, "[Japan's] relations with North Korea will be placed in a somewhat more challenging environment."¹⁷ Green notes that the Taepodong-1 launch, "consolidated political support in Japan for passing the implementing legislation for the [1997] US-Japan Defense Guidelines . . . [and] also cleared the way for . . . research on joint theater missile defense with the United States."¹⁸ In other words, both the 1993 Nuclear Crisis and the 1998 Taepodong-1 launch created situations in which the level of alliance coordination at that time was judged to be insufficient to address the North Korean threat, prompting rapid moves on both sides to accommodate the situation by introducing changes in the form of new initiatives or legislation. Overall, this was a period of successful adaptation of the alliance. The notion of drift in the alliance disappeared.

Period II, 2000-2008: Second Nuclear Crisis and Six Party Talks

The first half of the first decade of the twenty-first century saw a close alignment between the hardline policies of President George W. Bush and Prime Minister Junichiro Koizumi toward North Korea, especially following the Second Nuclear Crisis (2003) in which

North Korea withdrew itself from the Non-Proliferation Treaty. In the case of the United States, the hardline policy was formed by subsuming North Korea into the “Axis of Evil” narrative that had come to characterize the War on Terror. CVID – Complete, Verifiable, and Irreversible Dismantlement of North Korea’s nuclear program – became the prerequisite to any negotiations.¹⁹ Japan’s policy also evolved to take on a tougher shape after the breakdowns in negotiations that followed Koizumi’s two high profile visits to North Korea in 2002 and 2004, when he brought back some abductees and their families and signed the Pyongyang Agreement.²⁰

In an unexpected gesture of good will during Koizumi’s first visit, Kim Jong-il admitted to the North Korean abduction of thirteen Japanese citizens from 1979 to 1983 and apologized, allowing the five who were still alive to return to Japan temporarily.²¹ However, rather than furthering the prospects of normalization, this resulted in exactly the opposite. Under pressure from widespread public attention and anger over the revelation, it would have been politically untenable to return these abductees to North Korea in accordance with the agreement, and so Koizumi naturally decided to let them stay in Japan.²² Japanese outrage over the abduction issue was further enflamed later that year, when it was determined through DNA tests that the ashes sent to Japan by North Korea which supposedly belonged to deceased abductee Megumi Yokota were not in fact hers.²³ Koizumi’s second trip resulted in North Korea releasing five children (by

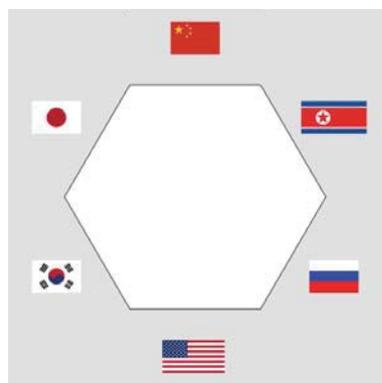


Table Layout for the Six Party Talks (Source: Wikipedia Commons)

then grown) of the former abductees in exchange for food, medical, and other assistance.²⁴ However, his reception by North Korea was cold, and he was criticized domestically for not having obtained a more definitive accounting from North Korea on the fate of the deceased abductees.²⁵

Between 2003 and 2004, Japan appealed to the Bush Administration to officially include the abduction issue as a reason for North Korea’s status on the US State Sponsors of Terrorism list, and initially the United States was receptive at multiple levels.²⁶ Over time, however, the policy stances of the two countries on North Korea began to drift apart as the United States became more solely focused on the issue of North Korea’s nuclear program and the potential

danger of proliferation. Throughout the ensuing Six Party Talks, Japan became increasingly isolated on the issue of abductions. In July 2005, for instance, Russia, China, and South Korea stated that the abduction issue should be resolved on a separate occasion via bilateral dialogue between Japan and North Korea.²⁷ Meanwhile, as late as December 2006, Prime Minister Abe declared that, “[Japan] can never compromise on the abduction issue. I swear that my administration will tackle this as its top priority.”²⁸

Finally in 2008, not only did the abduction issue go unmentioned in the State Sponsors of Terrorism list, but North Korea was removed from the list altogether as part of an attempt at another denuclearization deal – which would eventually fall through due to a dispute over verification requirements.²⁹ The likely reason behind this US policy shift was domestic political change – the rise to power of the Democrats in both houses of Congress after the 2006 midterm elections as well as the decline of neoconservative influence in the Bush administration.³⁰ Both of these acted as sources of pressure on the White House to work out some kind of deal with North Korea.

The period from 2000-08 demonstrates that domestic political factors can drive much of the gaps in perceptions and interests that contribute to drift. In the same way that domestic pressure led to Japan’s isolation early on in negotiations after it held the abduction issue in equivalent importance to the nuclear issue, transformations in US domestic politics near the end of the Bush Administration predisposed the United States more toward deal-making, even if it required offering concessions. It is true that security cooperation in this period was refined. The 2004-05 update to the US-Japan Defense Guidelines explicitly acknowledged North Korea as a major security threat to Japan and ushered in the development of Japan’s own ballistic missile defense system in cooperation with the United States.³¹ However, where diplomatic coordination was concerned, the policies of the two alliance partners became less synchronized over time. The reason for this owes primarily to a marked divergence over each partner’s minimum conditions for a deal – as Japan’s position on abductions hardened, the United States became more interested in denuclearization. This gap in minimum thresholds still exists today and is one of the primary potential pitfalls for alliance coordination as the current phase of regional negotiation deepens. This will remain a major theme worth exploring in greater depth.

Period III, 2009-2016: Strategic Patience

During the Obama Administration, alliance coordination was stronger for two primary reasons. First, the administration’s concept of “strategic patience” consisted primarily of maintaining pressure on North Korea via sanctions, while continuing to deter against North Korean nuclear and missile capabilities. Given that this period lacked the kind of high profile negotiations which characterized the Six Party Talks a decade before, the rift in negotiating

positions between Japan and the United States was less exposed, while cooperation in the security sphere continued unabated. Second, the alliance partners successfully implemented an update to security planning in response to changes in the regional environment. During the earlier part of this period, North Korean nuclear tests, missile launches, and provocations continued to exert mounting pressure on Japan to respond. Compared to earlier periods, North Korea's technical capabilities were expanding, resulting in an increase to the level of threat experienced by Japan. The update to the bilateral Defense Cooperation Guidelines which occurred during 2014 aimed to address this situation by focusing on improving joint response capabilities to direct threats facing Japan's security.³² This period was therefore a generally positive one for successful alliance coordination.

Period IV, 2017-2018: Third Nuclear Crisis, from Buttons to Wedges

Following Donald Trump's ascendance to the presidency, North Korea continued its provocative stance, and 2017 saw the dawn of a Third Nuclear Crisis, during which regional tensions escalated to an unprecedented level. The first half of the year saw a number of North Korean ballistic missile launches starting from February, the assassination of Kim's half-brother



North Korean ICBM Launch, July 4, 2017 (Source: KCNA)

Kim Jong-Nam, and the first launch of an ICBM in July capable of reaching the US mainland.³³ By August, the United Nations Security Council voted unanimously to impose additional sanctions on North Korea. These sanctions were much stronger than previous measures and were estimated to reduce North Korea's annual exports by a third in value.³⁴

Days following this development, North Korean Foreign Minister Ri Yong Ho delivered a statement declaring that North Korea "is ready to teach the US a severe lesson with its nuclear strategic force."³⁵ This came amid revelations by the US Defense Intelligence Agency that North Korea had finally miniaturized a nuclear warhead capable of being attached onto a ballistic missile.³⁶ When asked about these recent developments, President Trump responded:

North Korea best not make any more threats to the United States. They will be met with fire and fury like the world has never seen. [Kim] has been very threatening beyond a normal state. And as I said, they will be met with fire, fury, and, frankly, power, the likes of which this world has never seen before.³⁷

It was at this point that tensions with North Korea began to rise to a new level. During a speech at the United Nations the following month, Trump doubled down on his rhetoric, stating:

The United States has great strength and patience, but if it is forced to defend itself or its allies, we will have no choice but to totally destroy North Korea. Rocket Man is on a suicide mission for himself and his regime. The United States is ready, willing and able, but hopefully this will not be necessary.³⁸

Days after this, Kim responded directly with a barrage of his own rhetoric, calling Trump “a mentally deranged US dotard,” and vowing “the highest level of hardline countermeasure in history.”³⁹ The year closed out with North Korea’s third ICBM launch and its return to the US State Sponsors of Terrorism list.⁴⁰



Left: Trump’s Speech at the United Nations, September 19, 2018 (Source: Associated Press); Right: Kim Jong-un (Source: KCNA)

Tensions reached their highest point in the early weeks of 2018 when the Trump Administration began to weigh the possibility of conducting a targeted strike – the so-called “bloody nose” strike – on North Korea.⁴¹ This development came amid another exchange of words between the two leaders. Kim stated that, “the whole territory of the US is within range of our nuclear strike and a nuclear button is always on the desk of my office,” to which Trump replied, “I, too, have a Nuclear Button, but it is a much bigger & more powerful one than his, and my Button works!”⁴² During these first weeks of 2018, tensions between the United States and North Korea had escalated to a historically unprecedented level, with a greater possibility of war breaking out than at any other point in time. It is not unlikely that, had the United States conducted a limited strike on North Korea, the latter would have retaliated by targeting key US facilities in Japan, igniting a devastating regional war in the process.⁴³

Then, suddenly, in the space of a mere few weeks between February and March, the situation began to change dramatically, thanks to the efforts of South Korean President Moon Jae-in. Tensions abruptly eased after North Korea agreed not only to attend the Pyeongchang Winter Olympics but also to march its athletes together with those of South Korea at the start of

the games.⁴⁴ While there was some indication to believe that tensions would return to their previous levels following this period, Kim instead chose to suspend nuclear and missile tests, meeting with a delegation from South Korea in early March.⁴⁵ Immediately after, the delegation conveyed that Kim was committed to “denuclearization” and that the North Korean leader had extended an invitation to meet with Trump, which the latter had accepted.⁴⁶

This sudden turnabout begs the question of what prompted Kim to change tact. While North Korea maintained later that month that this turn of events was due to “the DPRK’s proactive measure, warm compatriotism and will for defending peace,” and not “[s]uch rubbish as . . . sanctions and pressure,” it is quite unlikely that Kim experienced a sudden swell of peace-loving sentiment in the aftermath of an exchange with Trump involving the size of their nuclear buttons.⁴⁷ It is far more likely that Kim, believing that the Trump administration actually intended to move forward with the targeted strike option, switched to a diplomatic strategy aimed to stave it off. At the same time, taking advantage of the opportunity, he cleverly began driving wedges between regional stakeholders – a similar version of the strategy North Korea employed during the Six Party Talks a decade earlier.

It is worth noting that apart from regime survival and recognition by the United States as a nuclear power, North Korea’s goals are relatively unknown, making it that much more difficult to deduce Kim’s real intentions. The aftermath of the Trump-Kim summit announcement has witnessed a whirlwind of summit meetings involving those regional actors with a stake in the outcome of a Kim-Trump meeting, both feeding anticipation of a diplomatic breakthrough in the near future and fueling great anxiety over the many ways such a meeting could potentially go wrong. Before turning to examine how these meetings have impacted the present situation, it is necessary to first take account of how US-Japan alliance coordination has been shaped under the Trump Administration.

These two periods of extremes – from massive escalation to the diplomatic whirlwind – have each brought a distinct issue to the fore in alliance coordination. First, the escalation period, with its risk of all-out warfare, placed enormous pressure on Japan. A University of Maryland Critical Issues Poll, results of which were published on January 8, asked, “How do you view the way President Trump has handled the North Korean nuclear issue?” Among Japanese respondents, 51 percent answered “somewhat unfavorably” and 12 percent answered “very unfavorably.”⁴⁸ Second, the present period of diplomacy carries the attendant risk of making a grand bargain with North Korea that would isolate Japan by leaving the question of abductions and short-range missiles unaddressed – this would drive a serious wedge between the two allies. These two distinct issues which have confronted and are confronting the alliance share a significant commonality – they are challenges that come from *within* the alliance, rather than from without. The present critical period is therefore rather unique among the four in that

institutional drift – which deals with responses to external challenges – does not comprise the best measure by which to evaluate alliance coordination.

The potential pitfalls for the alliance are better conceptualized in the form of institutional *conversion*, rather than drift. While drift results from neglecting to respond to changes in the external environment, conversion comprises “the changed enactment of existing rules due to their strategic redeployment.”⁴⁹ In this scenario, specific actors “convert the institution to new goals, *functions*, or purposes” (emphasis mine).⁵⁰ In other words, while policy gaps which may have existed in bilateral cooperation on North Korea during the past could be attributed to neglect (short delays in updating the alliance via institutional layering), at present these policy gaps emerge from informal changes imposed on the functions or procedures of the alliance under the Trump administration.

Most consequential among these for the North Korea issue is the administration’s heavily top-down approach which affects the quality of information flow between the two alliance partners. Two key preferences are at work here: First, President Trump’s preference for making quick policy decisions on major issues has often caught Japan off-guard by forcing the latter to rapidly adjust its own policy, sometimes with great difficulty. The surprise announcement of a possible Trump-Kim summit, for instance, left Japan scrambling to readjust its diplomatic position and seek routes for potential negotiation with North Korea. Second, while President Trump and Prime Minister Abe have cultivated a strong personal relationship, the former’s emphasis on top-level personal exchanges may come at the expense of less dialogue and planning among alliance counterparts at other levels. As of February, for example, eight of the ten highest positions at the State Department were still unfilled.⁵¹ Over time, this could have an erosive effect on alliance coordination mechanisms and leave the alliance less prepared to jointly tackle complex diplomatic issues like North Korea or even China. If these two preferences continue, they could potentially weaken the alliance and unnecessarily complicate diplomacy to deal with North Korea or other regional issues.

Part II: Left Behind by a Whirlwind of Diplomacy?

Now that the situation has shifted drastically, Japan’s primary concern is being left behind as major regional stakeholders like China, South Korea, and soon the United States negotiate directly with Kim. It bears repeating that if relations between North Korea and the United States are normalized at the same time that the abductee and short-ranged missile issues go unaddressed, the outlook is grim for Japan in obtaining a satisfactory outcome. Since March, Japan has been searching for a way to become more actively involved in regional diplomacy, but the abduction issue continues to remain a self-imposed barrier to talks, as North Korea maintains the issue is settled. North Korea’s state-run Korean Central News Agency recently commented

that by maintaining its position that resolution of the abduction issue is a prerequisite to talks, “only Japan goes against this trend [of regional diplomacy].”⁵² Japan is therefore becoming increasingly isolated, forced to rely heavily on its allies and partners for information and for a means by which to convey its interests to North Korea.⁵³

The situation in Tokyo is one of considerable anxiety. In March, the author of this paper spoke with a number of analysts and defense experts in Japan, many of whom were highly skeptical and pessimistic about the outcome of the current state of affairs. One analyst threw his hands up in exasperation over the rapidly changing and unpredictable nature of the current situation, exclaiming he had “given up on North Korea.”⁵⁴ Many experts believed that the result of a Trump-Kim summit would be either an adverse outcome or a non-outcome, and were skeptical as to whether such a meeting would even come to fruition in the first place.⁵⁵ A number of the individuals this author spoke with called attention to the fluid nature of the situation.

First is the issue of policy coherence and consistency across time. The very announcement of a Trump-Kim summit is a crack in the “maximum pressure” policy, given that the meeting itself is a concession to North Korea; in other words, the red lines appear to be shifting.⁵⁶ One expert observed that it is not fully clear what “maximum pressure” really means, as there are other forms of increasing pressure not only through sanctions but through military tools such as force positioning.⁵⁷ This expert was skeptical toward the reliability of South Korea in an extended pressure campaign and pointed out that President Moon came to power by criticizing the policies of the previous administration.⁵⁸ In other words, based on how the current phase of diplomacy works out, the criteria constituting a definitive departure from or return to “maximum pressure” could vary between South Korea, Japan, and the United States.

Second, many of the experts called attention to the possibility of an expectation gap between the United States and North Korea, in which the latter views the Trump-Kim summit as an arms control agreement – focused mainly on its ICBM capability – rather than disarmament.⁵⁹ Finally, despite North Korea’s current promises to the contrary, these experts were convinced that when all is said and done, North Korea will not actually denuclearize.⁶⁰ What is striking about these remarks is not merely the degree of skepticism, but the general unanimity of these sentiments. The views from these experts in Tokyo are at marked variance with the general mood in the American media, which has remained guardedly optimistic.

Throughout March, April, and well into May, the situation has continued to evolve as North Korea held two summits with China and one with South Korea, and as the United States held a summit with Japan, with plans for a second summit in the works.⁶¹ The following sections will proceed by examining how each of these has impacted on the ongoing situation as a whole.

Kim-Xi Summits: Rekindling Relations

At the end of March, Kim surprised observers by making an unannounced two-day visit to Beijing, meeting with President Xi Jinping – Kim’s first summit with a foreign leader – in an apparent revival of the close relationship once enjoyed by the two countries. Both leaders clearly benefitted from this summit in that while China was able to assert itself at the center of regional diplomacy with North Korea and create the image that it had recouped some degree of influence



Kim Jong-un and Xi Jinping take a walk on the beach, May 8, 2018 (Source: Xinhua/Yonhap News)

with its longtime ally, the latter was able to dispel the image of international isolation and signal its strong ties with a powerful partner.⁶² Both China and North Korea signaled mutual credibility with one another by bringing together high-level officials from their respective sides during this visit.⁶³ A second surprise summit occurred between Kim and Xi in early May when the former visited China for the second time in a row, signaling both deference to the latter as well as a desire to coordinate closely with China in shaping the outcome of the upcoming summit with Trump.⁶⁴ There has been speculation in the media that Xi gave Kim assurances during that meeting that may have emboldened Kim in his approach to the United States. Undoubtedly, China will continue to remain a major player in regional diplomacy as the situation progresses.

This is a crucial observation because although China seems to have been lending much greater cooperation where sanctions and pressure are concerned, the gap in strategic interests between China and the United States is much larger than between the latter and South Korea or Japan. Ultimately, China’s top priority with respect to North Korea will remain the stability of the regime.⁶⁵ China values North Korea as a buffer region separating it from South Korea and US influence, and fears that the collapse of North Korea not only would bring the latter to its doorstep, but could result in a large, destabilizing flow of refugees across its borders.⁶⁶ There is a

possibility, therefore, that China could walk back part of its sanctions prior to full denuclearization if it views stability on the Korean Peninsula as having reached a satisfactory level – this could encourage North Korea not to follow through on its end. It is often stated that China’s cooperation is vital in order for sanctions to be effective, given that more than eighty percent of North Korea’s trade – both imports and exports – is with China.⁶⁷ In addition to its cooperation on UN sanctions in August, China began to implement additional sanctions of its own on North Korea in early 2018, and this likely had a major impact on the pressure North Korea was already experiencing at that time.⁶⁸ The beginnings of a China-DPRK rapprochement signaled by these two summits should therefore suggest to the Trump Administration that China might threaten to pull back some of its pressure on North Korea in retaliation if the United States attempts to walk away from the negotiating table or dismiss a potential deal that China views as otherwise fair.

Abe-Trump Summit: Don’t Forget the Abductions

From the outset of Prime Minister Abe’s visit to Mar-a-Lago in April, both leaders credited the maximum pressure policy with bringing about the changes in North Korea’s behavior.⁶⁹ First, Abe reiterated Japan’s position by invoking the Pyongyang Declaration, stating, “For [normalization] to happen, a comprehensive resolution of multiple concerns – including abduction, nuclear, and missile – will be the fundamental precondition. Through the upcoming historic US-North Korea summit, we certainly hope for a breakthrough in this situation.”⁷⁰ Japan has therefore pinned its hopes on the outcome of Trump’s meeting with Kim as it becomes increasingly apparent that Japan has few remaining means to become more actively involved in the situation.

Throughout this summit, President Trump demonstrated his understanding of the importance of the abduction issue on multiple occasions. During a joint statement following their bilateral meeting, Trump appeared to depart from the script in idiosyncratic fashion, turning to Abe and saying, “And I know for a fact that [the abduction issue is] one of the truly most important things on Shinzo’s mind. We talk about it often. So important to you. And we’re going to do everything possible to . . . bring them back to Japan. I gave you that promise.”⁷¹ Many observers have called attention to the strong possibility that Trump could set the abduction issue aside if he is offered a deal by Kim that is better for the United States. While there is certainly great need for skepticism here, Trump has sent several important signals that should, at the very least, mitigate against outright pessimism on this front. First, President Trump has associated himself with the abduction issue multiple times in the past. In September, he mentioned abductee Megumi Yokota in his UN speech.⁷² The following November, he met with the families of the abductees during his trip to Japan and restated his willingness to work with Abe on the issue.⁷³ Second, Trump has been very vocal about having secured the release of three American citizens

who were taken hostage by North Korea, claiming a major win in the process.⁷⁴ Previously, Trump criticized the former administration for failing to bring home Otto Warmbier – an American college student arrested in North Korea in January 2016 – before he sustained injuries while in North Korean custody that ultimately led to his death.⁷⁵ What this means is that Trump has consistently placed considerable emphasis on hostage procurement as a barometer for political performance. If this behavior remains consistent across time, Trump is likely to strongly view a win on the abduction issue as not only a win for Japan, but as a personal win owed to his negotiating ability. While it goes without saying that the outcome of Trump’s negotiation with Kim is highly unpredictable, it nonetheless bears pointing out that real incentives exist for Trump to use his good offices on the abduction issue.

On a related matter, another important development that occurred at the Abe-Trump summit has gone underreported. During this time, US Ambassador to Japan William Hagerty spoke at length with Japanese and US officials at Mar-a-Lago as part of the presidential delegation. Recalling the conversation, he said, “We had broad-ranging discussions on the topic, [of North Korea] and it extended beyond denuclearization to the topics of chemical and biological weapons as well.”⁷⁶ A statement by the White House following the summit broadened US demands on North Korea by declaring that, “President Trump and Prime Minister Abe . . . also reaffirmed that North Korea needs to abandon *all weapons of mass destruction and ballistic*



Left: Trump provides Abe assurances on the abduction issue, April 18, 2018 (Source: Associated Press); Right: Hagerty speaks with Japanese and US officials on topics concerning North Korea (Source: US Department of State)

missile programs” (emphasis mine).⁷⁷ This is yet another reason to suggest that President Trump may not restrict his win-set to denuclearization in negotiations with Kim.

Finally, there has been some debate in the aftermath of the Abe-Trump summit over whether Trump’s assurances to Abe on the abduction and missile issues constitute a ‘win’ for Japan in the short-term. On one hand, a poll conducted between April 20-22 in the days immediately following the summit by center-right newspaper Yomiuri Shimbun found that Abe’s

already dangerously low approval rating had sunk an additional three points since the start of the month, meaning that his summit with Trump had not provided him with a notable boost in support.⁷⁸ On the other hand, it is important to keep in mind that the absence of a win for Abe is not necessarily the same as the absence of a win for Japan. Public opinion polls remain one of the few quantifiable mechanisms at this point in time by which to evaluate progress in the alliance, but it is still difficult to ascribe wins and losses until the landscape finally settles in the aftermath of the Trump-Kim summit.

Moon-Kim Summit: Form over Substance

On April 27, Kim Jong-un walked across the border between North and South Korea to shake President Moon's hand. The two made a show of shaking hands on the southern side of the border and then on the northern side. The entire day was filled with incredibly powerful imagery as both leaders pledged to work toward bringing about a formal end to the Korean War.⁷⁹ The actual text of the Panmunjom Declaration, signed by both leaders, is unsurprisingly vague:

South and North Korea confirmed the *common goal* of realizing, through *complete denuclearization*, a *nuclear-free Korean Peninsula*. South and North Korea shared the view that the measures being initiated by North Korea are very meaningful and crucial for the denuclearization of the Korean Peninsula and agreed to carry out their *respective roles and responsibilities* in this regard. South and North Korea agreed to actively seek the support and cooperation of the international community for the *denuclearization of the Korean Peninsula* (emphasis mine).⁸⁰

The primary issue here is one of ambiguous definition: it is not fully clear what "complete denuclearization" actually means. First, it is not readily apparent why the declaration opts for the phrase "nuclear-free Korean Peninsula," rather than merely "nuclear-free North Korea," given that South Korea does not possess nuclear weapons of its own. Although US nuclear weapons were based in South Korea several decades ago, these were withdrawn by 1991. Second, the declaration alludes to both countries' "respective roles and responsibilities" concerning denuclearization, rather than merely North Korea's. It was not made explicitly clear what responsibilities South Korea has in this regard.

Many have suggested that North Korea is alluding to a previous demand to pull back the US nuclear umbrella from South Korea by withdrawing its troops from the Korean Peninsula, a demand North Korea has made in the past.⁸¹ While President Moon has stated that, "North Korea has expressed its willingness to give up its nuclear program without making [a] demand that the [US] forces withdraw from the Korean Peninsula," such a claim does not appear to be fully consistent with the text of the Panmunjom Declaration.⁸² There has been increasing speculation that the Trump Administration would be willing to put troops on the table in a negotiation with Kim after the *New York Times* issued a report claiming that Trump ordered the Pentagon to prepare options for reducing the US troop presence in South Korea.⁸³ Trump has pushed back

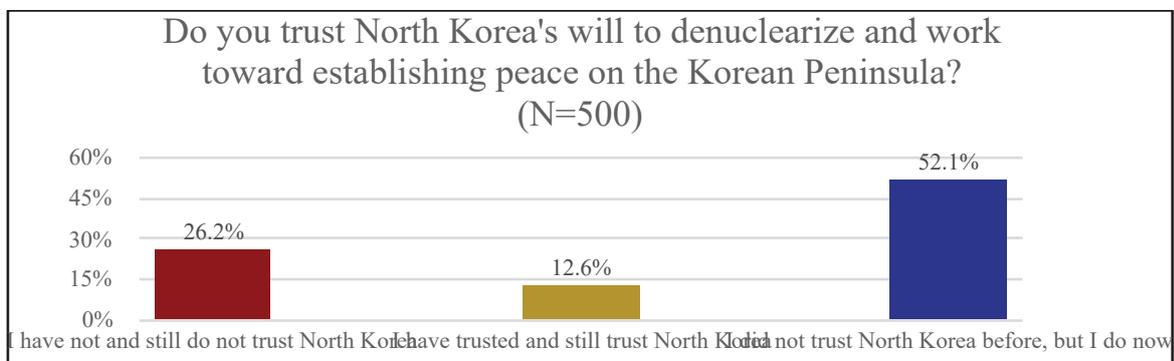
against this by stating that troops are not on the table, and John Bolton has called the claim “utter nonsense.”⁸⁴ It remains to be seen how the ambiguity left by the Panmunjom Declaration will be reconciled.

The prime takeaway from the Moon-Kim summit is that too many details were left to be ironed out at the Trump-Kim summit. The first issue is the vague language of the Panmunjom Declaration described above. Second, Japan was not mentioned once throughout the Moon-Kim



Kim Jong-un and Moon Jae-in prepare to shake hands across the border, April 27, 2018 (Source: Associated Press)

summit, exacerbating fears that the former is being left out of the diplomatic process. Third, the vivid imagery produced out of the Moon-Kim summit worked strongly to Kim’s advantage by holding out the prospect of normalization and painting him in a more favorable light. Public opinion in South Korea shifted rapidly following the summit. Numerous polls conducted in the immediate aftermath showed gargantuan shifts in the feelings of South Koreans toward North Korea and Kim Jong-un. One such poll published less than a week following the summit found that nearly 80 percent of respondents trusted Kim, up from a mere 10 percent six weeks earlier.⁸⁵ It will therefore be much harder now for Trump to walk away from the negotiating table or refuse a deal that might be suboptimal for Japan and the United States. The Moon-Kim summit effectively kicked the diplomatic can down the road by pinning essentially the entire outcome of regional negotiations on the Trump-Kim summit.



(Source: Realmeter, April 30, 2018)

China-Japan-ROK Trilateral Summit: A United Front or the Beginnings of a Fissure?

In early May, Prime Minister Abe hosted President Moon and Chinese Premier Li Keqiang in Tokyo for the annual trilateral summit, which had previously witnessed a two-year interruption.⁸⁶ All three emphasized their commitment and willingness to cooperate in pursuing “complete denuclearization,” a phrase still left undefined.⁸⁷ While a Japanese official reportedly remarked that the three countries remain “in sync” on the issue of denuclearization, several indicators hint to the contrary.⁸⁸ Most prominent among these is Moon and Li’s meeting on the sidelines of the summit. According to Moon’s chief press secretary:

The two leaders agreed that the international community, including the United States, must actively take part in ensuring a bright future for North Korea through a security guarantee and support for its economic development in case North Korea does completely denuclearize, instead of demanding North Korea unconditionally denuclearize.⁸⁹

While it is recognized that historically China and South Korea are more inclined than Japan and the United States to pursue an incentives-based approach rather than a purely pressure-based approach, what is crucial here is the timing. Despite the fact that the real meaning of denuclearization and the order of concessions have yet to be ironed out, China and South Korea have already moved to review potential forms of economic development that could be offered to North Korea.⁹⁰ In order to understand the reasons behind this rift in thinking and the potential dangers it entails in the period during and after the Trump-Kim summit, it will be necessary to move toward a wider analysis of the strategic gaps that exist between the major regional stakeholders and their implications.

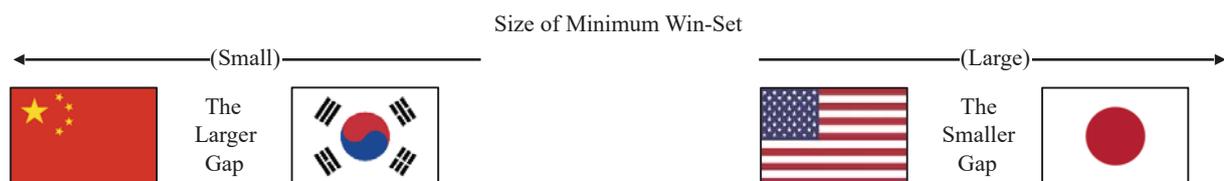
Part III: The Wedges

Commentators on regional diplomacy surrounding North Korea in the past have called attention to North Korea’s strategy of exploiting the interest gaps between the other member countries of the original Six Party Talks – China, Japan, Russia, South Korea, and the United States – and driving wedges between them to extract concessions and buy time.⁹¹ The following section will be devoted to elucidating particular areas where vulnerabilities exist in gaps of the strategic thinking between China, South Korea, Japan, and the United States, with an emphasis on the latter two, and assessing North Korea’s potential for exploiting such vulnerabilities via wedge diplomacy. Rather than offering an exhaustive analysis of all possible lines of division in interests between these actors, this section will limit its analytical scope in three ways. First, Russia will be set aside, given that while the current situation does matter for Russia, it is not likely to be a central player in the immediate future. Second, instead of assessing these strategic gaps separately, they will be assessed in two groups – a larger, more obvious gap between China and South Korea on one hand and Japan and the United States on the other followed by a

smaller, more nuanced gap between Japan and the United States, the latter of which is the *raison d'être* of this paper. Third, the extent of the analysis will be limited to only the most recent developments in regional diplomacy, given that plenty of historic examples of strategic gaps have already been enumerated above. It will be seen that while the larger gap (China-ROK | US-Japan) is a long-recognized issue that appears to be reemerging, the smaller gap (United States | Japan) has threatened to widen with the passage of time and could create new dangers both for regional diplomacy and the US-Japan alliance generally if left unaddressed.

The Larger Gap: China-ROK | US-Japan

China and South Korea have reason to be much less skeptical about the outcome of the Trump-Kim summit because their minimum win-sets are smaller than those of Japan and the United States. On the one hand, the United States seeks at minimum an end to the ICBM program in addition to complete, verifiable, and irreversible dismantlement of North Korea's nuclear program, and Japan seeks progress on the short-ranged missile and abduction issue. On the other hand, South Korea has already long been under threat by North Korea's conventional artillery and values normalization with North Korea, along with the attendant potential for eventual reunification, more than any other regional actor. Meanwhile, as discussed earlier, China is less concerned with North Korea's nuclear capability *per se* than with the unstable situation such a capability brings. Pictured on a spectrum, then, Japan and China would appear at opposite extremes, possessing very large and very small minimum win-sets respectively. The United States and South Korea would appear to be in between, with the former positioned closer to Japan and the latter positioned closer to China. There is room for debate over the relative distance between the four actors on this spectrum, which no doubt fluctuates across time.



Where the larger gap is concerned, the primary danger is the alleviation of maximum pressure before denuclearization can be verified. Even if the eventual agreement takes the form of a step-by-step process, disagreement could exist across the larger gap not only over the strictness of the verification procedures, but also over how these steps should be defined in the first place. Japan and the United States continue to maintain that denuclearization must occur before maximum pressure is rolled back. Japanese Foreign Minister Taro Kono recently met with Secretary of State Mike Pompeo on April 30 to discuss coordination on the Trump-Kim summit, during which both countries renewed their pledges to maintain maximum pressure until North Korea denuclearizes.⁹² Kono obtained a similar statement in March after meeting with South

Korean National Intelligence Service Director Suh Hoon, a major player in behind-the-scenes negotiations with North Korea.⁹³ In the latter case, however, the wording was comparatively underwhelming: “Japan and South Korea agreed we will continue to apply maximum pressure on North Korea *until it results in concrete action*” (emphasis mine).⁹⁴ Two points are critical here: First, it is not clear how results are measured or what concrete action constitutes. Second, the word “until” hints that the beginning of denuclearization might mark the terminus of maximum pressure from South Korea’s point of view. This echoes the statement made by South Korean National Security Advisor Chung Eui-yong when he announced the potential Trump-Kim summit in March:

I explained to President Trump that his leadership and his maximum pressure policy, together with international solidarity, brought us to this juncture. . . . The Republic of Korea, the United States, and our partners stand together in insisting that we not repeat the mistakes of the past, and that the pressure will continue until North Korea matches its words with *concrete actions* (emphasis mine).⁹⁵

Given the repetition of this phrase, it is likely no accident that South Korea chooses to identify “concrete actions” rather than “denuclearization” as the prerequisite for alleviating pressure. South Korea is understandably predisposed toward giving North Korea more leeway in an agreement that might lead to normalization between the two countries and is therefore likely going forward to continue taking positions that more closely resemble China’s in arguing for economic reciprocation at stages earlier in the denuclearization process than the United States or Japan may be comfortable with.

Additional issues in the relations between Japan and South Korea have also acted to further isolate Japan from the ongoing thaw with North Korea. A recurring theme of late has been an awkward dredging up of the territorial dispute between Japan and South Korea over the



The diplomatically sensitive mango mousse served to Kim by South Korea during the Moon-Kim summit (Source: South Korean Government)

Takeshima/Dokdo Islands. In February, when North and South Korea unveiled the unification flag under which their athletes would jointly march together at the Pyeongchang Olympics, it depicted the islands in the form of a subtle blue dot.⁹⁶ Japan reacted angrily, lodging a formal

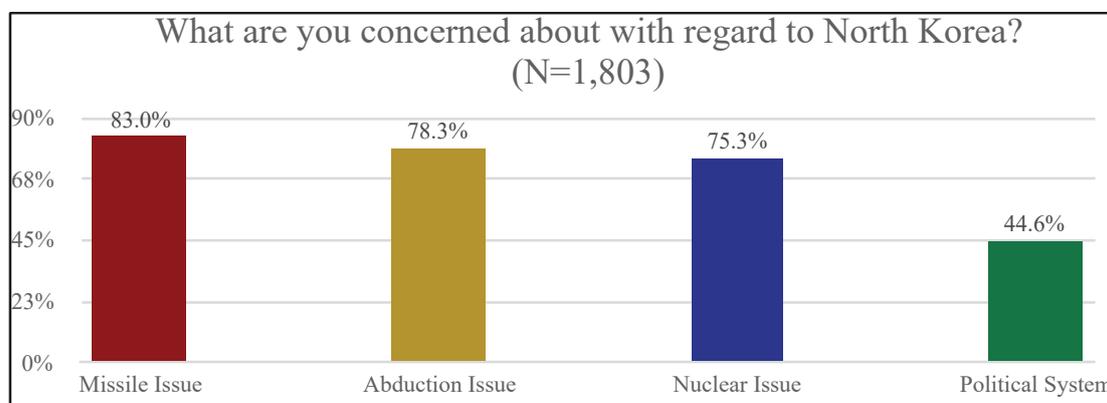
protest with South Korea that led to the removal of the blue dot from the flag.⁹⁷ The territorial issue threatened to intrude onto the scene again when South Korea unveiled a dessert it planned to serve to Kim and his delegation at the Moon-Kim summit: perched atop the mango mousse was an edible map of a unified Korea, Dokdo (Takeshima) Islands and all (this time depicted as two blue dots).⁹⁸ Naturally, Japan lodged another formal complaint, requesting that the offending dish go unserved.⁹⁹ These kinds of incidents have worked to dispel the image of a unified front, reminding the world that Japan and South Korea have different interests. To the contrary, mistrust continues to exist on both sides, especially with regard to the handling of the North Korea situation. On May 13, Japan's Ministry of Defense claimed that a JMSDF ship sighted a South Korean cargo ship near a North Korean tanker in international waters on May 3, and the Foreign Ministry asked South Korea to conduct an investigation to determine whether goods were transferred between them in violation of UN sanctions.¹⁰⁰ South Korea's own Foreign Ministry reportedly replied by saying there had been no such transfer.¹⁰¹ Regardless of the truth of the matter, which is likely to remain disputed, this illustrates that both sides continue to suspect the other's intentions.

The Smaller Gap: United States | Japan

As mentioned previously, the largest peril which now confronts the US-Japan alliance is a potential decoupling of two sets of issues – short-range missiles paired with ICBMs and headway on the abduction issue paired with denuclearization. In surveying these pairs, several initial observations are pertinent. First, both items in the first set resemble one another in that each constitute items in the North Korean arsenal that can be dismantled in a quantifiable and verifiable manner, while the latter set is far more asymmetric. While denuclearization, like missile dismantlement, can be broken up into stages and verified (although not without its challenges, especially now that North Korea has been conducting subcritical tests),¹⁰² it is much more difficult to gauge what might constitute satisfactory progress on the abduction issue. It is therefore far more likely that abductions will end up decoupled from denuclearization than short-range missiles becoming decoupled from ICBMs. As stated earlier, Japan maintains under the 2002 Pyongyang Declaration framework that resolution of the abduction issue is the prerequisite to talks and normalization, although it isn't fully clear what resolution would look like from Japan's perspective. This is problematic because it likely fuels fears on the North Korean side that Japan will move the goal post should the former offer some statement of concession that is judged to fall short of full resolution.

Simply setting the abduction issue aside and dealing with it in the aftermath of denuclearization is much easier said than done. Japan's Cabinet Office conducted a public opinion poll in October 2017 that asked what respondents were concerned about with regard to North Korea. In their answers, 83 percent indicated the missile problem, 78.3 percent indicated

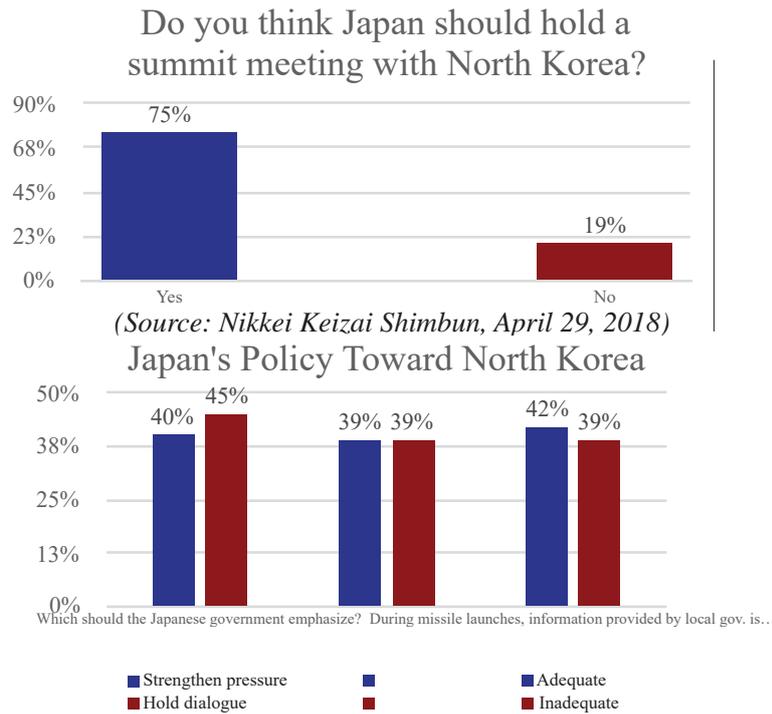
the abduction problem, 75.3 percent indicated the nuclear issue, and 44.6 percent indicated North Korea’s political system (note that the respondents were able to select multiple answers).¹⁰³ The level of concern in Japan over the abduction issue is so high that it exceeds the level of concern over the nuclear issue. Two conclusions emerge: First, Prime Minister Abe is tightly constrained by domestic public opinion. Given that Abe already has cause to fear for his political future over the recent round of scandals, it is unlikely that he would risk a further drop in approval by setting aside the abduction issue with North Korea. Second, it is clear that a solution to the North Korea issue which leaves out the abduction problem will lead to Japan’s isolation and potentially drive a wedge between Japan and the United States, depending on the degree to which Trump is perceived to be responsible for such a turn of events. Therefore, Japan and the United States must exhaust every effort to find a means of integrating the abduction issue into the negotiations without letting it become a stumbling block to the entire process – a tall order indeed.



(Source: Japanese Cabinet Office December 25, 2017)

The only conceivable way to pursue the abduction issue is for the United States to convince Japan – for Trump to convince Abe – to quietly withdraw the demand for the issue’s resolution as a precondition for Japan-DPRK talks. First, Japan’s reason for insisting on resolution of the abduction issue as a precondition stems from a well-justified mistrust of North Korea. Abe has stated that, “talks for the sake of talks are meaningless.”¹⁰⁴ However, it is also the case that the United States has been talking to North Korea through various means, including the New York Channel, for years.¹⁰⁵ Mistrust, even justified, does not necessarily preclude talks. Second, the reason Trump was able to secure the release of the three American hostages in May is likely because he did not make them an explicit precondition. In an interview with *Face the Nation* on May 13, Secretary of State Pompeo reiterated, “We didn’t exchange anything for these North Korean detainees. They came back because Chairman Kim thought it was in his best interest to do so and we’re thankful for that.”¹⁰⁶ Third, even though concern over the abduction issue is widespread, many are still open to talking. As late as September 2017, a telephone survey conducted by Asahi Shimbun observed that public opinion was split over whether or not Japan should hold dialogue with North Korea, with 45 percent favoring dialogue and 40 percent

favoring strengthened pressure.¹⁰⁷ Opinion on the Abe administration’s handling of the situation with North Korea was evenly split at 39 percent approving and 39 percent disapproving.¹⁰⁸ Now, however, opinion has changed even further. According to a Nikkei poll published on April 29, days after the Moon-Kim summit, 75 percent of respondents said that Japan should hold a summit meeting with North Korea.¹⁰⁹ In other words, even though the vast majority of Japanese desire progress on the abduction issue, they are willing to take a gamble and talk with North Korea.



When Trump finally meets Kim in June, he should work to broker an arrangement for quiet talks between Japan and North Korea that might lead to something more substantial. If it proves impossible to procure some kind of statement from Kim on the abduction issue, Trump should at minimum request that North Korea refrain from repeatedly declaring the issue is resolved – this will cultivate a degree of ambiguity that could allow Japan greater room to maneuver diplomatically. Furthermore, Trump should push for some form of reference to Japan in whatever kind of joint statement results from his meeting with Kim. Providing Kim with room to address the abduction issue on his own terms by playing toward his desire to be considered magnanimous – in the same way the United States navigated the issue of American captives – could score Japan a diplomatic victory farther along in the negotiating process. This is no easy task, however, and will require more than Trump’s assurances to Abe. It will require much deeper coordination in the alliance throughout the upper and middle counterpart level, precisely the areas that have seen a measure of neglect as of late.

Closing the Gap

To stabilize alliance coordination, President Trump should make use of the bureaucratic tools and linkages which currently exist while deepening coordination in other areas. First, in building a more robust and coherent North Korea strategy at multiple levels of the alliance, the United States should more deeply involve its alliance-managing bureaucracies in coordination efforts over the handling of the current North Korea situation. These include the Japan Desks at the Departments of State and Defense, which coordinate with Japan's North American Affairs Bureau (Japan-US Security Treaty Division) at MOFA and with the Bureau of Defense Policy (Japan-US Cooperation Division) at MOD, respectively.¹¹⁰ It will also be crucial to maintain close coordination at the level of the US and Japanese National Security Councils, a relationship which allows rapid responses to changing situations, cooperation across different departments or ministries, and more seamless information sharing.¹¹¹ Second, President Trump should aim to fill vacant high-level slots in the US bureaucracy, such as the deputy and undersecretary positions at the State Department. An Undersecretary for Civilian Security, Democracy, and Human Rights, for example, could be a strong asset in working with Japan on the abduction issue. Across time, US-Japan alliance coordination with respect to North Korea has mostly taken the form of a security dimension. Given that the alliance partners have comparatively less robust experience in coordinating diplomacy toward North Korea, it will be necessary to fine-tune and adjust these different mechanisms to the present situation as well as to refine communication at all levels, not just at the executive.

Three broad conclusions can be drawn from an analysis of the larger gap and the smaller gap which apply to both cases. First, the order in which concessions are traded back and forth during negotiations with North Korea could make the difference between success and failure. On one end of the extreme, making concessions too quickly could run a huge risk if it turns out North Korea is not sincere in denuclearization. On the other end, making demands that are too great could result in some measure of independent action by China or South Korea and a resultant loss of control over the process. Second, intentions matter. Japan and the United States are more skeptical of North Korea's intentions than China or South Korea. Japan is skeptical of South Korea's intentions. North Korea is skeptical of everyone's intentions. Confidence building measures across time will have to take into account these complex relationships. Finally, establishing joint clarity of the final objective among as many actors as possible is vital, so that each actor can see their own bottom line emerge from the process. China wants stability, South Korea wants unification on mutual terms, the United States wants security, Japan wants an apology in addition to the latter, and North Korea wants survival. All of these can be achieved, but fitting them together is its own puzzle. The final objective these actors have in common is regional peace. It is important for all of them to keep this at the forefront of their diplomatic thinking as they proceed ahead.

A Regional Reconfiguration?

North Korea's current peace offensive threatens to ignite a different kind of war, one that would be waged between regional actors across the negotiating table, bulwarked by the intransigence of their own foreign policy stances and the stubborn determination to settle the question of denuclearization on their own terms. Kim Jong-un has firmly placed himself in the driver's seat of regional diplomacy.¹¹² In Singapore on June 12, should the meeting actually occur, Kim will receive the highest concession a North Korean leader has ever been given by the United States – a meeting with the sitting president.¹¹³ In moving forward, Japan and the United States must do everything possible to capitalize on this window of opportunity for diplomacy while striving to prevent the situation from devolving into a competition among regional actors, played off against each other by North Korea. As two of the closest allies in the region and the world, Japan and the United States must strive to overcome the vulnerable gaps in their relationships with other partners in the region, and in their own bilateral relationship – two sets of challenges which are inextricably linked together.

At the time of writing, though the Trump-Kim summit is still up in the air, the situation continues to evolve rapidly by the day, taking on new dimensions of greater complexity. This author laments the lack of a better temporal vantage point but has striven to lay out the regional configuration as it exists while making predictions and recommendations based on the information presently available. It is more than fair to say that in the space of four short months, a whirlwind of events has already transformed the region in ways previously unforeseen. Whether diplomacy with North Korea meets with stunning success, whether it devolves into a morass of widening wedges, or whether it collapses outright into another battle of buttons, one can only know for sure that a quiet and anticlimactic end is nowhere in store for the current state of affairs on the Korean Peninsula.

Update: Amid Ambiguity, a Window of Opportunity for Japan?

The immediate aftermath of the Trump-Kim summit has left open a wide margin of ambiguity over the path forward for denuclearization as well as the standards that will govern the evolving US-DPRK relationship and the latter's gradual integration into the wider region. As many have already pointed out, the balance of concessions traded between both actors at the summit – which included most notably the suspension of US-ROK military exercises – skewed decidedly toward North Korea, particularly given the paucity of details contained in the joint declaration.¹¹⁴ Already post-summit issues appear to be cropping up, with North Korea painting the agreement as a step-by-step process to its domestic audience, China already contemplating sanctions relief, and South Korea conducting military exercises around the Takeshima/Dokdo

Islands.¹¹⁵ Furthermore, given that detailed follow-up negotiations between the United States and North Korea are still pending, the same potential dangers involving wedges and win-set decoupling will continue to apply in the months and even years ahead, assuming the diplomatic atmosphere remains intact. However, it must be said that by avoiding an entire range of less optimal outcomes – namely any bargains that would have clearly decoupled the win-sets of Japan and the United States as described above – the summit has left the US-Japan relationship intact for the time being, opening up a window of opportunity in which Japan could potentially negotiate directly with North Korea and thereby raise its profile in the evolving regional diplomacy.

Since early June, Japan has begun to send stronger signals of its desire to negotiate with North Korea. Days before the Trump-Kim summit, Prime Minister Abe stopped by the White House again on June 7 for a follow-up meeting with President Trump in order to seek last-minute assurances on the abduction issue. During the press conference, Abe stated, “I wish to directly face North Korea and talk with them so that the abduction problem can be resolved quickly,” adding later that Japan, “must talk directly with North Korea in the final analysis.”¹¹⁶ Abe repeated this call during a television interview on June 16 and acknowledged that the two sides are communicating.¹¹⁷ Meanwhile, North Korea appears to be sending mixed signals on the



Japanese Foreign Minister Taro Kono (left) and North Korean Foreign Minister Ri Yong Ho (right)
(Source: Associated Press)

abduction issue. On one hand, Kim reportedly communicated his awareness of the abduction issue to Pompeo and also told Trump, in the latter’s words, that it would be “worked on.”¹¹⁸ On the other hand, North Korean state media has continually repeated the position that the abduction issue is resolved, and even stated this again only days after the Trump-Kim summit.¹¹⁹ Given this discrepancy, it is very unclear at the moment what Japan’s actual prospects are for obtaining progress on the issue.

Any benefit the Trump-Kim summit may have provided in setting the foundation for Japan-DPRK negotiations has less to do with the precise terms of the joint declaration and more

to do with the general mood the summit has fostered for the region – a general thaw now leaves room open for Japan to pursue diplomacy much more proactively. One key moment for Japan would be a potential meeting between Japanese Foreign Minister Taro Kono and North Korean counterpart Ri Yong Ho on the sidelines of the ASEAN Regional Forum held in Singapore in August.¹²⁰ Assuming there are no major glitches in the ongoing US-DPRK negotiations – a possibility which is not small – this would be a decisive opportunity to hammer out a framework for resolving the abduction issue in a manner that is mutually acceptable to Japan and North Korea, thereby paving the way for an eventual Abe-Kim summit. Where the missile issue is concerned, it is vital that the United States keep Japan fully apprised of its subsequent denuclearization talks with North Korea, as it is likely that missiles will also figure prominently in these negotiations.

Moving forward, it will be very important to closely track the movements of Secretary Pompeo, who has been a key figure at the center of US-DPRK negotiations. It is clear that Pompeo's role will continue to be instrumental, as he was specifically referred to in the joint declaration at Singapore and tasked with leading “follow-on negotiations . . . to implement the outcomes of the US-DPRK summit.”¹²¹ Already, Pompeo has made several important statements which aim to clarify details concerning the summit. First, while the text of the declaration only refers to “complete denuclearization,” Pompeo has emphasized that “complete” is meant to encompass “verifiable” and “irreversible.”¹²² It is conspicuous, however, that the North Korean phrasing – “complete denuclearization of the *Korean Peninsula*” – remains. Whether this is merely a face-saving maneuver by North Korea to sell denuclearization to a domestic audience or whether this is something more as explained above, only time will tell. Second, echoing previous comments made by President Trump at the Singapore press conference, Pompeo stated that not all of the concessions obtained from North Korea are contained within the joint statement.¹²³ This suggests that while on one hand it is important to call attention to the sparseness of the joint declaration, as written agreements have much greater weight, on the other hand it is important to keep in mind that the joint declaration itself should not be considered the final tally in US-DPRK diplomacy. Third, Pompeo announced that the United States expects “major disarmament” of North Korea by the end of Trump's first term, setting the benchmark for substantial progress by the year 2020.¹²⁴ In his Singapore press conference, Trump appeared to define this as, “a point at which, when you're 20 percent through [the denuclearization process], you can't go back.”¹²⁵ In the months ahead, a major task for Trump and Pompeo will be to eliminate much of the ambiguity surrounding the standards and the timeline for denuclearization by producing tangible results through subsequent negotiations with North Korea. Undoubtedly, the content of these results will greatly impact Japan's own efforts in dealing with North Korea, for better or for worse.

The Singapore summit was not an end, but rather the beginning of a new phase that will present a different set of challenges to the alliance partners in coordinating their diplomatic and negotiating strategies. As regional diplomacy enters a stage where implementation and sequencing are more pertinent than ever before, the US-Japan alliance will be tested to the utmost. The bilateral alliance remains the core of US engagement in Asia and an invaluable asset to the two partners as they navigate through this period of uncertainty. Allowing Japan to remain isolated would deal a crippling blow to the foreign policies of both countries and therefore weaken their respective negotiating positions. The best tool to counter North Korea's wedge diplomacy across the larger gap is the US-Japan alliance, and the greatest asset for safeguarding against a smaller gap between the alliance itself is represented in the unique strength of the relationship across time as well as the mutual confidence that the partners have cultivated with one another throughout its history. As the situation remains highly fluid and skepticism continues to reign, the United States and Japan have an opportunity to harness that relationship as a key to unlock the potential for a new era of regional peace and prosperity.

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Extended Deterrence and the U.S.-Japan Alliance

By Peng Gui

Introduction:

History of Extended Deterrence

Since 1960, the United States has maintained an alliance with Japan that has included a nuclear umbrella, guaranteeing that country's security as part of a strategy of extended deterrence. In recent years, with the growing nuclear threat of a belligerent North Korea becoming increasingly dangerous, it seemed as if the US' nuclear umbrella covering Japan and South Korea would be put to the test. What is the concept of extended deterrence and how does it protect those US allies? This paper aims to answer those questions.

There are mainly two parts to extended deterrence, namely, nuclear deterrence and conventional deterrence. Nuclear deterrence has long been the key to extended deterrence, which first caught people's attention in the mid-1960s when China developed its nuclear capacity and posed a severe threat to Japan. The U.S. deployed strategic nuclear weapons in Okinawa until 1972, when Okinawa was returned to Japan.

During the Cold War, the Soviet Union and China were the primary targets of the nuclear deterrence strategy in Asia. North Korea was a conventional deterrent target. With the collapse of the Soviet Union and the decline of Russia's national power, that country is no longer seen as a threat in Asia, and Japan's concern of a Russian nuclear threat waned in the early 1990s.

However, the situation began to change when North Korea started to nuclear test in the 2000s. Under the current context, North Korea and China are two major targets of the extended deterrence policy, with North Korea the more urgent one. Northeast Asia is one of the most unstable regions in the world. Although no hot wars have occurred in this region in 50 years, North Korean provocations have regularly occurred, and underlying interest conflicts never stop. As Malcolm Cook points out, "Northeast Asia is one of the most important crucibles of global economic and strategic change, and it is far from a stable one." Even just in the past three months during which the author is writing this article, the regional situation has witnessed huge changes leading to nuclear summitry between the US and North Korea.

The Concept of "Deterrence" reviewed

Deterrence is an old concept, but in the 20th century, it was given new meaning because of the creation of nuclear weapons and the development of inter-continental ballistic missiles (ICBMs). During the Cold War, deterrence was the center of America's defense strategy. As Keith Payne pointed out, "Given the enormous, prompt lethality of nuclear weapons, they are

well suited to support strategies involving threats." America's deterrence policy was successful in containing the Soviet Union's sphere of influence.

The question asked after the Cold War was what deterrence should there be under the new global order in which there is no tangible threat as posed by the Soviet Union? Some strategic thinkers began questioning the role of nuclear weapons in the deterrence strategy. They wanted to decrease the role of nuclear deterrence.

This was especially the case when President Barack Obama in April 2009 made his famous Prague speech, *A World without Nuclear Weapons*, and later with the promulgation in 2010 of the nuclear posture review (NPR), Obama's vision for reducing nuclear weapons.

Obama stated:

When the Cold War ended, the United States withdrew its forward deployed nuclear weapons from the Pacific region, including removing nuclear weapons from naval surface vessels and general-purpose submarines. Since then, it has relied on its central strategic forces and the capacity to redeploy nuclear systems in East Asia in times of crisis.

Although nuclear weapons have proved to be a key component of U.S. assurances to allies and partners, the United States has relied increasingly on non-nuclear elements to strengthen regional security architectures, including a forward U.S. conventional presence and effective theater ballistic missile defenses. As the role of nuclear weapons is reduced in U.S. national security strategy, these non-nuclear elements will take on a greater share of the deterrence burden.

These moves by the Obama administration initially worried Japan about the credibility of the US nuclear umbrella. The Obama administration ultimately decided the US was "not prepared at the present time to adopt a universal policy that deterring nuclear attack is the sole purpose of nuclear weapons" because of "a narrow range of contingencies in which U.S. nuclear weapons may still play a role in deterring a conventional or CBW attack against the United States or its allies and partners" ("Nuclear Posture Review" 2010). Some in the Japanese government, however, remained concerned because it seemed unclear what "extreme circumstances" were under the NPR.

The situation was relieved to a certain extent when the two countries subsequently began an unprecedented Extended Deterrence Dialogue (EDD), which gave Japan a little bit knowledge on what "nuclear deterrence" really is. In the past few security consultative committee (SCC) statements, the US has assured Japan that its commitment to Japan's security is full-range, including both nuclear and conventional. Professor Terence Roehrig points out, "The nuclear

umbrella has taken on a more public and prominent position in the alliance and the U.S. extended deterrence for Japan.”

Specific Factors Influencing Extended Deterrence

Robert Putnam raised the “two-level game” model in 1988, which has been widely used in other topics such as Susan Milner’s research on EU integration, and Kenneth Lieberthal’s research on Chinese foreign policy. This research paper will refer to this model in the analysis of extended deterrence. To be more specific, the paper will examine this question based on domestic and international factors, and the correlation between them.

This application is plausible first because of the governmental types of the United States and Japan. Both are polyarchic states in that policies are not made by a single person or single interest group but through the negotiations among different interest groups, and the final policy contains elements of many policy preferences. Moreover, with the improvement of technology, especially social media, the mass public can get access to information in a short period. The United States and Japan are two countries which specifically fit into this category, as both of them are leaders in social media and information innovation. Changes in the international arena can easily stir reactions among residents, and the responses from the mass public will restrict the potential choices made by the central government.

(1) Domestic factors

Japan and U.S. are highly “pluralistic” society; both contain people who have diversified interest pursuits. Within both societies, some groups firmly support extended deterrence and those who are less supportive or against the existence of a U.S. nuclear umbrella. The final policy outcome to a certain extent reflects the interplay among different interest groups.

Scott Sagan outlines three hypotheses to explain why nation-states seek nuclear weapons. The second hypothesis deals with the domestic factors, which “envisions nuclear weapons as political tools used to advance parochial domestic and bureaucratic interests.” Three protagonists in nuclear policy-making are typically the nuclear energy establishment, the armed forces, and politicians. According to Toshi Yoshihara and James R. Holmes, “The former two actors may have bureaucratic interests in going nuclear, as it would give them leverage in budgetary processes, allowing them to attract resources.” In Japan’s case, the writer will also add mass public as a coherent interest group.¹

¹ This division may not be accurate, but it can help with the discussion in this paper. A further and more detailed division is needed if a more concrete result needs to be reached.

A. Nuclear energy establishment

Japan started its nuclear power research program in 1954, with the Atomic Energy Basic Law passed in 1955. Japan's first commercial nuclear power reactor began operating in mid-1966, and nuclear energy has been a priority in energy security policy since the 1970s. Before the Fukushima nuclear plant accident in 2011, about 30% of electricity was produced from nuclear power plants. The accident basically shut down Japan's nuclear power industry, with all 54 of its nuclear plants idled. The entire legal and safety inspection regime was then revised, and slowly, power plants are coming back on line once certified. But the local and national pushback from the public and anti-nuclear power activists, including former prime minister Junichiro Koizumi, continues today.

In 2012, when public reactions of fear and concern about nuclear safety was at its height, the Democratic Party of Japan (DPJ) government, which was still in crisis mode after the enormous earthquake and tsunami that had devastated the northern region and caused the nuclear disaster, was hesitant to bring idle nuclear power plants back on line. It was faced, though, with soaring costs of substituting other fuels – natural gas and coal – which were more expensive and contribute greenhouse gases to the environment. When the Liberal Democratic Party (LDP) coalition returned to power under Prime Minister Abe that December, the government began to plan to bring back nuclear power slowly back into the country's energy mix.

In February 2014, the Ministry of Economy, Trade, and Industry (METI) presented a draft Basic Energy Plan with a 20-year perspective to the Abe government, which adopted it in April. The plan stipulated that nuclear power is a key base-load power source and would continue to be used safely to achieve stable and affordable energy supply and to combat global warming. By 2017, five nuclear plants were back in service, and 21 re-start applications were pending. These five nuclear plants generated around 1.7% of Japan's electricity in 2017.

As of May 2018, 14 reactors at seven power plants have cleared the Nuclear Regulation Authority's (NRA) screening, and seven reactors at five plants have resumed operations. Two more were expected to restart in May. But two plants in Niigata Prefecture that had cleared the NRA screening in December, have yet to be restarted due to opposition from the governor. That standoff is expected to continue.

In such a climate hostile to nuclear power, it is not surprising that many electrical companies and large energy enterprises have shifted their focuses into green energy research. According to the government's latest energy plan released in April 2018, renewable energy development will accelerate and Japan will keep its current policy of lowering its dependence on nuclear power as it aims for a low-carbon society, a government panel report on the energy plan through 2050 showed Tuesday. The government kept the same targets for its mix of energy

sources as in the previous plan. By 2030, renewable energy will account for 22 to 24 percent of electric power generation, while nuclear power will reach 20 to 22 percent.

Commenting on the situation, Jacques Hymans argues: “The development of nuclear energy in Japan boosted the number of Japanese government agencies and private-sector actors that are committed to the peaceful use of nuclear power — and can serve as a formidable opposition to any political move toward acquiring nuclear weapons.”

B. The Self-Defense Forces

The Japanese people consider their military as an entirely defensive force, and when it comes to international activities, they see the Self-Defense Forces a force as providing humanitarian or nation-building assistance in other countries. They do not want the SDF fighting wars, particularly America’s wars. In that context, the SDF has carefully avoided taking any public position on political issues, including attitudes toward nuclear weapons. Those officers in the past who have taken controversial positions were immediately sacked.

The SDF by its very nature is different from any other armed force in the world. The government continues to ban weapons with offensive capabilities such as bombers, aircraft carriers (it does have helicopter carriers, though), and long-range ballistic missiles, and it has no plans to acquire them in the foreseeable future. The Abe government would like to amend Article 9 of the Constitution to explicitly state that Japan has an armed force, which in theory would open up the possibility of easing that restriction, but the public remains wary of such a bold move. Abe may leave office without fulfilling his goal of constitutional revision.

In terms of the equipment and scale, however, the SDF, 300,000 strong, is neither backward nor small, and the defense budget under Abe has been growing to match the regional threat situation. It is highly trained, with regular joint drills with US forces, and under the new guidelines since 2015, can come to the aid of its allies under attack. The SDF is now striving to improve its battle-readiness to counter insurgencies. Although hawkish politicians who are worried about the reliability of the US nuclear umbrella, may argue about Japan considering its own nuclear option, on that subject, the SDF remains appropriately silent. SDF officers are content to let the civilians control the policy narrative.

C. Government

For most of the postwar period, the conservative LDP has been the ruling party, initially solo and then with a coalition partner. LDP governments have taken a consistent stand opposing the notion of Japan acquiring its own nuclear weapons. The most unequivocal policy statement on nuclear weapons was Prime Minister Eisaku Sato’s Three Non-Nuclear Principles (1967) that was approved by a Diet resolution but never made into law. The Prime Minister told the Diet:

“My responsibility is to achieve and maintain safety in Japan under the Three Non-Nuclear Principles of not possessing, not producing and not permitting the introduction of nuclear weapons, in line with Japan's Peace Constitution.” Sato was awarded the Nobel Peace Prize for his policy stance.

But Sato did not mean that Japan did not need the protection of the US’ nuclear umbrella. As Toshi Yoshihara and James R. Holmes pointed out, "It is noteworthy that even Sato was acutely aware of Japan’s vulnerability in the dangerous Cold War security environment. Following China’s nuclear breakout in October 1964, Sato quickly sought reassurances from the United States that Washington would extend its nuclear umbrella to Japan." In other words, the creditworthiness of the US nuclear umbrella was the key to Japan's nuclear policy.

As long as the US is willing to extend its nuclear deterrence to Japan, then the Japanese government would never need to consider a nuclear plan. Former senior diplomat Yukio Satoh explained: “The US extended nuclear deterrence will continue to be Japan’s only strategic option to neutralize potential or conceivable nuclear and other strategic threats.” Even barely perceptible signs of weakness in the US’ nuclear posture -- either perceived or real -- could trigger alarm and overreaction in Japan.

Tetsuya Endo, a former vice chairman of the Atomic Energy Commission of Japan, argues that while Japan possesses the technical capabilities to stage a nuclear breakout, the material costs combined with the prospects of international isolation would deter Tokyo from pursuing such an option. In 1968, then Prime Minister Sato commissioned a secret study on the costs and benefits to Japan of developing a nuclear weapons capability. The report was leaked to the public in 1994. It concluded that such a capability would harm Japanese security and that the US’ extended nuclear deterrence would be sufficient. In 1995, Japan’s Defense Agency (now the Ministry of Defense) concluded that the costs, political and otherwise, of building the infrastructure for a nuclear-weapons program would be exorbitant, and that the nuclear option was not a favorable one.

Without a black-swan incident, the Japanese government is thus likely to continue its traditional nuclear policy. The stability of nuclear policy does not mean that there was always a single voice in the administration over time. Debate over nuclear policy in Japan dates back to even before the three non-nuclear principles. In 1958, Prime Minister Nobusuke Kishi told the Diet that the nation’s postwar peace constitution did not forbid a strictly defensive nuclear arsenal. Such thinking by Prime Minister Kishi has had an impact on the current Prime Minister Abe, his grandson. In fact, in 2002, when Prime Minister Abe was the deputy chief cabinet secretary, he claimed that Japan could acquire small nuclear weapons under the Constitution. Although Abe and other nuclear hawks in his party may maintain such views, national debate to

seriously consider a nuclear option for Japan has yet to materialize. This is testimony to the lasting credibility of the US nuclear umbrella.

D. General Public

Japanese politicians, like those in other democracies, know that if they take views that their constituents reject, they could suffer defeat in the next election. Since the general public in Japan is against not only nuclear weapons and Japan considering such an option but also against nuclear power as well, politicians dare not veer off in another direction. Most Japanese remain highly supportive of the US extended nuclear deterrence, and do not want to hear arguments from the Diet changing that status quo.

Fifty years after the announcement of the three non-nuclear principles, it is thus clear that they have become a part of Japan's national identity and not just a mere policy preference. The historical legacy of Hiroshima and Nagasaki overcomes any argument that would erase those public memories. According to a poll by the daily Asahi in 2014, public support for the principles had risen to 82 percent, compared with 78 percent in a 1988 poll. Despite growing concerns about North Korea's nuclear program and China's military power during this period, Japanese support for remaining non-nuclear increased. A Fuji News Network survey in September 2017 after North Korea's latest nuclear test found little change in public's negative attitude towards nuclear weapons, including the notion of introducing US tactical weapons in Japan. Specifically, 79.1% opposed Japan developing a nuclear capability, and 68.9% opposed letting the US bring in tactical weapons."

Moreover, the Japanese public remains highly aware of the devastation that nuclear weapons, as well as nuclear power, would bring. As the only country that suffered atomic bombings, Japan was further traumatized by the Fukushima nuclear accident.

A study by Atsuko Kitada of trends in seven major polls in Japan over the past thirty years found that negative views towards nuclear power generation had remained in the 20%–30% over the past 30 years, increased to 70% four to six months after the accident. Another study by scholar Mike Mochizuki found that after the Fukushima incident, there was a spike in the percentage of people who believed that Japan had a moral responsibility toward nuclear disarmament. Anti-nuclear advocates have called for “double-zero”: zero nuclear energy and zero nuclear weapons. They see the Fukushima accident as the culmination of a series of nuclear mishaps.

International Factors: North Korea and China

A. North Korea

North Korea's existential threat to Japan stems not just from its nuclear weapons capability but also from its arsenal of medium-range Nodong missiles that can easily reach Japan and devastate the country. Japan in cooperation with the US has been building a missile defense system to intercept such missiles, but it is not foolproof. Japan has to put its faith in the US nuclear deterrence and conventional deterrence to guarantee its very survival.

Since 2011, North Korea has launched than 90 missiles, many flying toward and even over Japan, and carried out four nuclear weapons tests. That is more than what his father, Kim Jong Il, and grandfather, Kim Il Sung, fired over 27 years. In 2017 alone, Kim launched 24 missiles and carried out North Korea's largest nuclear test.

Kim Jong-un's arsenal includes short- and medium-range ballistic missiles, intercontinental ballistic missiles and cruise missiles. The Hwasong-15 intercontinental ballistic missile is the most powerful rocket the North has tested to date. It is estimated to have a range capable of hitting the entire continental United States.

Japan is a hardliner on the North Korea issue, it not only wants the DPRK to discard its ICBMs but also its short and medium-range missiles which can target cities in Japan. Prime Minister Abe in his 2018 New Year address said, "A nuclear North Korea poses the greatest threat to Japan since WWII."

Recent "denuclearization" developments in North Korea have been treated suspiciously in Japan. In June 2018, a group of international reporters were allowed to witness the demolishing of nuclear testing tunnels at Punggye-ri. Ironically, in May 2008, another small group of media correspondent witnessed the destruction of a cooling tower at the Nyongbyon reactor site. This happened a year after the North had reached an agreement with the US and four other nations in Six Party Talks to disable its nuclear facilities in return for an aid package worth about \$400 million. But that deal eventually collapsed after Pyongyang refused to accept US-proposed verification methods. Similar issues may also complicate the current dialogue since the US has expectations of a quick denuclearization involving the shipping of nuclear weapons, fissile material and long-range missiles out of the country within a short time after the summit between Kim and Trump on June 12 in Singapore.

Some researchers believe that North Korea's recent tests prove that its nuclear technology has now reached the stage where it no longer needs site-experiments to test weapons but can depend on computer simulations. If that is the case, it validates that North Korea is now a de-facto nuclear power. And if its strategy of using its nuclear diplomacy to receive much needed

economic aid from other countries does not pay off, it can easily unfreeze its nuclear program. Japan, always the skeptic, fears such a scenario.

B. China

China is another concern that Japan needs to address, although there is no nuclear component. When compared with North Korea, China's "threat" is more tangible. Japan's concern not only comes from the East China Sea, centered on the territorial dispute, but also China's assertiveness in the South China Sea, through which much of Japan's commercial shipping, including oil from the Middle East, traverses. Additionally, Japan has long been concerned about the rapid rise of China's military might.

In recent years, Japan and China have played a chicken game in the East China Sea. According to the 2016 Ministry of Defense white paper, Japan's Air-Self Defense Force (JASDF) scrambled fighter jets 571 times during the fiscal year 2015 to intercept Chinese military aircraft approaching or intruding into Japanese airspace. This number constitutes an all-time high since the defense ministry's Joint Staff Office began to keep records in the fiscal year 2001 and also marks a significant increase from 2014 with 464 sorties. Since then, the pattern has continued.

In addition, China's military power has grown to levels that rival the US in the region. This factor also raises the issue of credibility of US extended deterrence.

Policy Options

Against such a background, what are the possible options that Japan may take? Three are laid out below, though only the first seems feasible at this stage.² The most obvious and logical option is to rely upon the US' extended deterrence. The second option is for Japan to depend on the US nuclear umbrella while developing a conventional deterrence capability (the so-called mixing strategy); and the extreme option is for Japan to develop its own nuclear weapons.

(1) US Extended Deterrence

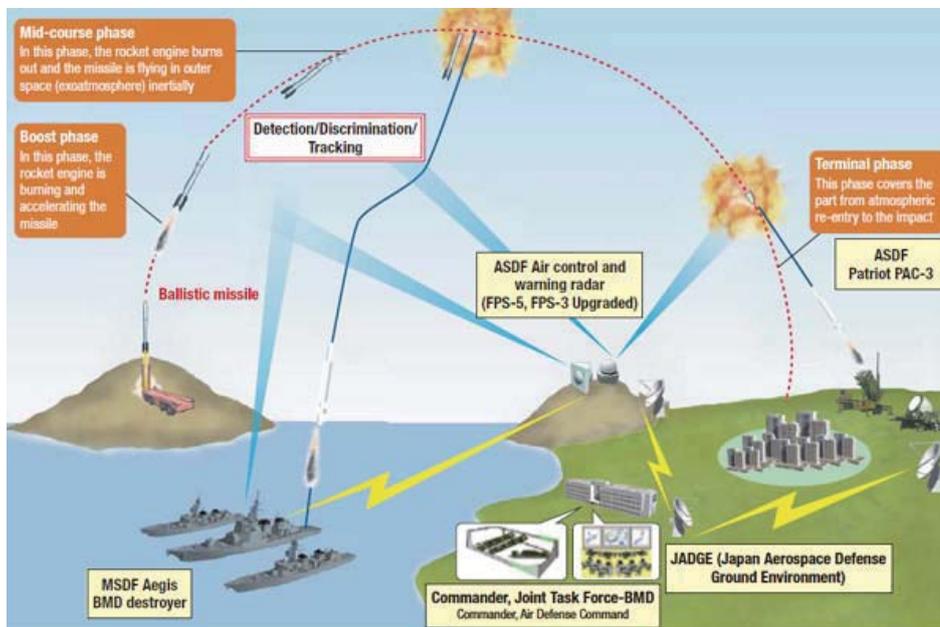
Continuing to rely on the US extended deterrence is the conventional wisdom about Japan, as Sheila Smith explains, "Japan should simply maintain a basic defense posture that could be ramped up if and when a threat should appear. The US military presence in Japan testifies to that reality. In 2016, there were over 54,000 American troops in Japan, the largest number of any country worldwide where US forces are stationed.

² Although there are some reports about northeast Asia nuclear-free zone among peace-lovers, with the growing North Korea threat and China's military developments, this option may not be put on the table of discussion.

China's military is much bigger than Japan's, with lots more equipment and 2.3 million active personnel compared to Japan's 310,457 (including reserves). China ranks third in the world in size, behind the US and Russia. Japan is tenth. Despite Prime Minister Abe's desire to upgrade the capabilities of the SDF, the number of military personnel is not likely to grow, particularly given Japan's demographics of a rapidly aging society with fewer babies born. Japan, however, has been acquiring advanced aircraft, such as the state-of-the-art F-35, and other military equipment. What it lacks in quantity can be overcome by quality. Moreover, defense cooperation between the SDF and US forces in Japan under the new defense guidelines of 2015 is heading toward becoming "seamless" in case of a contingency.

Although the presence of American troops on Japanese soil, especially in Okinawa, causes controversy, particularly when an accident or incident occurs, the public's rate of support for the stationing of US troops remains high, with one poll at the 70% level.

Another place which adds credibility to this option is the improved dialogue on the specific details of extended deterrence. Since the Obama Administration, SDF officers are invited to visit the US' strategic command to be briefed on nuclear weapons. Such a dialogue has resolved many of the concerns that Japan has had over U.S. nuclear policy.



(2) *Mixing Strategy*

Mixing strategy has attracted much attention since North Korea intensified its nuclear

development program. The notion is implicit in the National Defense Program Guidelines of 2010, issued by a DPJ government. In it, the government emphasized that while Japan would continue to rely on the US nuclear umbrella, it would "implement its efforts including ballistic missile defense and civil protection to enhance the credibility of US extended deterrence." Over the past 15 years, in fact, Japan has developed a credible ballistic missile defense(BMD) capability. By 2016, Japan had successfully built a multi-layer defense system against ballistic missile attacks.

In addition to BMD, some in the defense establishment began to call for developing a conventional striking ability due to the existential threat from North Korea. But unlike BMD, for Japan to develop a preemptive strike capability remains highly sensitive politically, not to mention the enormous cost, and the likely reaction from Asian neighbors that fear the rise of Japanese militarism. Therefore, it is now unlikely that Japan will develop such a striking ability. But pressure may come from the US, as James Schoff pointed out, "Washington should encourage Japan to consider measured investments in strike capabilities that can be deployed within the existing alliance framework and leave room for—and complement—other necessary defense acquisitions by Japan."

(3) Nuclear Weapons Plan

The nuclear weapons option has always been on the table since the 1960s, but always rejected by the Japanese government of the time. According to James Schoff, since Japan has the technology and infrastructure, it could if it wanted develop a nuclear weapon in few months or two years at most³. But why do so as long as the US umbrella option remains firm. Moreover, there are few nuclear hawks in Japan even in conservative political circles. In a Genron NPO opinion survey, a higher percentage of South Koreans believed that Japan should develop nuclear weapons than Japanese. Japan's extreme sensitivity to nuclear weapons, as seen in the longevity of the three non-nuclear principles, and the tragic legacy of Hiroshima and Nagasaki have shaped the Japanese people's views toward rejecting any notion of having nuclear weapons. This feeling was intensified after the March 2011 nuclear disaster at Fukushima.

Evaluation and Conclusion

Although developing nuclear weapons will always be an option for Japan, the likelihood of such a scenario remains quite low. Former defense minister Shigeru Ishiba, one of the LDP's defense hawks, said it all: "I don't think Japan needs to possess nuclear weapons, but it's important to maintain our commercial reactors because it would allow us to produce a nuclear

³ This is challenged by other analysts, many pointing out that although Japan has plenty of experience with nuclear power, there is a distinctive difference with nuclear weapons. The development of nuclear weapon can take ten years.

warhead in a short amount of time." One could interpret this statement as meaning that for Japan, having the potential to make nuclear weapons is in itself a deterrence to Japan's enemies.

Nevertheless, if Japan should ever decide to develop nuclear weapons, it would cause strong reactions from all other regional actors and upend the US-Japan alliance since nuclear deterrence is its core. Japanese and American leaders are well aware of that reality. While some analysts posit a black-swan incident that could provoke Japan to rush into a nuclear breakout, the scenarios are fanciful and unlikely.

A mixing strategy and extended deterrence are not contradictory to each other. The adoption of a mixing strategy, including BMD and a conventional strike capability, can act as the supplements to the US' extended deterrence. As long as the security situation in Northeast Asia is highly unstable, and Japan faces a nuclear threat from North Korea, there is a possibility of it opting for a first-strike capability. However, if the US and North Korea in their historic summit start a process of denuclearization, pressure on Japan to adopt a mixing strategy will ease.

In sum, no better option is on the table than extended deterrence to protect Japan's interests. It is thus extremely likely that the status quo will continue for the foreseeable future. Prime Minister Abe recognized that "the extended deterrence of the United States with nuclear deterrence at its core is indispensable" for Japan's security against the threat of nuclear weapons."

Moreover, polls show both Japanese and Americans have positive images of each other and of the US-Japan alliance. Close and friendly relations between the two countries of course increase the reliability of the alliance. The Trump administration's new Nuclear Posture Review (NPR), effectively abandons the idea of realizing a nuclear-free world, President Obama's goal. The new NPR ironically will help with the creditworthiness of the nuclear deterrence as the US has emphasized in it its commitment to allies.

The US extended deterrence in retrospect has served to guarantee a peaceful environment for the world's most unstable region. This overarching theme will continue, though there might be some changes at the periphery. Currently, nuclear deterrence is still US dominated, with Japan remaining on the sidelines. It is important, however, for the two allies to continue their nuclear dialogue and to share relevant information so that both remain on the same policy page and committed to the goals of the bilateral alliance.

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Implications of Japan's Infrastructure Strategy to the US and Beyond

By Joon Young Kwon

Introduction

Following its defeat in World War II and occupation by the United States until 1952, Japan and the US built and maintained a stable security relationship that has evolved with the times. The two countries are now solid allies. On the economic front, too, despite a long period of trade friction in the 1980s and 1990s, Japan and the US have established a mutually-beneficial relationship based on trade and investment that too has matured over time. Disputes became a thing of the past. By 2016, the two countries were ready to join a mega-free trade pact, the Trans-Pacific Partnership (TPP), which would have greatly benefited them and the other 10 member countries by opening markets to an unprecedented level and setting new rules and high standards that would boost the globalizing efforts of the World Trade Organization (WTO).

That rosy picture ended in 2017, however, with the arrival of the US administration of President Donald Trump, who withdrew the US from the TPP, slapped Japan with tariffs on steel and aluminum, and is now threatening to raise high tariffs on autos imported into the US. There are bilateral economic talks underway, as well, through which the US is aiming to link a free-trade agreement (FTA) with Japan that would go beyond the concessions made in the TPP talks. Japan is resisting.

Against that background, Japan under Prime Minister Shinzo Abe has endeavored to pick up the pieces of the TPP by reorganizing it into the TPP-11 without the US, and to match the Trump trade policy by its own strategy. One key element of strategy is based on an existing initiative to export infrastructure as a means of growing the Japanese economy. It will now include the United States, which welcomes such investment. Japanese advanced infrastructure related technology and materials will also target the Southeast Asian market, where Japan has traditionally been a donor of official development aid and direct investor of plant and equipment. Here, Japan faces increasing competition from China.

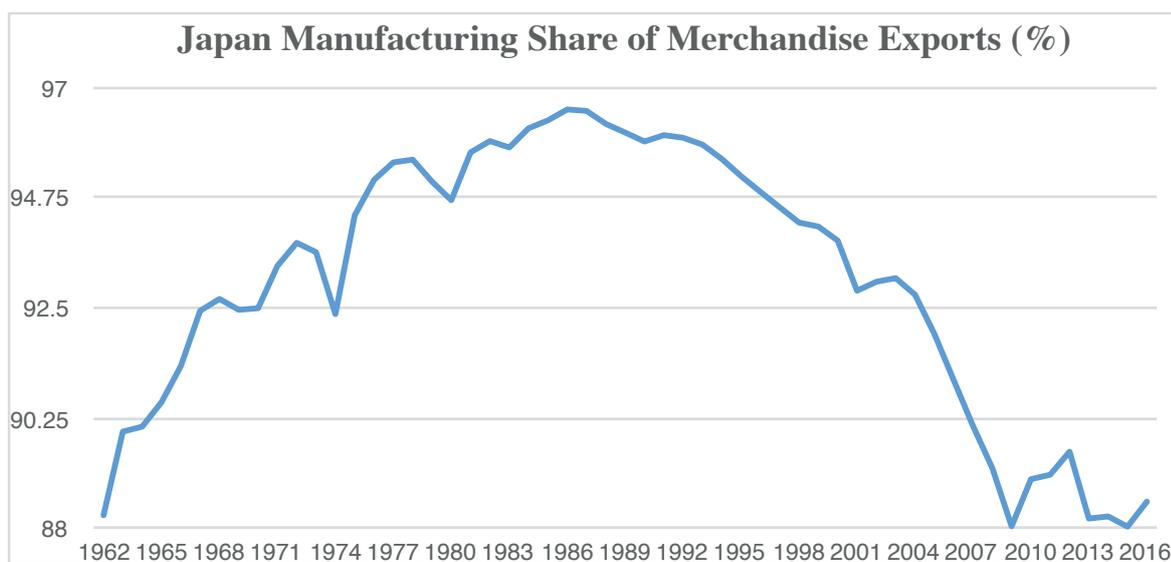
This paper probes the driving forces behind the infrastructure export strategy that brings together Japanese government and private-sector cooperation. In analyzing these forces from political, economic, and technological perspectives, this paper will assess how increased Japanese infrastructure exports to the US will affect the bilateral relationship and how cooperation is possible in other areas, as well.

In addition, this paper defines infrastructure as the basic physical and organizational structures and facilities (e.g., buildings, roads, and power supplies) needed for the operation of a

society or enterprise. Infrastructure improves social welfare of the entire nation by reducing transaction and transportation costs. There are several types of infrastructure, such as energy, transportation, sewage and telecommunication systems, but in this paper, the focus is on transportation infrastructure.

Changing Structure of the Japanese Economy

The Japanese economy has undergone a profound transformation since the 1990s. The graph below on Japan's Manufacturing Share of Merchandise Exports shows that manufacturing outputs, such as electronics and home appliances, constituted the bulk of Japanese exports in the 1980s and 1990s, about 95% of all merchandise exports, but since then, the share of such exports gradually fell below 90%. Japan's economic status in the world as the center of manufacture industry has gradually declined partly because of rising competition with the newly emerging economies, such as Korea and China that had relatively cheap labor and low production costs. In particular, Japan suffered from a loss of competitive advantage in manufacturing, and as a result, Japanese companies have had to start restructuring their business model.

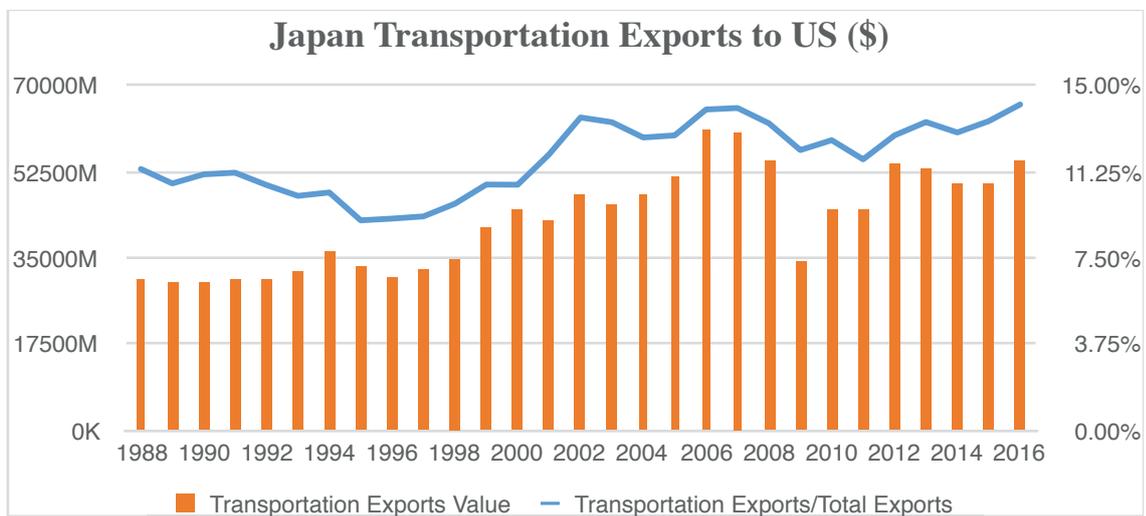


(Source: World Bank Data)

For example, Sony was a well-known brand that dominated the consumer electronics market into the 1990s. However, it has since shed most of its manufacturing capability in that area, restructuring heavily during the period 1994-2003. The end result was the reemergence of a corporate giant that kept some of its electronics business alive through new products and services, and spread out into servicing industries in the entertainment world, including streaming game and music services. Such diversification and changing portfolio of Japanese companies pinpoint that the Japanese economy is slowly moving away from its traditional

focus on consumer electronics to higher-end technology and service-oriented products.¹

Japan has a comparative advantage in high-end technology because it heavily invested in and accumulated its technology skills over a long span of time. An increasing share of Japanese exports now comes from technologically advanced components and services rather than simple manufacturing goods. Japan is still a leader in many high-end industries, such as artificial intelligence, robots, pharmaceuticals and infrastructure building technology. In particular, infrastructure building in energy and transportation has increased in recent decades. The graph below, Japan Transportation Exports to US, shows a gradually increasing trend in exporting values and share of transportation infrastructure to the US market, though the transportation exports to US slumped in 2008 and 2009 due to the financial crisis.



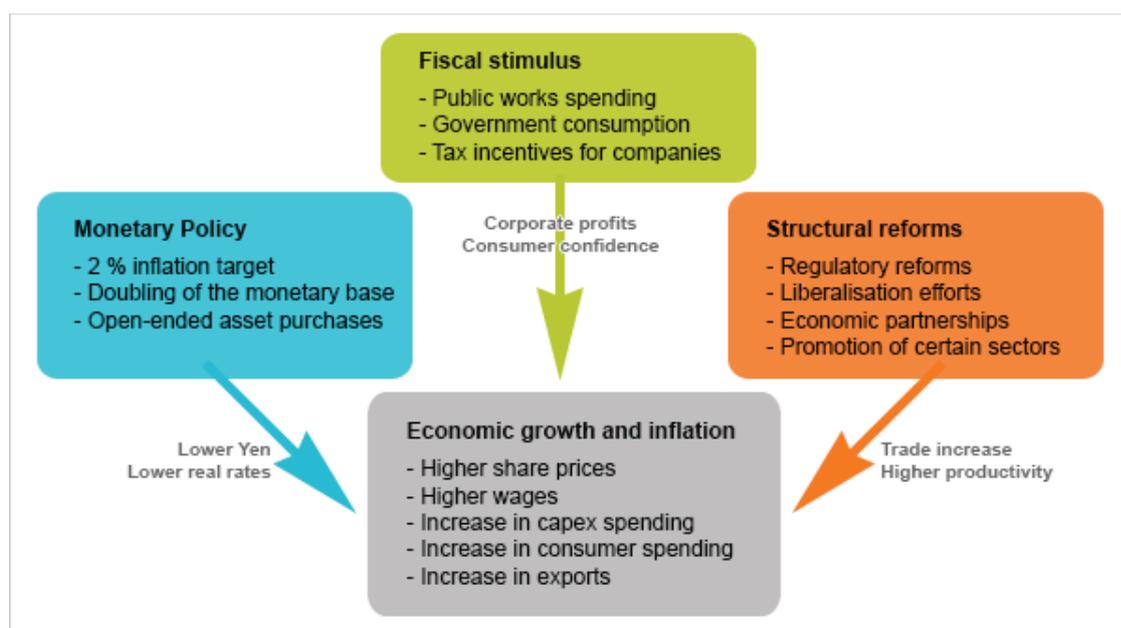
(Source: World Integrated Trade Solution)

Changing Political and Economic Environment

The recent expansion of China’s influence in Asia has been a challenge for Japan, from an economic as well as a security perspective. China relies heavily on economic development assistance and trade as a means of broadening its influence in the region, most recently through the One-Belt-One-Road initiative, launched in 2013. China’s investment in infrastructure development is designed to further facilitate trade in the Eurasia region. Prime Minister Shinzo Abe announced Japan’s willingness to cooperate with China on the One-Belt-One-Road initiative, adding to the overall infrastructure investment in the targeted region. But Japan and China are also competitors that are trying to capture the infrastructure market in emerging economies. For instance, Japan’s infrastructure investment since the 2000s—both completed and ongoing—totals about \$230 billion, while that of China reached

about \$155 billion, according to BMI Research. In addition, while Japanese companies and government agencies have had a long head start, Chinese companies have advantages that could enable them to overtake Japan in specific sectors, such as lower bidding prices.²

In light of such developments, Prime Minister Abe initiated a comprehensive economic policy dubbed Abenomics designed to grow Japan’s perennially sluggish economy after returning to power in December 2012. Abenomics consists of three major policy tools, which Abe calls “arrows”: expansionary fiscal policy, aggressive monetary easing policy, and structural reforms aimed at lagging sectors like agriculture, as well as business reforms, such as improving Japan’s corporate governance. Promotion of exports of infrastructure is a part of the third arrow of Abenomics. It coincides with Japanese government’s other efforts to expand the scope of merchandise trade beyond the traditional focus on ordinary manufacturing goods. The diagram below illuminates how three arrows function to create economic growth in Japan.³



(Source: Banque De Luxembourg Investments)

In the face of Asia’s changing geopolitical landscape, centered on the rise of China, Japan is now employing trade policy as a toolkit to help create a favorable geopolitical environment in the region. It aims to increase the economic interdependence between Japan and other countries, especially those emerging economies where there is a demand for infrastructure development. In doing so, Japan aims to provide an alternative to rapidly increasing infrastructure investments by China in those countries. It does this by selling high quality and sustainability as key advantages of opting for Japan’s infrastructure projects.

Moreover, by cooperating with the US on infrastructure and increasing related exports to the US market, Japan could facilitate technological cooperation between the two countries and, using such ties as a springboard, strengthen its presence in infrastructure development projects around the world.

Japanese Government Policies

The New Growth Strategy—a multifaceted blueprint to create jobs and demand in the Japanese economy—was initially formulated by the Democratic Party of Japan (DPJ) government in 2010. The DPJ government introduced the plan to promote exports of infrastructure to help grow the economy. Picking up the DPJ’s initiative, Abe created a cabinet-level council for infrastructure development, which set a goal of achieving an infrastructure-related export target of 30 trillion yen in 2020, compared to 10 trillion yen in such exports recorded in 2010. To boost infrastructure exports, the council would convene meetings of Japanese government agencies and private companies in order to help exporters deal with potential business issues.⁴

The New Growth Strategy stipulates that Japan will establish a framework for supporting private companies’ initiatives in the field of infrastructure. The government also detailed its infrastructure initiatives in high-speed railways, transportation system, airports, port terminals, logistics and urban development. Cooperation with government agencies and banking institutions, such as Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), Nippon Export and Investment Insurance (NEXI), and Japanese Overseas Infrastructure Investment Corporation (JOIN), also strengthened, where each institution will take up a specific and specialized role in supporting Japanese companies. After Abe became prime minister, the value of the targeted exports reached 16 trillion yen in 2013, and rose to 19 trillion yen in 2014.⁵

Under the initiative, the government also eased regulations and expanded the scope of services offered for Japanese private companies. For example, JBIC and JICA started offering dollar and local currency denominated loans, which helps financing projects in Latin America. They also expedited the process for approving yen denominated loans called High-Spec Loans from the standardized three years to one and a half year, if projects are well qualified to promote quality infrastructure.⁶

In addition, the Japanese government’s focus on the nature of infrastructure development has changed. Traditionally, more than 50% of total Official Development Assistance (ODA) concentrated on infrastructure development in emerging markets in Asia, but the Japanese government has recently shifted its focus from ODA to business deals. The

total amount of net disbursement of ODA also stagnated in recent decades around \$10 billion annually, and is expected to remain the same. This indicates that while ODA still plays an important role in Japanese diplomacy, the government is not using ODA as actively as it used to in advancing its political and economic goals.⁷

On the other hand, business opportunities for infrastructure development overseas have burgeoned. For example, in the past, JBIC could only provide loans for infrastructure exports going to emerging markets, but the bank can now provide loans for infrastructure headed to advanced economies, such as the US. Moreover, Prime Minister Abe himself began to promote his infrastructure initiative when he travelled overseas, bringing along an entourage of company representatives—an occurrence which is unprecedented in Japanese diplomacy.⁸

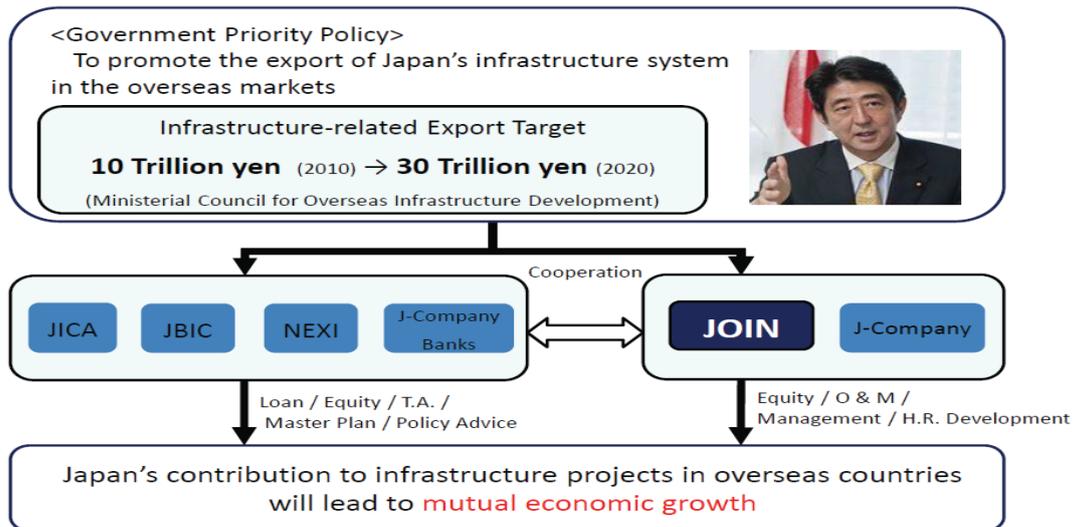
Implementation of Abe's Export Strategy

Joining forces with the Prime Minister's campaign to foster infrastructure exports, various agencies and official institutions with well-defined specialization and expertise provide assistance to private business selling infrastructure and related technology.

JBIC is a key institution in the process, specializing in financing overseas infrastructure projects. Supervised by the Ministry of Finance, the bank has a long record of supporting overseas projects, including the High Speed Railway Project of AMTRAK in the US from 1997 to 1998. In addition, it offers various means of financing, such as loans, securitization, and acquisition of bonds. It also focuses on particular business areas, such as energy, natural resources, infrastructure and the environment, and provides other services like policy recommendations and financial structuring for business. JBIC actively seeks business opportunities, meeting with CEOs and state government officials.⁹

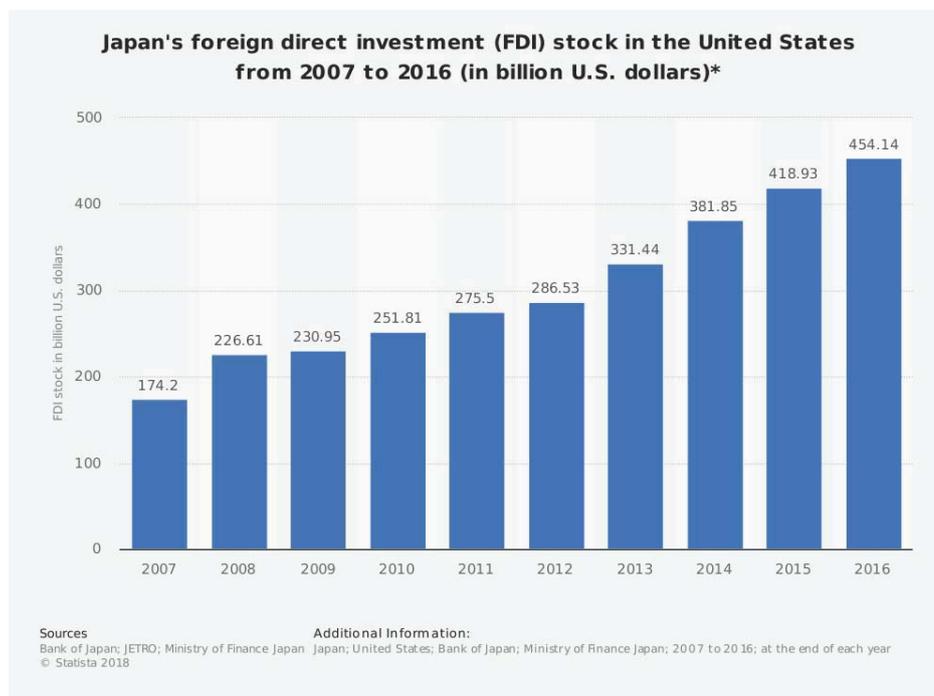
In November 2017, the JBIC signed a Memorandum of Understanding (MOU) with the Overseas Private Investment Corporation (OPIC), an agency of the US government. OPIC mobilizes and facilitates the investment of US private capital in the economic and social development of emerging market economies by offering financing and political risk insurance for certain projects. Under the MOU, JBIC and OPIC, as public financial institutions promoting the policies of their respective governments, support potential projects in the sectors, such as infrastructure, energy and natural resources in the regions of Asia, the Indo-Pacific, the Middle East and Africa.¹⁰

JOIN, on the other hand, focuses more on technology transfer and human resources development along with provision of funds. It and was established in 2014 to cooperate with



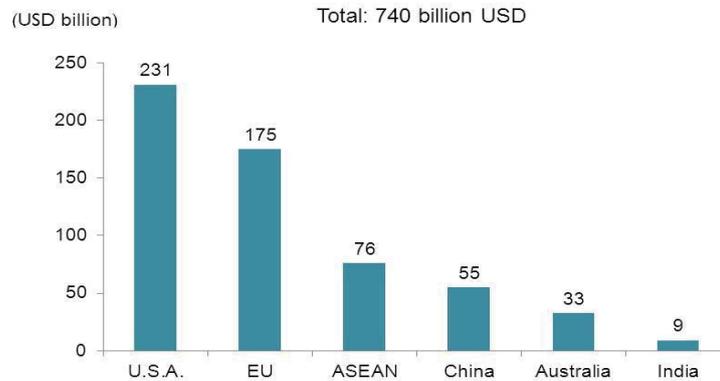
(Source: Yutaka Hasegawa. *International Conference on Sustainable Development through Quality Infrastructure*, (2016, January 20). *Japanese Perspectives on Quality Infrastructure Investment – MILT Initiative –*)

other agencies. It also encourages public-private partnerships (PPP) by investing capital, participating in projects in an integrated approach with Japanese private companies, and responding to their risks and demands. It is currently involved in projects in Vietnam, Texas and Brazil.¹¹ The following diagram briefly introduces the mechanism of cooperation and the



(Source: Statista)

Japan's Outward FDI by Country/Region (International Investment Position, End of 2009)



Sources: Prepared by JETRO from Ministry of Finance and Bank of Japan balance of payment and cross-border investment statistics, and Bank of Japan foreign exchange rates.

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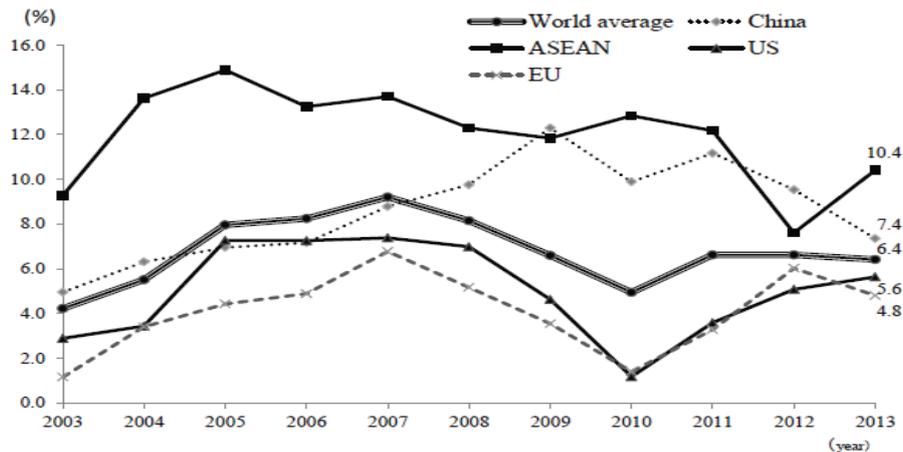
(Source: *East Asian Economy: FDI in East Asia*)

Japanese government infrastructure export initiative.¹²

Attractions of US as a destination for Japanese infrastructure investment:

The US has traditionally been the most favorable destination for Japanese Foreign

Figure I-20: Changes in rate of returns on Japan's outward FDI by country and region



Note:

1) (Rate of returns on Japan's outward FDI) = (Current direct investment income credit) / (Stock of outward direct investment during the period) × 100 (%).

2) The number of EU member countries was 15 until 2003, 25 between 2004 and 2006, 27 between 2008 and 2012, and has been 28 since 2013.

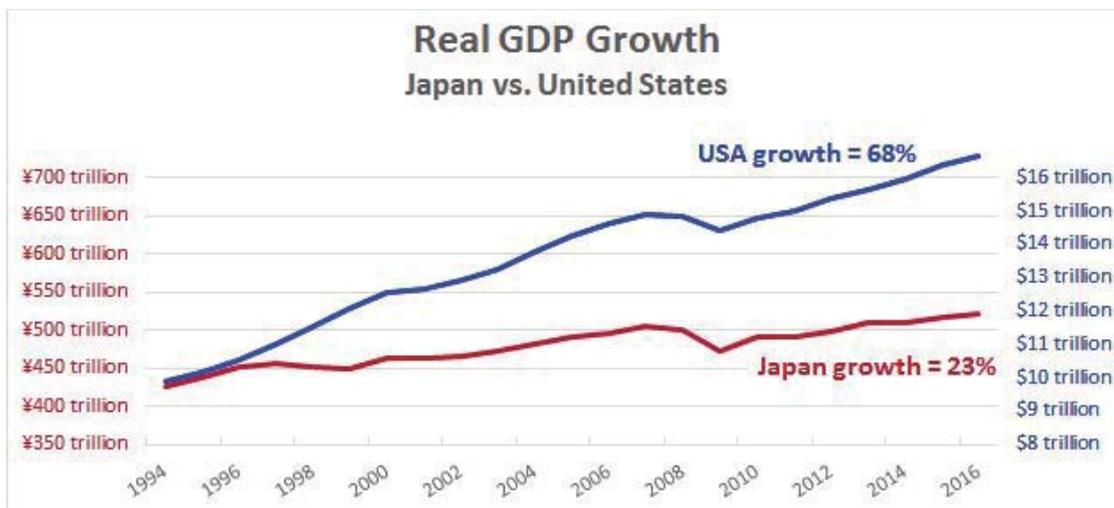
Source: "Balance of Payment Statistics", "International Investment Position" (Ministry of Finance, Bank of Japan)

(Source: *2014 JETRO Global Trade and Investment Report On making Japan a base for international business circulation,*

Direct Investment (FDI) for a number of reasons. The graphs below show that Japanese outward FDI to US has consistently been growing in the last decade, more than doubling from 2007 to 2016, with the US ranked at the top in 2009. Other studies and statistics, likewise, show that US has consistently been the most favorable destination for Japanese outward FDI in past decades. In the US, Japan is cumulatively the second largest FDI originating country after the UK.

On the other hand, the rate of returns on Japan's outward FDI bound for US has stayed below that of the world's average. The average rate of returns from US investments was 5.6%, well below the average levels in emerging markets like ASEAN and China, which had a 10.4% and 7.4% rate of return, respectively, in 2013. The large amount of Japan's outward FDI to the US, thus, cannot solely be explained by the rate of returns on investment.

First, Japan's changing economic structure and demographic situation have resulted in long-term shrinking of domestic demand, and thus have boosted the US as a relatively attractive destination for exports and FDI. While the US is experiencing steady growth, the Japanese economy has been underperforming. This economic reality has acted as an impetus for Japanese companies to look abroad for investment opportunities. The graph below shows that real GDP growth of Japan and US have diverged since the 1990s, as Japan fell into prolonged economic recession after the economic bubble burst.



(Source: Mother Jones, *the Enduring Mystery of Japan's Economy*)

Moreover, demographic changes in Japan have forced companies to look outside for a higher return in other countries. Japan's aging population and declining productivity in manufacturing industry have made domestic investments unattractive compared to other emerging markets and US as they yielded less returns. The US has traditionally been and is likely to continue to be favorite destination of Japanese outward FDI because its economy is

still steadily growing and the population structure is still relatively young due to immigration.

Current Japanese business sentiment is also positive about future investment in the US. According to a survey of 100 major Japanese companies conducted by Nikkei in March 2018, 83% of respondents saw the US economy as moderately expanding and 35% revealed that their companies were thinking of increasing investment in US. Only 1% was thinking of decreasing investment. Moreover, of the 35% who had a positive opinion of the current US business environment, 60% said that expansion of infrastructure investment contributed to this positive environment. Bright prospects for infrastructure investment in tandem with the US' steady economic expansion provide more than enough incentives for Japanese business to opt to increase investments in the US.¹³

*Q: (Only for those who gave answer (1) or (2) to the foregoing question)
From the following list of U.S. President Donald Trump's policies, political stances, and statements, select up to three that you consider to be the reasons the current U.S. administration is having a positive impact on your company.*

(1) U.S. withdrawal from the TPP	0.0
(2) Consideration of U.S. return to the TPP	22.0
(3) Promotion of bilateral trade negotiations with Japan	2.0
(4) Strengthening of safeguards and other taxation on imports	2.0
(5) Substantial lowering of the corporate tax rate	94.0
(6) Exclusionary policy on immigrants and refugees	0.0
(7) Relocation of the U.S. embassy to Jerusalem	0.0
(8) Deregulation of finance	16.0
(9) Expansion of infrastructure investment	60.0
(10) Announcement of U.S. withdrawal from the Paris climate agreement	0.0
(11) Intervention in corporate activities	2.0
(12) Large-scale creation of employment	28.0
(13) Exchange rate policy	2.0
(14) Confrontation with the media	0.0
(15) Protectionist trade policy	4.0
(16) Hardline stance on foreign policy	0.0
(17) Hardline stance on North Korea	0.0
(18) Deferment of [decision on] U.S. withdrawal from NAFTA	2.0
(19) Opaque [efforts to] renegotiate NAFTA	0.0
(20) Worsening of fiscal deficit	0.0
(21) Reduction of social security costs	2.0
(22) Other answers (O/A)	6.0

(Source: Nikkei Sangyo. (2018, March 30). Opinion poll & results of Nikkei survey of 100 major companies.)

In addition, mutual trust and protection of intellectual property play an important role in making the US a popular destination for Japanese FDI. JR Central, for example, explicitly states in its company report that:

“[JR Central] targets countries and regions that have a complete legal system where intellectual property rights and the sanctity of agreements are established as socially-

accepted ideas, a stable political situation, and economic power that is able to invest in large-scale infrastructure investment, making the US the current main target for promotional activities.”¹⁴

Although there are some variations, depending on methodology and research centers, the US consistently ranked high in intellectual property indexes and indicators, such as International Property Rights Index by Property Right Alliance and World Intellectual Property Index by World Intellectual Property Organization.¹⁵ The US is renowned internationally for respecting patent rights and intellectual property rights, and thus Japanese investors and exporters, with their long-time history of alliance and business relationship with the US, can feel secure in continuing to invest in the US.

On the other hand, the US lags behind in the quality of its infrastructure system. The American Society of Civil Engineers (ASCE) gave US infrastructure a dismal D+ rating in its 2013 assessment, a marginal but uninspiring improvement over its D rating in 2009. In the following test in 2017, the US retained same grade, D+. The 2017 Infrastructure Report Card issued by ASCE noted:

“Several infrastructure categories showed progress, resulting in grade increases over the last four years. However, the 2017 Report Card’s cumulative GPA of D+ reflects the significant backlog of needs facing our nation’s infrastructure writ large. Underperforming, aging infrastructure remains a drag on the national economy, and costs every American family \$3,400 a year.”

While some of the most pressing infrastructure problems were from aviation, dams, drinking water, inland water ways, levees and road which scored miserable D rating, transit was the most urgent problem as it scored the lowest D- rating out of 16 categories.¹⁶

Specifically, the report stressed:

“Transit in America continues to grow, carrying 10.5 billion trips in 2015, and adding new lines and systems every year. Despite increasing demand, the nation’s transit systems have been chronically underfunded, resulting in aging infrastructure and a \$90 billion rehabilitation backlog. While some communities are experiencing a transit boom, many Americans still have inadequate access to public transit.”

The chart below delineates which infrastructure US needs the most investment and funding gaps. It clearly shows that while other problems are also significant, surface transportation has the highest funding gap of \$1.101 trillion.¹⁷

The US also lagged behind in infrastructure quality in comparison with other countries. The World Economic Forum’s Global Competitiveness Index ranked the United States just 16th in the world in terms of the “quality of overall infrastructure,” down from

Cumulative Infrastructure Needs by System Based on Current Trends, Extended to 2025

ALL VALUES IN BILLIONS OF CONSTANT 2015 DOLLARS

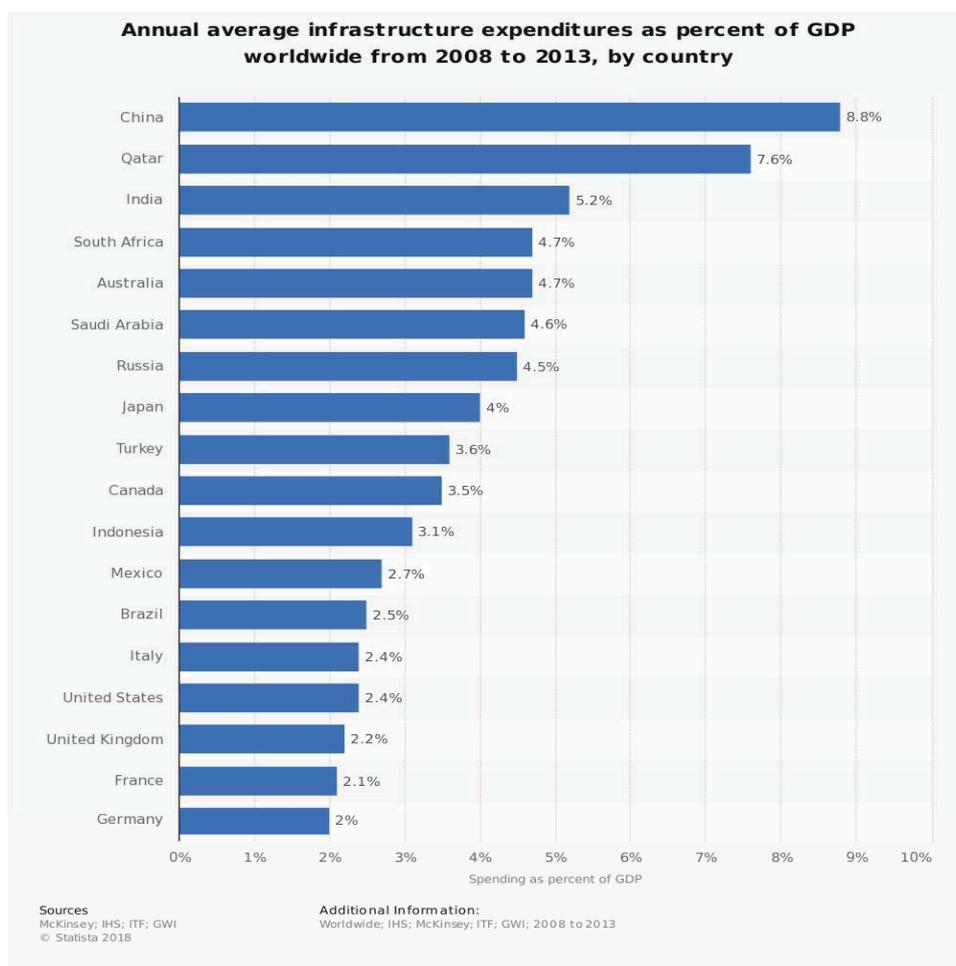
2016–2025 (10 YEARS)			
Infrastructure Systems	Total Needs	Estimated Funding	Funding Gap
Surface Transportation ¹	\$2,042	\$941	\$1,101
Water/Wastewater Infrastructure ¹	\$150	\$45	\$105
Electricity ¹	\$934	\$757	\$177
Airports ¹	\$157	\$115	\$42
Inland Waterways & Marine Ports ¹	\$37	\$22	\$15
Dams ²	\$45	\$5.6	\$39.4
Hazardous & Solid Waste ³	\$7	\$4	\$3
Levees ⁴	\$80	\$10	\$70
Public Parks & Recreation ⁵	\$114.4	\$12.1	\$102.3
Rail ⁶	\$154.1	\$124.7	\$29.4
Schools ⁷	\$870	\$490	\$380
TOTALS	\$4,590	\$2,526	\$2,064

(Source: APEC. *Japan Overseas Infrastructure Investment Corporation for Transport and Urban Development*. (2015, July).)

ninth overall before the onset of the deep recession of 2008–09 and below international peers such as France, Germany and Japan in 2014. Many other indexes and research studies clearly show that the US has high congestion rates and other problems associated with railways and public transit. This makes US a natural destination for infrastructure exports from Japan, which has one of the advanced technology in transportation infrastructure.¹⁸

At the same time, US public spending on infrastructure has been insufficient to

properly maintain and improve capacity. The graph below shows that the GDP share of public spending on highway infrastructure has been decreasing significantly, dropping to about 1% in 2014. Public investments in other areas also stayed below 0.5%, which suggests that the underinvestment problem has been persistent. Furthermore, the US also ranked very low on its average infrastructure spending as a percentage of GDP compared to countries like Canada and Australia, covering 2008 to 2013. ASCE 2017 Infrastructure Report Card called for an increase in the investment of infrastructure, saying that investment must increase from 2.5 percent to 3.5 percent of US GDP by 2025 to close the \$2.0 trillion 10-year investment gap. Such underinvestment in infrastructure further creates incentives for the US government to accept infrastructure investment from other countries.¹⁹

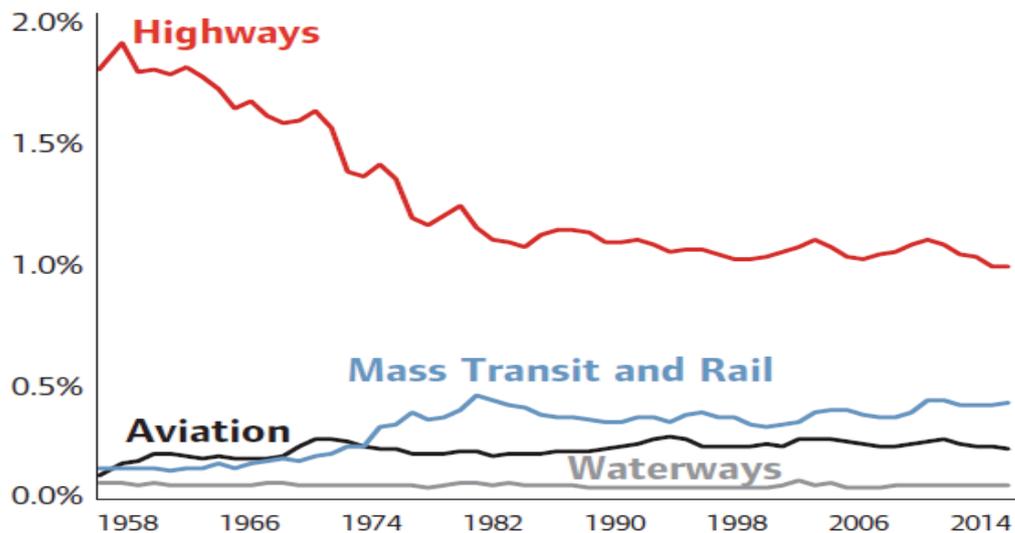


(Source: Statista)

Moreover, there are specific areas of infrastructure maintenance markets which Japanese companies could benefit from. For example, the US rail operations market is currently limited to US domestic, French and Canadian companies, so Japanese firms could gain deeper foothold in the overall rail market by entering the rail operations market.

Public Spending on Infrastructure, by Transportation System

Share of GDP



Source: Congressional Budget Office, "Public Spending on Transportation and Water Infrastructure, 1956 to 2014."

(Source: Source: Business Roundtable. (2015, September 16). *The Case for Investing in America's Transportation Infrastructure.*)

Japanese railway companies have the expertise and track records of experience while US has the need.²⁰ Such areas of further investment opportunities provide more incentive to Japanese infrastructure and railway companies to focus on the US market.

Case Study of JR Central and Its Technology

JR Central is a Japanese rail transportation company that developed the bullet train—Shinkansen (新幹線)—and various other high-speed railway trains sold in Japan and abroad. Currently, it is working on a Tokyo to Nagoya SC Maglev project that is expected to be completed by 2027. Its Superconducting Magnetic Levitation train (SCMaglev) floats about four inches over the ground and can reach cruising speeds of 311 miles per hour within minutes by using magnetic forces to power the trains.

There are two overarching standards for railway systems in the world. In Japan, most long-distance passenger trains use the distributed traction system with powered cars carrying passengers. By contrast, loco-hauled unpowered carriages are dominant in Europe. In other

words, Japan's high-speed trains are all Electric Multiple Unit (EMU) system, while European high-speed trains are basically loco-hauled. The design concepts are very different, and the Shinkansen is powered by electric motors mounted in multiple locations.

These two different systems have both clear advantages and disadvantages. The EMU system has a lighter axle load, better acceleration and deceleration, better braking, and better operating efficiency, which allows for the lighter weight of train cars. In contrast, locomotive-hauled system requires much heavier weight for train cars. These characteristics have resulted in strategy known as “Crash Avoidance” for Japanese companies, since lighter trains would damage much more from collisions than locomotive-hauled trains, which could withstand and absorb some of collision damages by their bulky mass.²¹

This difference in railway systems has created some problems for transport infrastructure exports companies like JR Central because in countries where the locomotive-hauled system is prevalent, it is extremely difficult for them to export their EMU transportation system. As a result, JR Central, along with its affiliate railway companies such as JR East, has been active in exporting its railway trains to non-European countries, including Taiwan, Indonesia, US, and some countries in emerging markets where the EMU system could become the standard.

In addition, JR Central is currently working on the Northeast Corridor SCMAGLEV Project, which could link Washington D.C., Baltimore, and Philadelphia to New York and take less than an hour to make the trip. JR Central successfully secured the project in the US because of its Maglev technology, funding support from Japanese government agencies, room for rule setting, and geographic similarities to Japan, such as population density and distances between cities.

The D.C./Baltimore project will cost \$10-12 billion. Aside from the federal government kicking in the money for the environmental assessment, the rest of the funds are coming from private sources, mainly from JBIC, which promised to fund approximately 50% of the construction cost. Developed by Japanese Rail Central and fully operating in Japan, it is the fastest train in the world and has been clocked at over 350 mph. The D.C./Baltimore project is expected to be completed by as early as 2020.²²

Much of success of JR Centrals in expanding its business in US, in particular, could be attributed to the fact that US has ample room for rule negotiation. For example, JR Central has been successful in the Texas project, which is set to use the N700-I Bullet, precisely because US does not have high speed trains and thus rules could be relatively easily negotiated, as opposed to mature markets in Europe. It was also a private project without

federal government's interference or subsidies, which made the terms of the rules easier for JR Central. The absence of such high speed railway system as Maglev, in particular, has rendered the Northeast Corridor SCMAGLEV Project possible as JR Central submitted proposals mostly based on Japanese technology and regulations to the federal government.

Lastly, the quality and systematic management of Japanese train railway are still superb. It not only has track records of safe and punctual railway system, but also exports management system developed uniquely in Japan to fully ensure safety of the overall system. For instance, JR Central exported a railway management system to Taiwan because of its records of no fatalities since the 1960s and geographical similarities.²³ In terms of technology, JR Central's Super Maglev by super conductivity technology is better than the one employed by a German company in China because it can carry 16 cars per train, compared to 2 to 3 cars by the German company. All of these technological advantages and systematic management are still only uniquely available to Japanese transportation companies.

Japanese infrastructure companies are rapidly expanding in other areas as well, such as the recent case of Kawasaki Rail Car successfully manufacturing subway train cars for New York City. These companies are also actively promoting Japanese high-speed rail systems as a global standard through the International High-Speed Rail Association (IHRA).

Implications of Japan and US cooperation

The Trump administration plans to increase infrastructure investment to create jobs and bolster the US economy. At the same time, Japan is putting together a package that could generate 700,000 U.S. jobs and help create a \$450-billion market through investments in such infrastructure projects as high-speed trains and cybersecurity. The plan is to invest 17 trillion yen (\$150 billion) in public and private funds over 10 years. The package would include developing high-speed railways in the northeastern United States and the states of Texas and California. It also includes money for renovating subway and train cars.²⁴

The deepening economic ties between Japan and the US could have far-reaching ramifications beyond the bilateral relationship. It could signal that the US and Japan are ready to jointly respond to the competition from China in infrastructure investment. The US and Japan already have launched several initiatives designed to promote an alternative to Chinese infrastructure development in the Asia-Pacific. Two agreements were signed between the Overseas Private Investment Corporation (OPIC), the US government's development finance agency, and Japanese partners to offer high-quality jointly-developed infrastructure investment alternatives in the Indo-Pacific region. US-Japan cooperation also

includes energy infrastructure, and MOUs have been signed with several Japanese government agencies, such as JBIC and Nippon Export and Investment Insurance.²⁵

According to a White House statement, Japan and the US have launched “the Japan-United States Strategic Energy Partnership to promote universal access to affordable and reliable energy in Southeast Asia, South Asia, and Sub-Saharan Africa.” The US Trade and Development Agency (USTDA) and Japan’s Ministry of Economy, Trade and Industry (METI) also signed an agreement “to help bring high-quality energy infrastructure solutions to the Indo-Pacific region.”²⁶ By emphasizing quality and affordability in infrastructure projects, the US and Japan were able to target weaknesses of China’s infrastructure programs.

Bilateral cooperation on infrastructure development plans in emerging markets has already surfaced in several countries. Japan and the US agreed in June 2017 that they would work together to expand the LNG market in Asia, which in turn would help create demand for US LNG exports. The US is keenly interested in working with Japan in expanding exports of U.S. liquefied natural gas to Asia because it already has export terminals being developed along the Louisiana and Texas coasts.

Japan’s plans for a \$10 billion public-private effort to build LNG terminals, power plants and other facilities to help meet rising energy demand in Asia coincide well with the Trump administration’s push for increased energy exports.²⁷ In addition, Anadarko Petroleum Corporation is working with the government of Mozambique for the Golfinho/Atum Field Development Plan in conjunction with Japan’s Mitsui E&P Mozambique Area1 Ltd that owns the largest share (20 percent) of the joint venture.²⁸ US participation could reduce the risks of infrastructure development plans, thereby luring in a large number of US institutional investors and channeling funds into the projects.

The US in turn has an incentive to work together with Japan in infrastructure development projects in emerging markets. US-Japan cooperation could send a signal to prospective recipient countries that would find a combination of technology, experience in development, and guarantees backed by Japan and the US to be attractive. The two countries also share similar political objectives, such as ensuring the freedom of navigation in Indo-Pacific region. Additionally, US companies suffer from a lack of experience and exposure in the region, particularly in Southeast Asia, where Japan has long been actively involved in development projects. As a result, US companies could attain much of the knowhow that it lacks from cooperating with Japanese companies.

While Japan and China rival each other for business in emerging markets, there also

are some cooperative aspects in their otherwise competitive relationship. In fact, Japan has been a top donor of ODA to China dating back to 1979 under Prime Minister Masahiro Ohira. Up to 2014, Japan has funded 231 development projects, with ODA loans totaling 3.317 trillion yen. Japan has provided China with ODA for a range of projects, including infrastructure and environmental protection. That legacy has the potential to further develop into international cooperation.²⁹

In fact, Prime Minister Abe in June 2017 expressed willingness to cooperate with China's One-Belt-One-Road Initiative and provide financial backing. Abe's decision to join China's initiative, focusing on Southeast Asia, signals a turning point. It suggests there is a potential room for Sino-Japanese cooperation not only in Southeast Asia but in other areas as well.³⁰

Japan in pursuit of opportunities has mainly focused on building East-West lines, namely, to synergize with several Japan-involved East-West Economic Corridors that would connect Myanmar, Thailand, Laos and Vietnam. The aim is to help Japanese companies expand business and optimize production networks within and outside the ASEAN region. In contrast, a major objective of China is to reduce income disparities by stimulating growth in the underdeveloped hinterland of Southeast Asian countries. It seeks to accelerate the development of the underdeveloped western region by accommodating and synergizing with neighboring countries, with approaches including creating new corridors for international economic cooperation and thus facilitating international trade.³¹ Both of the countries have enough economic incentives to pursue infrastructure development projects in emerging markets, and thus could choose to cooperate in the future under the right circumstances and conditions.

Conclusion

Japan has been aggressively pursuing infrastructure exports as a part of the Third Arrow of Abenomics, which was aimed at revitalizing the perennially sluggish Japanese economy. Japan has been eager to pursue this goal because the domestic economy underwent profound economic structural change during the 1990s and 2000s that incentivized Japanese companies to look for overseas markets, not for manufactured goods but for Japan's technology and knowhow. This drive was made possible because of Japan's accumulation of high-end technology, experience in ODA development projects in Asia and other regions, and the government's willingness to provide strong support.

The US in turn has equally appealing reasons to accept Japanese investment and exports of infrastructure materials because the country badly needs to improve its

infrastructure and fill in the underinvestment gaps. The US also has a strong reputation for protecting technology and patents, and thus has traditionally been ranked first as the destination for Japanese FDI. These factors contributed to an increase in Japanese companies exporting transportation materials to US, although the pace is still slow. In addition, the two countries are embarking on infrastructure development cooperation in emerging markets, a joint effort that will further strengthen their influence in Southeast Asia and other regions.

Furthermore, by cooperating with the US in overseas infrastructure development, Japan could also provide an alternative choice for countries in Southeast Asia, where Japan and China are competing for infrastructure development projects. In that context, the US and Japan have signed agreements strengthening mutual cooperation in Southeast Asia on such exports as LNG. Such cooperation could in turn act as a further impetus for Japanese infrastructure companies to increase their presence in the US market. A virtuous circle between the two giant economies seems to be at work.

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Japan Takes the Lead to Salvage the TPP

By Menglei Lin

Introduction

On March 8th, 2018, the final agreement of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was officially signed by government representatives of the TPP countries sans the United States. Approximately a year ago, when an eager President Trump issued the executive order to withdraw the United States from the twelve-nation TPP agreement on his first day in the White House, the prevalent opinion was that the TPP deal had collapsed. However, Japan, a country that has not been actively exercising independent leadership in regional integration efforts since the attempt to launch the Asian Monetary Fund in the 1990s, assumed the mantle and steered the pact towards a swift and successful completion.

The CPTPP or TPP-11 has been largely preserved in accordance with its original spirit as a high-quality trade agreement, suspending only about 20 of its provisions that the US had sought. However, the US' absence inevitably reduced the overall scale of the economic impact and influence. Whereas the previous deal would cover roughly 40% of global GDP, the current membership would only account for less than half of that volume. Despite having a brief flirtation recently with the idea of reintegration, President Donald Trump once again rejected the pact as unpalatable right ahead of a meeting with Japanese Prime Minister Shinzo Abe, rendering the likelihood of a quick return even slimmer. Japan, though, has not yet given up hope of the US eventually returning to the TPP fold.

The Peterson Institute for International Economics (PIIE) has built economic models to predict prospective gains for the 11 TPP signatories; the estimated result in real GDP increases would be “a little less than half of the expected gains from the original deal for the 11 countries.”¹ Under the PIIE model, the U.S. would not only have to forgo an annual \$131 billion real income increase accredited to the original TPP12 pact, but also suffer an additional \$2 billion loss for being at a relative disadvantage. The Japanese government in a Cabinet Secretariat report suggested a little more than half of the original boost to domestic real GDP could be expected from the current deal.²

In light of the above, there are a few questions to ask. First, what motivated Japan to take up the duty of resurrecting the TPP? This newfound enthusiasm is quite a departure from its original attitude as a half-hearted participant. Especially, what does Japan seek from the CPTPP when its benefit scale was significantly crippled by the U.S. withdrawal? Third, what are the strains faced by the United States in its absence from the pact? Lastly, in what potential areas would the CPTPP, an ambitious “21st-century trade agreement”, face unique challenges?

This paper explores the implications of the CPTPP for both Japan and the United States. Other CPTPP members will only be briefly mentioned in relevant sections due to the limited scope this paper. The paper first reviews the changes made to the original text of the TPP agreement, and then discuss the impact of the CPTPP for both countries in their respective context.

The CPTPP: Highlights and Observations

The overall legal text of the TPP remains unchanged, keeping the CPTPP in line with its original spirit. Whereas about 20 provisions were suspended, they were densely concentrated in the Intellectual Property section (Chapter 18). Despite persistent debates on the investor-state dispute settlement issue, the relevant chapter was not suspended. The CPTPP text remains as extensive as before on trade liberalization and investment protection.

The Intellectual Property section suffered the most suspensions largely because it represented the United States' specific interests. These interests were concentrated in roughly four aspects. First, the US has requested that the term of copyright protection to be the life of the author plus 70 years. This provision has been suspended so that several members would no longer need to make adjustments to domestic law.³ Another area where the US sought enhanced protection was regarding pharmaceutical patents. These provisions were suspended largely due to worries about the increased cost of medications. Third, the CPTPP no longer has provisions on specified innovations of technological protections measures (TPMs), such as 18.68 and 18.79, which were also proposed by the United States. Finally, the US fought for a longer term of protection to the patent owner if there were unreasonable delays in issuance. This part was also put on hold.

The United States invested much effort in previous rounds of TPP negotiations to upgrade the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) provisions. But other TPP countries resisted, pointing out that the US was going too far in certain areas. Other countries were willing to concede to some of the less popular rules only if they could gain a higher level of access to the US market. However, these provisions were merely suspended rather than deleted, indicating that the TPP11 are still willing to welcome the US back by offering incentives. It is also worth noting that, without the above provisions, the CPTPP still provides sufficient protection to intellectual property. Most businesses would not be affected, unless they have specific interests in those four areas.

Another major source of contention during negotiations was the Investor-State Dispute Settlement (ISDS) chapter. This mechanism allows one party to directly sue against a

government, should it feel its rights being violated. While Japanese negotiators had few concerns over the subject from the beginning⁴, many other member countries, NAFTA participants (Canada, Mexico) in particular, debated the weight and cost of their obligations. The United States had first put the ISDS clauses into the NAFTA agreement, responding to some concerns from businesses over perceived bias in Mexico's legal system. Over the years, the NAFTA countries had modified the terms to prevent abusive litigations and the subsequent financial burdens.

TPP member nations have different levels of development and varying legal systems. According to some, such conditions increase the chances of exacerbating litigation abuse. Another major concern over this procedure is its inherent ability to infringe upon sovereignty and public interest. Corrupt governments are not the only predators; sophisticated multinational corporations also abuse their powers. In cases of implementing new regulations on public interest, corporate interest may get in the way.

As a response, the governments have decided to put tobacco control measures into the text to avoid prevent claims similar to the Philip Morris Asia Limited v. The Commonwealth of Australia case from being brought to court. The company tried to challenge Australia's tobacco plain packaging laws by purposefully acquiring a subsidiary in Australia to trigger the process. The company's claim has been dismissed, but the Australian governments learned a lesson nonetheless.

In the final version of the CPTPP, the ISDS chapter remained despite such contentions. Some provisions were altered to narrow down the scope. Some experts suggested that the amendment was for the purpose of giving government more rights to ensure public interest objectives can be met, because the limitation essentially involves two types of agreements mostly used for oil, mining, and other types of raw materials.⁵ Still, this chapter possesses the potential to pose some future challenges in execution.

On agriculture, Japan insisted on protection measures for five kinds of agricultural products (rice, wheat and barley, meat, dairy, sugar and confections) it had deemed vital in the original TPP. This part remains unchanged in the CPTPP. Partial tariff reduction and quotas would be granted for protected categories of products. Beef, pork, processed pork, whey protein concentrate products (WPCs), fresh oranges, and racehorses received dedicated sections in the Annex: 2-D: Japan Appendix B-1 Agricultural Safeguard Measures.

Japan has a 95% rate of liberalization, the lowest among the TPP11 countries. But since Japan's agriculture sector has been impenetrable for years due to a heavy and overlapping system of import barriers, member countries were content with the concessions under the TPP. For

example, within 16 years Japan will gradually reduce its tariff on beef from 38.5% to 9%. The Ministry of Foreign Affairs and Trade of New Zealand observed that the deal is “the best outcome Japan has given to any trade agreement partner.”⁶

In contrast, the United States, a major exporter of agricultural products, would be at a disadvantage compared to countries that will now receive tariff reduction benefits from Japan. Some of the US’ major competitors in agricultural trade are in the TPP11 pact. Another trade rival, the EU, has completed a separate economic partnership agreement (EPA) with Japan in 2017, securing very similar benefits to the TPP terms in several categories of traded goods. The implications of Japan’s trade liberalization is explored later in this paper.

Not all traded goods are for consumption. Those that are used for as intermediate goods in the production process would benefit from a chapter on Root of Origins (ROO). According to experts, this is one of those areas where a regional agreement is obviously more powerful than bilateral FTAs.⁷ The mechanism allows for accumulative cost saving when companies are allowed to source from multiple destinations. Contentions on this chapter centered on the degree of flexibility. Since the ROOs, unlike tariff schedules, do not differ by country, requirements instead distinguish by types of goods.

Non-TPP countries free-riding on the pact were a concern in textile negotiations. Vietnam, relying heavily on imported materials from Asia to produce textiles, was said to favor a more flexible framework. For Japan, originally the sticking point was with the United States regarding automobile parts. Currently, the greatest benefit reflected by this chapter seems to be the potential of applications to the supply chains of Japanese companies that design and produce high value-added goods. Japan has invested heavily in ASEAN countries, including several members of the TPP11.

Other than traded goods, the CPTPP also provides in-depth liberalization of services trade. In particular, many trade law experts have praised the “negative list” approach of the text. It means that, other than the several specified prohibitions in the Annexes, trade in services would be, in principal, free and open. It benefits negotiators and users alike, because it relieves the burdens of trying to provide “complete coverage of the ever-more-diverse services sector”.⁸ The process of negotiations would have been more exacting when multiple countries gather and attempt to compile a long, comprehensive list of positives; for businesses, gaps and ambiguity in a non-exhaustive list often causes legal difficulties and disputes. Japan remains positive toward liberalization in services. In various publications, the government looks forward to the opportunity of expanding its strong service sector.

Japan's Motivations

There are, of course, both economic and strategic benefits to resurrecting the TPP, even without the United States. Some of the economic benefits of the CPTPP for Japan have been laid out in the previous section. More importantly, it should be noted that, as a high-standard regional agreement, the CPTPP's benefit does not end at tariff reduction; rather, in-depth liberalization combined with protection of investor rights are its key features. The benefits of such features are more hidden, but they allow transformation and further integration of economies, thus unleashing their potential.

Although the absence of the US lowered general expectations in some areas, Japan recognized that a sizable boost to growth is still possible. In one publication, the Cabinet Secretariat of Japan anticipated a 1.49% boost in real GDP under the TPP11, while the original percentage of growth expected under the TPP12 was 2.59%. In comparison, the same report also estimated that the Economic Partnership Agreement (EPA) with the EU would add 0.99% growth to real GDP.⁹ The figures indicate that the CPTPP is indeed a worthy goal to pursue, even without the United States. Also, because economic models have limitations, only “quantifiable items” are included per the report's methodology. This means that the results are on the more conservative side when it comes to numbers. For example, it did not factor in the full potential of transformation to businesses from the CPTPP's advanced regulations.

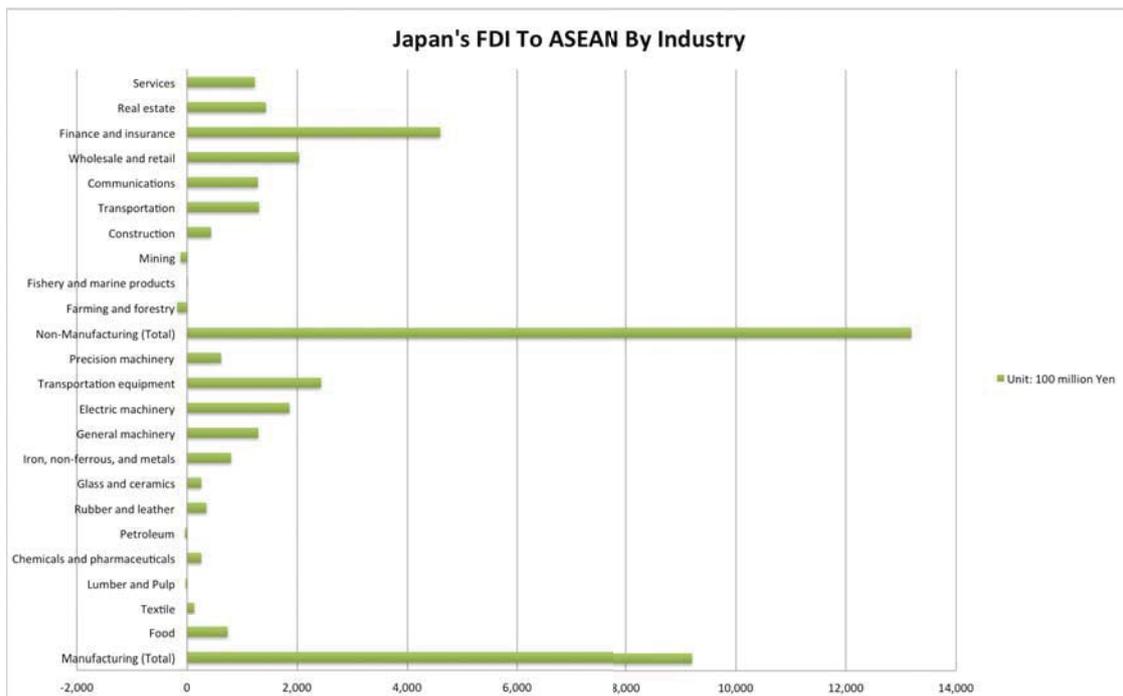
Over the long run, Japan would benefit from the CPTPP's high-standard rule of economic liberalization. Although the progressive provisions of the CPTPP requires considerable amount of accommodations from its members, those adjustments would eventually cause businesses to favor the TPP11 countries as their destination of investments. For Japan, which has been increasing its investment into ASEAN, many potential opportunities arise from the region.

First, the CPTPP would allow more profit from cost reduction by sourcing from TPP11 countries. Many of Japan's high-technology firms have built industry clusters in ASEAN countries. According to researchers at Mizuho Research Institute Ltd., there already exists electrical machinery clusters in Vietnam, due to its proximity to Southern China. Also, Malaysia, another country with dual membership in TPP11 and ASEAN, is said to be very attractive to chemical and pharmaceutical industries for its relatively more advanced infrastructure among the region.¹⁰ Not limited to machinery and automobiles, processed food producers could also take advantage of the ROO by using agricultural produce from ASEAN. A Mizuho report on ASEAN markets found Japanese processed food companies strongly interested in investing there. The value chain (compared to American and European multinational conglomerates) is still relatively weak.¹¹ The report noted that there was a potential market for expensive, high-quality niche

products in the region that Japan could fill. Both objectives could be accomplished under the ROO and tariff reduction of the CPTPP.

Second, Japan, according to its TPP negotiation record, was especially interested in enhancing regulations regarding the business environment of ASEAN countries for financial service companies.¹² Finance and insurance were seen as significant areas for investment. The dominant barriers for investment are usually not reckoned in monetary terms, but by the local market environment. Although the region is dynamic economically, it poses both opportunities as well as risks due to transparency issues and diverse market regulations. Under the CPTPP, it is reasonable to expect more investment activity in the region when such can be adequately insured.

Most economic models are conservative when it comes to quantifying non-tariff barriers. If the advanced rules of the CPTPP are utilized, the increase in productivity could drive economic growth higher than the estimates predict.



Note: The upper-half above Non-Manufacturing (Total) depicts non-manufacturing industries; the lower-half depicts manufacturing industries.

(Source: Bank of Japan, *Balance of Payments, II. Direct Investment by Region and Industry, 2017 C.Y. (Figures that reflect the annual revision)*¹³)

In general, CPTPP's high level of trade liberalization, combined with comprehensive investment protection measures, could encourage more regional integration. The ASEAN region, in particular, has the opportunity to evolve into a regional hub for trade due to the CPTPP, offering Japan even more benefits from its transformed supply chain. Although the process would take time for adjustments before delivering full-strength, the transformation is capable of adding more momentum to the growth of economies in ways traditional agreements never could.

The CPTPP's promotion of regional integration also gives Japan more diplomatic clout. The Regional Comprehensive Economic Partnership (RCEP), currently under negotiation, is another regional trade pact that largely overlaps with the TPP11. Whereas the TPP11 stretches across the Pacific, the RCEP is heavily Asia-focused and includes 10 ASEAN members plus Japan, China and India. There are 7 participants with dual memberships in the two pacts, Japan being one of them. Although some observers had expected the RCEP and TPP11 to converge, the discrepancy in areas of coverage is too significant at the moment to merge the two systems. Nonetheless, the RCEP is said to have gained momentum after the conclusion of the CPTPP. For the former, the high standards set by the CPTPP might become a source of inspiration and reference for negotiators. Subsequently, there would be more leadership opportunities for Japan to contribute to regional growth.

Another reason for Japan and other TPP members to seek a swift ratification of the CPTPP was to erect a bulwark against the Trump administration's protectionist trade policies under the rubric of "fair trade". Japan had signified in various occasions that it could not offer the US a better deal than the TPP provisions. The reasoning, therefore, is that the US should come back to the TPP if it wants anything at all. Although a channel of high-level broad economic dialogue exists between Japan and the US, Finance Minister Taro Aso has openly dismissed any room for negotiations on the topic.

On another front, Japan, along with Mexico and Canada, is also carefully following the fate of NAFTA, which President Trump threatened to withdraw from. The CPTPP gave Mexico and Canada considerable leverage in renegotiating NAFTA, as dependency on the US market will now decline. As for Japan, although it is not directly involved in the NAFTA pact, the annual business survey by JETRO on Japanese businesses operating in the US found that "...Among the respondents, 32.9% utilized NAFTA for exports or imports (p. 20)." Among those involved in imports or exports, roughly 50% utilized NAFTA for exports to Mexico and Canada, while over 60% did so for imports (p. 21)"¹⁴

For Japanese businesses in Canada, among the respondents, over 60% of procurement of materials occurs in the NAFTA region, with 24.2% of that coming from the United States. Among those involved in imports and exports, 66.7% utilized NAFTA, while 47.5% were

considering the utilization of TPP for importing from Japan (p. 17).¹⁵ These figures suggest that Japanese businesses in North America are worried about the fate of NAFTA. They also signal a possible shift of supply chains to other TPP countries for those businesses able to do so.

US Facing a Complex Trade Situation

President Trump's capricious attitude toward the TPP agreement early in 2018 is an indication that even he has started to feel the weight of experiencing blowback for his trade policy from all directions. His brief change of mind in April when he hinted at coming back to the TPP was allegedly spurred by pressure from a group of worried farmers who saw their overseas markets for US products slipping away. The economic and strategic consequences of the US rejecting the TPP are perplexing to a US President who seeks simple solutions to complex problems.

Even before the withdrawal was official, experts have warned that pulling out of the TPP would have broad ramifications. The original TPP12 was a key element in then President Obama's Asia pivot or rebalancing policy. In addition to promoting a liberal order in the region, the President's intention was to strengthen US influence. Trump's decision to withdraw, consequently, is seen as a signal of retreat from the global trade order and descent into unilateral protectionism.

The speedy, successful revival of the pact, thanks to Abe, has stimulated other initiatives in the region. As mentioned above, RCEP talks have gained momentum from the swiftness of the CPTPP conclusion. The Free Trade Area of the Asia-Pacific (FTAAP), a framework that plans to link 21 Asia-Pacific economies, is also being carefully evaluated and studied. These other pacts involve significant overlaps with the TPP11 membership and present a formidable prospect of regional integration, without the United States. Businesses in Japan, in particular, seem to be enthusiastic about the prospect of getting involved in more FTAs and EPAs. In a 2017 survey to more than 10 thousand businesses across Japan¹⁶, the Teikoku Databank (TDB) has found that the top 5 most anticipated trade deals were: the RCEP, FTAAP, Japan-EU EPA, Japan-ASEAN EPA (negotiations on investment and services), and a potential China-Japan-South Korea trilateral FTA).¹⁷

The boost in confidence from the CPTPP's success may inspire Japan to assume a more active role in the above negotiations. Whereas the economies in the Asia-Pacific would enjoy more integration and vitality, the United States would face the prospect of being left out. Trade experts at Brookings Institution highly evaluate the resurrection of the TPP, and term the US' withdrawal as an "abdication of leadership".¹⁸

So far, US trade policy under President Trump seems designed to wreck the global trading system and descend into a trade war with friends and adversaries. Honoring his election campaign promises, Trump, after dumping TPP, levied tariffs on Chinese products, renegotiated the KORUS FTA, starting renegotiating NAFTA, imposed high tariffs on aluminum and steel on Japan, the EU and Canada, citing “national security” reasons, and threatens now to impose 25% tariffs on imported autos.

The farm sector in the US would be one of those areas that suffer from the tariffs, since other countries are imposing retaliatory measures. A typical example is pork. About 27% of total US pork production goes to foreign markets, which is probably the reason for the National Pork Producers Council to say that “we are export dependent”.¹⁹ In 2017, Japan was the top export destination for US pork products²⁰ and the US’s market share there for pork was about 33%.²¹ The top rivals in that market are the EU, Canada, Mexico and Chile. On the one hand, three major rivals are in the TPP11, while on the other hand, the EU’s EPA with Japan, negotiated at about the same period as the TPP11, allowed tariff reductions on pork similar to the provisions of the CPTPP.

Already in 2017, the EU easily matched the US’s dominance of Japan’s pork market, and now its market share can only be expected to rise. The EU brochure for the EPA specifically cited the complexity of Japan’s “gate price” system for pork imports. When both the Japan-EU EPA and the CPTPP are in force, the US would be the only exporter on the “top pork exporters to Japan” list that still suffers from the “gate price system”.

US pork producers could always look to other places of the world, but, according to data from the Chamber of Commerce, the next in line are Mexico, Canada, South Korea and China. The weight of NAFTA, which is also under threat, becomes obvious. At the same time, due to the US trade feud with China, US pork producers will now suffer additional tariffs on exports to the Chinese market. The *Economist* illustrated the damage to US businesses by industries in the chart at the end of this paper (see Appendix B). Pork falls into the upper-right corner, indicating both a high-level of impact and dependence of the market.²² In terms on the “hidden benefits” of the CPTPP missed by the US, it has been reported that some US livestock business were preparing to expand into the growing market of Vietnam under the TPP, in order to earn extra revenues from selling organ meat and other items not easily sold domestically.²³ Now that opportunity is apparently gone.

In other export-dependent industries, US producers face a similar predicament. Canada, New Zealand and Australia are ready to take away the United States’ share of the market in meat and dairy products. The importance of the Asian market, the strength of the rivals, and the

disadvantage from extra tariffs pose formidable challenges to US business. If the US does reenter the TPP, some of these effects could be mitigated.

If the losses are obvious, why does President Trump hesitate to rejoin? President Trump's emphasis on renegotiations for "a better deal" makes a quick reentry seem unlikely. He is swayed not only by his long-held personal views that reject multilateralism and existing trade agreements, he makes decisions based on the political need to play to his base, Americans who see trade as a zero-sum game.

In his tweets and speeches, President Trump blamed a perceived "squeeze" of the US manufacturing sector and feared job losses as reasons to dump the TPP agreement. The political reason, of course, was because the TPP was a product of his predecessor, Barack Obama.

The job loss issue was subject to hot debate in the campaign in 2016. But even academics joined the fray. In one encounter, the Peterson Institute for International Economics (PIIE) took on the Global Development and Environment Institute (GDAE) of Tufts University. The PIIE report predicts growth, whereas GDAE warned about 500,000 lost jobs. The US International Trade Commission (ITC) also published its own report, which estimated a modest boost to GDP and a 130,000 increase in jobs. However, the ITC reports states, that the manufacturing sector would suffer a 0.2% decrease in employment.²⁴ The manufacturing sector has shown reasonable concerns about such prospects. Think tanks backed by labor unions of manufacturers, such as the Economic Policy Institute (EPI), often echoes President Trump disapprovals of the TPP and globalization. In one article, EPI criticized the intellectual property protection measures, because they "encourage outsourcing, job losses, and a further decline in labor's share of national income."²⁵

While it is indeed difficult to dispute their concern, the US as a country is heavily reliant on the technology and IP-intensive industries for the growth of its economy. One 2017 study shows that IP-intensive industries support 30% of all US jobs and contributed about 38% of domestic GDP. ²⁶ The US government clearly has an incentive as well as obligation to consider both situations. Additionally, the Trump Administration and its supporters are against the controversial ISDS provisions. Without the TPP, the currently trending target of attack is the ISDS mechanism in NAFTA. Vice President Mike Pence famously said that the ISDS provisions are investments that insurances companies do not want to pay out of their own pocket, hinting at the expenses of the procedures. Apart from cost and the fear of infringement upon public interest, the hidden message of the Pence comment also signals discouragement of outsourcing and FDI, again echoing the manufacturers' voice.

The Future of the CPTPP

Similar to the case of the ISDS controversy, one of the major challenges in optimizing the benefits of the CPTPP would be coordination among states of different development levels. The first issue would be logistics. Japan, along with other developed nations, would have less difficulty accommodating to new customs procedures or logistics. However, the situation varies for other countries. While Singapore is the most efficient of the group, making into the top five on the World Bank's Logistics Performance Index (LPI), Brunei finishes last with a ranking of 70th.²⁷ The rankings are somewhat subjective, as it was based on a survey to operators on the ground (global freight forwarders and express carriers) worldwide. Nonetheless, it reflects the great unevenness in capacity. Given the situation, the CPTPP might need a few years to enter full force.

Another issue tied to development levels is the dilemma of free trade versus developing domestic capacities. When Vietnam signed the ASEAN Trade in Goods agreement, tariff on automobile imports from ASEAN countries are supposed to slip to zero. However, the government of Vietnam also announced Decree No.116/2017 ND-CP to impose high technical barriers and associated testing fees for imported cars. The government justified the decree on grounds of "creating a fair environment" between automotive manufacturers and importers.²⁸ The move immediately disrupted the sales of Japanese automobile makers as top leaders in the Vietnamese market. At one point, both Honda and Toyota temporarily suspended shipments of cars to Vietnam. With the CPTPP, the issue could have been possibly resolved, since the pact has an ISDS mechanism as well as a chapter on compliance.

In Japan, CPTPP replacing the original TPP has had little impact so far. Protests from the agriculture sector have subsided, but exporting businesses remain unsure as how to fully utilize this new framework of opportunity. According to a Teikoku Data Bank (TDB) nationwide survey of businesses, more than half of the respondents recognize the value of the CPTPP to Japan as a whole. However, only 22.5% consider it relevant to their own business. Given the extensive degree of liberalization and integration provided by the CPTPP, the result seems a little unenthusiastic. Whereas the larger corporations might have been waiting for the opportunities, owners of SMEs often lack the resources and human capital to conduct independent, comprehensive studies of the new policy and foreign markets. The Japanese government has provided information and consultations for those companies interested, but it will take time for the business community to actively respond to the new CPTPP.

Conclusion

The CPTPP has become a game-changer for Japan, which up until now had stayed in the background of the globalization scene, and a slap-in-the-face for the United States, which has under Trump abdicated its role as leader of the international order. With the US abandoning its long-held principles and institutions, the other country is rushing to build new ones. President Trump's rejection of the international trade order in favor of unilateral protectionism not only has shocked US trading partners but also has perplexed the globalized American business world and other free traders. In contrast, Japan, which has eschewed regional leadership for decades since its last try failed, now recognizes the value of a liberalized and open regional system that the US under President Obama had fought to achieve. For Japan, therefore, the implications of its taking the lead on forging a CPTPP agreement extend far beyond immediate economic calculations.

The US is technically not excluded from the opportunity of reentering the mega-FTA, and there is a good rationale if it decides to do so. Over time, the significance of its mistaken path toward protectionism will most likely reveal itself, as it affects the whole economy. Instead of trying to barricade against globalization to protect a small segment of its economy, the US should choose another path to grow the economy, while carrying out structural reforms for those domestic areas of the economy that have fallen behind the times.

For Japan to fully benefit from the CPTPP, domestic awareness of the potential benefits is key. The CPTPP could become the facilitating mechanism for Japanese businesses that want to expand in the region, particularly those that are interested in Southeast Asia. Although development level varies, Japan has long been sending large ODA flows to the region. Perhaps through a more guided approach in tune with the new CPTPP regime, such ODA could target specific areas to improve infrastructure as well as overall business environments. A reinvigorated Japanese government willing to take the lead in creating a regional economic architecture is needed if Japanese businesses are to jump on board. So far, Prime Minister Abe has begun that task, setting a model for future Japanese leaders.

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Appendix A. List Of Suspensions And Explanations By Australian Government

Customs Administration and Trade Facilitation

(5) Article 5.7.1(f): Express Shipments

Suspend second sentence Each TPP-11 Party has agreed not to assess customs duties on express shipments valued at or below a fixed amount as set under its domestic law. That amount is currently set at \$1,000 under Australian law.

There will no longer be an obligation for Parties to review the threshold below which no duties on express shipments are charged.

- Investment

- (9) 9.1 Definitions

- Suspend "investment agreement" and "investment authorisation" and associated Footnotes (5 - 11)*

- 9.19.1 Submission of Claim to Arbitration

- a(i) B and C; (b)(i) B and C (investment authorisation or investment agreement), chausette, footnote 3*

- 9.19.2 Submission of Claim to Arbitration

- Footnote 32*

- 9.19.3 Submission of Claim to Arbitration

- (b) delete investment authorisation or investment agreement*

- 9.22.5 Selection of Arbitrators

- 9.25.2 Governing Law

Annex 9-L Investment Agreements This narrows the scope of Investor-State Dispute Settlement (ISDS). Foreign investors can no longer make an ISDS claim for violation of private investment contracts with the Government, or investment authorisations.

Foreign investors can still bring an ISDS claim for a violation of an investment obligation, such as expropriation or the minimum standard of treatment.

Expropriation is where a government takes over, or nationalises, an investor's property.

The minimum standard of treatment means a government has to treat a foreign investor fairly, such as giving them due process in a local court.

Cross-Border Trade in Services

(10) Express Delivery Services – Annex 10-B

Suspend paragraph 5 and 6 Parties are no longer obliged to refrain from cross-subsidising express delivery services with revenues derived from monopoly postal services. There will no longer be a requirement for each Party to ensure that its postal monopoly refrain from abusing its monopoly position

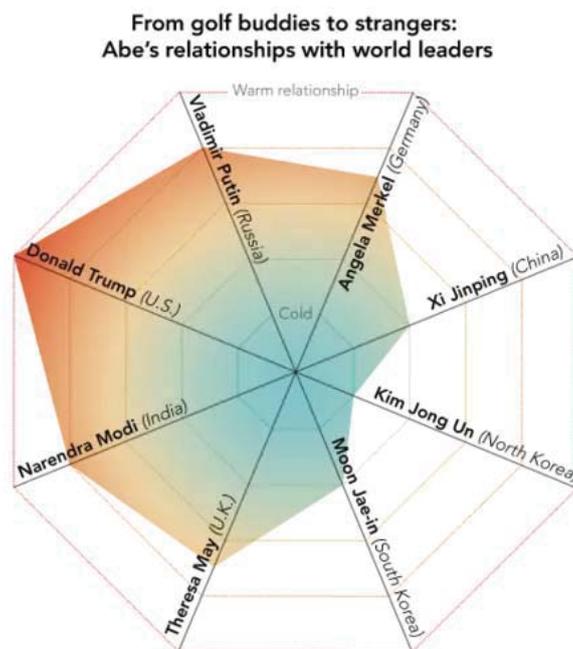
Fire and Fury: The “Trump Effect” on US-Japan Economic Relations

By Steven Pelcovits

Introduction

Donald Trump’s victory in the 2016 presidential election held both peril and promise for his country’s relationship with Japan. Throughout the presidential campaign, he had attacked trade agreements, including the Trans-Pacific Partnership (TPP) with Japan and ten other nations. Immediately upon taking office, he fulfilled a pledge to withdraw from this pact.¹ Trump’s statements throughout the election campaign attacking the American trade deficit with Japan also stoked fears in Tokyo about the future of their nation’s trade with the world’s largest economy.²

At the same time, there were positive signs for Japan. Newly-minted Vice President Mike Pence had a record of encouraging Japanese investment in his home state of Indiana during his tenure as governor.³ His selection as President Trump’s second-in-command hinted at the possibility of similar policies being enacted on a national level. Trump also appointed Wilbur Ross, the Japan Society chairman and a recipient of the Order of the Rising Sun, as his Secretary of Commerce.⁴ Furthermore, shortly after the election, Prime Minister Shinzo Abe successfully cemented a strong personal relationship with Trump by becoming the first foreign leader to visit and by joining him for golf at Mar a Lago in February 2017.⁵ This friendship presented the possibility that Abe might be able to convince Trump to act more amenable towards Japan.



(Source: Nikkei Asian Review)⁶

As the above examples suggest, there are many dimensions to the impact of the Trump administration on US-Japan economic exchange. Even nearly two years since his inauguration, it is possible to identify both positive and negative effects that can be attributed to the executive branch. In order to determine whether Trump has been overall a net positive or negative for economic ties between the two allies, it is necessary to take a comprehensive view of both trade and investment as well as actions by both the president and other members of his administration.

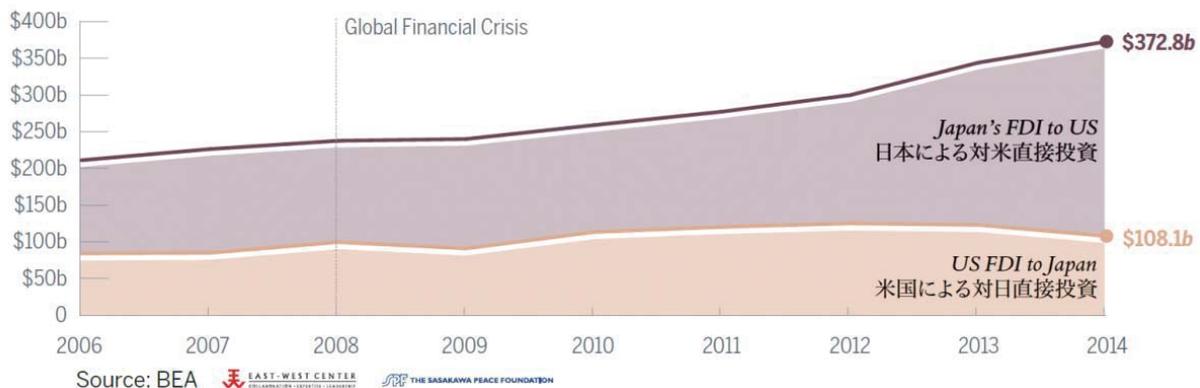
This paper seeks to evaluate the impact of the Trump administration, including the president's policies, actions, and statements as well as those of his appointees, on US-Japan economic ties. While much has been written about the geopolitical and strategic impacts of certain decisions by Trump, such as withdrawal from TPP, this paper maintains a narrow focus on the economic ramifications of those actions, with an eye on two-way trade and investment rather than domestic welfare. Economic cooperation between Washington and Tokyo in other countries will also be taken into account.

Baseline State of US-Japan Economic Relations: Bound by Deep Ties

Unsurprisingly, as the first- and third-largest economies in the world and longtime allies, the US and Japan are major trading partners. The most recent statistics from prior to the Trump administration reveal the importance of this relationship to both countries. According to the Office of the US Trade Representative (USTR), in 2016 the US exported \$107.9 billion worth of goods and services to Japan and imported \$162.8 billion. Agricultural exports, the biggest of which were corn, pork, beef, soybeans, and wheat, were \$11 billion, nearly one-fifth of total goods exports. Leading categories of imports from Japan were vehicles, machinery, electrical machinery, optical and medical instruments, and aircraft; these collectively accounted for over 80% of the \$132 billion of imported goods. Overall, Japan was the US' fourth largest goods trading partner in 2016⁷, while the US was Japan's second largest that year after China.⁸

The relationship is even more pronounced in the field of investment. For 2015, the year with the most recent data from USTR, American foreign direct investment (FDI) in Japan totaled \$108.5 billion, while Japanese FDI in the US was valued at \$411.2 billion.⁹ Japan Matters for America, a project of the East-West Center, notes that Japan was number two for both new investment and total investment in the United States as of 2014. In 2013, Japanese investment was directly responsible for 719,000 American jobs. In turn, a survey of 500 of the 1,800 American firms operating in Japan showed that these firms alone employed over 200,000 people across the country.

US-JAPAN BILATERAL INVESTMENT (STOCK US\$ BILLIONS) 日米二国間の投資(ストック、米10億ドル US\$ BILLIONS)



(Source: *Asia Matters for America*)¹⁰

Japanese Businesses' Views of Trump

One important method for evaluating Trump's impact on US-Japan economic relations is his impact on the Japanese business community. A number of surveys have suggested that overall, Japanese businesses tend to lean towards a pessimistic view of his administration. Between November 2017 and January 2018, the Japan External Trade Organization (JETRO) conducted a survey of over 3,000 Japanese companies interested in overseas markets. Nearly 60% perceived risks or problems with doing business in the United States as a result of Trump's policies.¹¹ In a March 2018 poll of 100 major companies by the *Nikkei Sangyo Shimbun*, 34.2% of respondents believed that the Trump administration had had a positive or generally positive impact on their firm, while 39.8% felt that it was negative or generally negative.¹²

Of the *Nikkei* poll respondents who saw positive effects, the top five reasons given were "substantial lowering of the corporate tax rate" (94.0%), "expansion of infrastructure investment" (60.0%), "large-scale creation of employment" (28.0%), "consideration of US return to the TPP" (22.0%), and "deregulation of finance" (16.0%). Reasons given for negative views largely centered on trade: "protectionist trade policy" (70.7%), "strengthening of safeguards and other taxation on imports" (43.1%), "US withdrawal from the TPP" (41.4%), "opaque [efforts to] renegotiate NAFTA" (22.4%), and "intervention in corporate activities" (19.0%).¹³

When the 35.6% of respondents who planned future investment in the US were asked the reasons for doing so, the majority cited "expansion of the US economy" (63.5%), with many also providing other, unspecified answers (48.1%). Though the survey did not ask firms why they believed the US economy was growing, a mere 0.7% of those who thought the world economy was expanding credited Trump. The number of firms that cited Trump's policies as a reason for

investing was negligible: “major tax cuts under the Trump administration” came in at 9.6%, “deregulation under the Trump administration” at 3.8%, “strengthening of taxation on imports” at 3.8%, and “development of good ties with the US administration” at 1.9%. Furthermore, none of the firms that believed that deregulation of finance was beneficial to their business stated that they would increase investment as a result.¹⁴

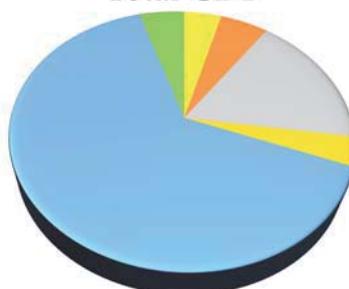
TPP: A Missed Opportunity

With respect to US-Japan trade, Trump has largely pursued harmful policies as initially feared. One of the administration’s most damaging attitudes for the US-Japan relationship has been its hostility to free trade agreements, or FTAs. This position is largely rooted in a focus on trade balances, which has led Trump to be skeptical of trade agreements with countries that export more to the United States than they import, including Japan. The president’s own approach to trade is mirrored by that of his chief trade negotiator, USTR Robert Lighthizer. Prior to joining the Trump administration, Lighthizer was known for his work in the Reagan administration, when he pressured Japan to agree to voluntary export restraints on automobiles and steel.¹⁵

The TPP withdrawal represents the most direct manner in which Trump’s antipathy to free trade has affected Japan. Although TPP was a multilateral deal covering twelve nations, the US and Japan were by far the largest economies, accounting for 82% of nominal GDP as of 2016.¹⁶ In essence, it would have been a bilateral FTA between these two countries. From a US perspective, excluding those TPP signatories with which it had preexisting FTAs¹⁷, Japan would have represented 88% of the GDP of TPP trading partners. For Japan, which has separate FTAs with every TPP signatory except the US, Canada, and New Zealand¹⁸, the US would have accounted for 92% of the GDP of its new free trade zone.¹⁹ By forgoing the opportunity to enter into what was economically a bilateral agreement, Trump sacrificed the chance to drastically increase trade.

Given that TPP never actually entered into effect, it is impossible to quantify with certainty the extent to which it would have affected US-Japan trade. However, considering the industries it would have affected, there is no question that the increase in goods trade would have been significant. According to JETRO, the US levied \$2.3 billion in tariffs on imports from Japan in 2014. Automobiles and auto parts accounted for approximately half of this due to their sheer volume, despite an effective tariff rate of only slightly over 2%.²⁰ Had TPP gone into effect, it would have immediately eliminated tariffs on 87.4% of auto part categories and on automobiles themselves after twenty-five years. Furthermore, as Hiromi Oki of the Institute for International Trade and Investment points out, TPP would have also liberalized tariffs for machines and plastics²¹, which accounted for another 28.2% of import tariffs in 2014.²²

Individual TPP
Members' Share of
Total GDP



● Australia
 ● Canada
 ● Japan
 ● Mexico
 ● United States
● Other

(Source: World Bank)²³

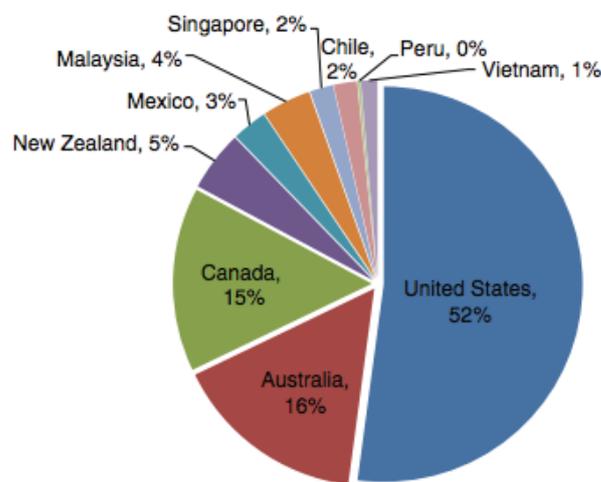
As a point of comparison, Oki cites the case of South Korea and its FTA with the US that went into force in March 2012. He compares trade data from the second year of the FTA's effective period to the year before the agreement came into being and finds that, of the goods covered by the agreement, Korean exports to the US increased by 15.7%, while imports increased by 10.1%. These findings are especially noteworthy since Oki identifies Korea as a major competitor to Japan for goods exports to the US. In fact, automobiles and auto parts were two of the main beneficiaries of the Korea-US FTA.²⁴ Had TPP gone into effect, it is likely that Japan would have enjoyed similar benefits, as well as increased competitiveness for its exports to the US against similar Korean goods.

Despite Trump cited his “policy...to represent the American people and their financial well-being” in his withdrawal from TPP²⁵, US producers doing business with Japan would also have benefited. Had it been in effect, the rise of Japanese tariffs on American frozen beef from 38.5% to 50% that occurred in 2017 would have been averted. In fact, TPP would have ultimately reduced this tariff rate to 9% over a phase-in period. This would have been a valuable proposition for American farmers given that Japan is their top overseas market for beef.^{26,27} According to Takumi Sakuyama of Meiji University, TPP would have removed 82% of Japan's overall agricultural tariffs, even higher than the 56% of such tariffs that had already been eliminated through bilateral EPAs with other nations. The comparable numbers for beef and pork would have been 74% and 67%, respectively.²⁸

According to John Dyck and Shawn S. Arita of the US Department of Agriculture (USDA), 52% of all of Japan's agricultural imports from TPP signatories between 2011 and 2013 were supplied by the US. This advantage, which was particularly pronounced in grains and

meats, illustrates that the US had more to gain than any other country from the liberalization of the Japanese agricultural market.²⁹ The US International Trade Commission (ITC) projects that in 2032, TPP would have resulted in an 8.4% increase in America’s beef exports to the world and 3.8% increase in processed foods exports over the baseline scenario; most of these new sales would have been made to Japan. Furthermore, TPP would have erased the competitive advantage enjoyed by Australia, which has a preexisting bilateral FTA with Japan.³⁰ Since Australia is the second-largest exporter of agricultural goods to Japan in Dyck and Arita’s data, an even playing field would make US goods much more attractive to Japanese consumers.

Figure 7
Average share of Japan’s total agricultural imports from TPP countries, 2011-13



TPP = Trans-Pacific Partnership.
 Source: USDA, Economic Research Service calculations using Government of Japan trade data.

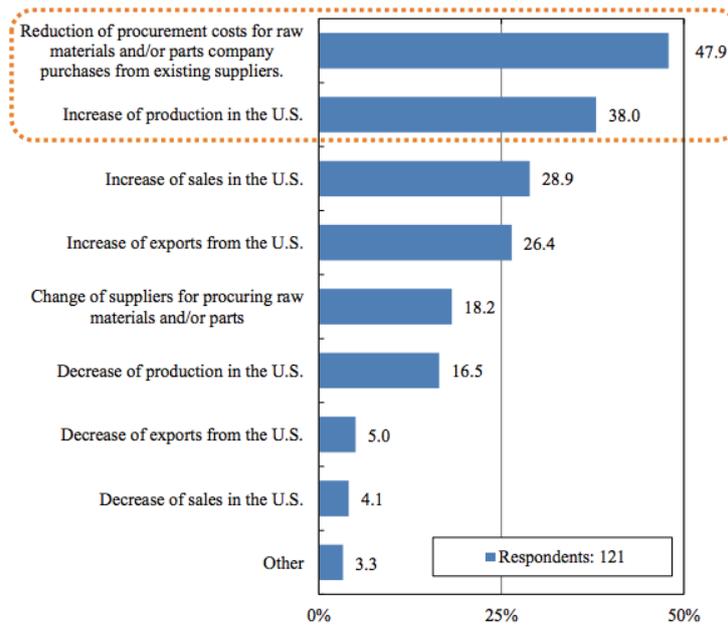
(Source: Dyke and Arita)³¹

Lastly, TPP would have likely provided a boost to Japanese businesses operating in the United States. In a fall 2016 survey of such companies conducted by JETRO, 18.6% of respondents anticipated that they would be affected by TPP. The majority of these firms expected benefits from ratification: 47.9% thought they could get cheaper supplies without having to switch vendors, while 38.0% foresaw increased production in the United States.

Following the decision to withdraw from TPP, Trump and other members of his administration have made efforts to engage in economic dialogue with Japan and persuade them to sign a bilateral FTA, but these talks have only encountered gridlock. Vice President Pence, as Trump’s second-in-command, has twice met with Deputy Prime Minister and Minister of Finance Taro Aso in order to promote economic cooperation. However, the two have continuously failed to see eye to eye: Pence has insisted on a bilateral FTA, whereas Aso has refused to budge from supporting TPP.³² Aso’s stance reflects Japan’s position in favor of

multilateral negotiations, as it believes that such deals help resist pressure to open up politically sensitive markets.³³ The only breakthroughs from Pence and Aso’s meetings have been smaller agreements on removing trade barriers, such as Japan loosening auto and potato import restrictions and the US responding in kind for persimmons.³⁴

Fig. Specific Effects (multiple answers)



(Source: JETRO)³⁵

Separately from the Pence-Aso talks, there have been several fleeting hints of a breakthrough, but none have produced any results as of yet. For instance, in March 2018, former International Monetary Fund official Naoyuki Shinohara predicted that American resistance to multilateral negotiations would ultimately force Japan to enter bilateral FTA talks and provide American exporters with greater market access. He surmised that such negotiations could follow the same pattern as those of the FTA between the US and South Korea, in which Seoul was forced to make concessions on monetary policy.³⁶ Prior to the renegotiation of the US-Korea FTA, several diplomats from the US Embassy in Tokyo also speculated that Japan would be closely watching Seoul and Washington’s talks to decide whether to consider a bilateral agreement.³⁷

At the same time, many signs continue to point to a holding pattern in Japan-US trade negotiations. In contrast to the aforementioned views suggesting the potential for a bilateral agreement, some experts, such as Shujiro Urata of Waseda University³⁸ and Jonathan Berkshire-Miller of the Japan Institute for International Affairs (JIIA), maintain that Japan strongly wants to avoid such a deal.³⁹ In January 2018, it seemed that Japan’s wish for a multilateral agreement might come true when Trump stated in an interview, “If we did a substantially better deal, I

would be open to TPP.”⁴⁰ He appeared to take this statement a step further in April 2018 with an order to his top economic adviser, Larry Kudlow, to look into rejoining the deal. However, less than twenty-four hours later, he dampened Japanese hopes by stressing that he would only reenter the agreement if it were “substantially better” than the iteration from which he withdrew.⁴¹

While Trump’s order to Kudlow initially made a return to TPP seem possible, his later caveat essentially removed any chance that this would come to bear. Japan felt that the old TPP already offered the most generous terms possible. Following Trump’s brief move towards rejoining TPP, Chief Cabinet Secretary Yoshihide Suga referred to the agreement as a “well-balanced pact” and resisted the president’s call to further revise it.⁴² Minister of the Economy, Trade, and Industry Hiroshige Seko also voiced skepticism about letting the US back into the pact, saying, “I don’t think we can change the contents of the agreement.”⁴³

The most recent indication of a stalemate in talks is the discussions on April 17 and 18 at Mar a Lago, where neither Abe nor Trump budged from their respective positions.⁴⁴ While USTR Lighthizer and Minister of State for Economic and Fiscal Policy Toshimitsu Motegi are slated to begin a new series of talks in June 2018, Motegi, like Abe and Aso, has insisted that Japan is not interested in a bilateral FTA.⁴⁵

Even if a bilateral FTA were to be concluded, the nature of its impact would be influenced in part by any stipulations it contained for currency policy. The new US-Korea FTA’s provisions for deterring currency devaluation unnerved Japanese exporters, who were already wary of Trump’s attacks on Japanese monetary policy directly prior to his inauguration. Even though multiple circumstances differentiate Japan from South Korea, such as the former’s more transparent currency policy, any destabilization of the exchange rate could have consequences for exporters’ earnings.⁴⁶

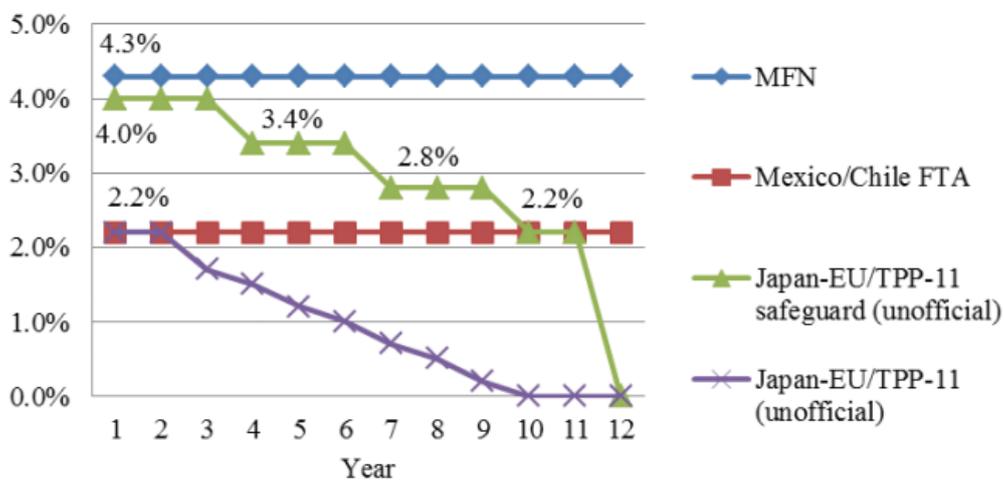
Japan Turns Elsewhere?

Though President Trump has left the door open to a return to TPP, his original decision to withdraw has created an indelible impact on US-Japan trade. Despite Japan’s strong desire for US participation in TPP, it has sought to diversify its options for potential trade partners by pursuing agreements with other countries. Japan’s offer to give other countries more favorable access creates the possibility of American exporters being squeezed out of the Japanese market.

On December 8, 2017, Japan finalized negotiations with the European Union for an economic partnership agreement, or EPA.⁴⁷ On March 8, 2018, Japan and the other non-US members of TPP signed a replacement agreement known as the Comprehensive and Progressive

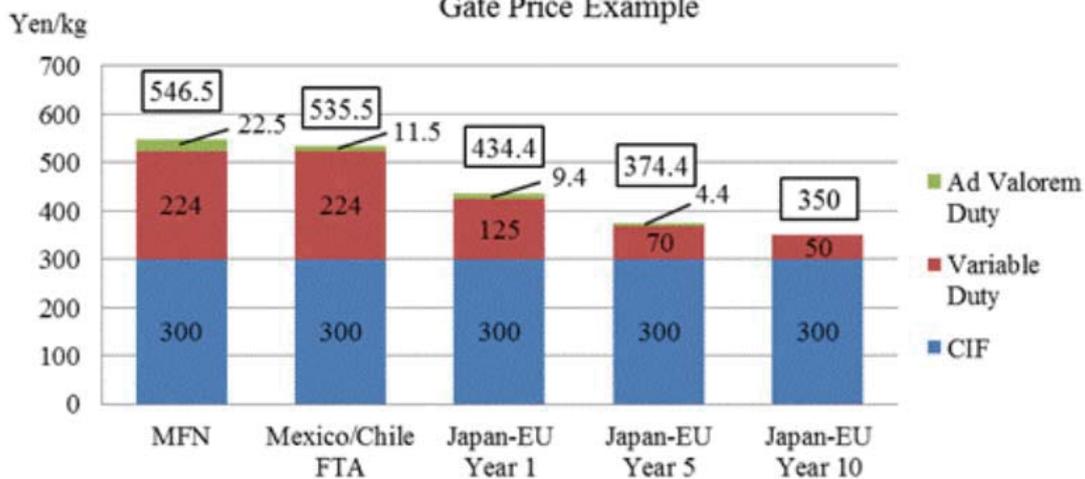
Agreement for Trans-Pacific Partnership, or CPTPP (also known as TPP-11).⁴⁸ According to Alexander Blamberg of the USDA Foreign Agricultural Service, these agreements, along with Japan's existing FTAs with Mexico and Chile, threaten to put American pork at a cost disadvantage in the Japanese market.⁴⁹ The graphs below illustrate projections for different tariff rates that will be applied to pork entering Japan. Following approval of the Japan-EU agreement and CPTPP, tariff rates will slowly begin to fall, in contrast to the most favored nations (MFN) terms applied to the US.

Chart 1
Gate Price Ad Valorem Duty for Fresh, Chilled, Frozen Pork



Source: FAS Tokyo

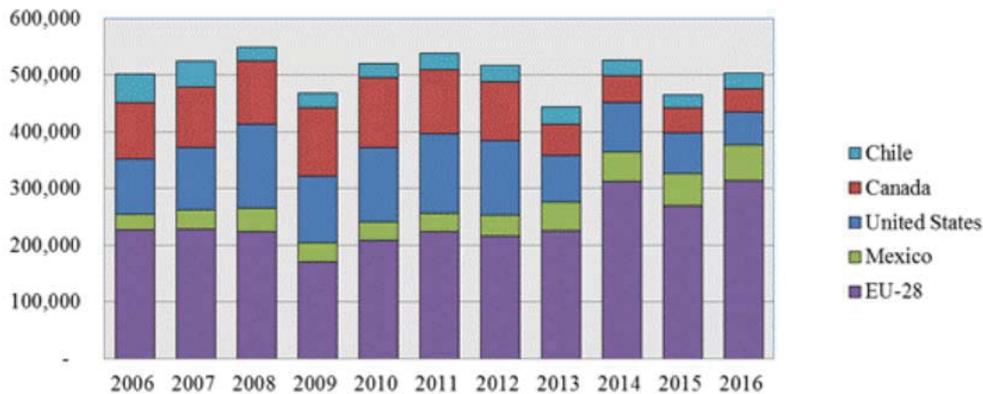
Chart 2
Gate Price Example



Source: FAS Tokyo

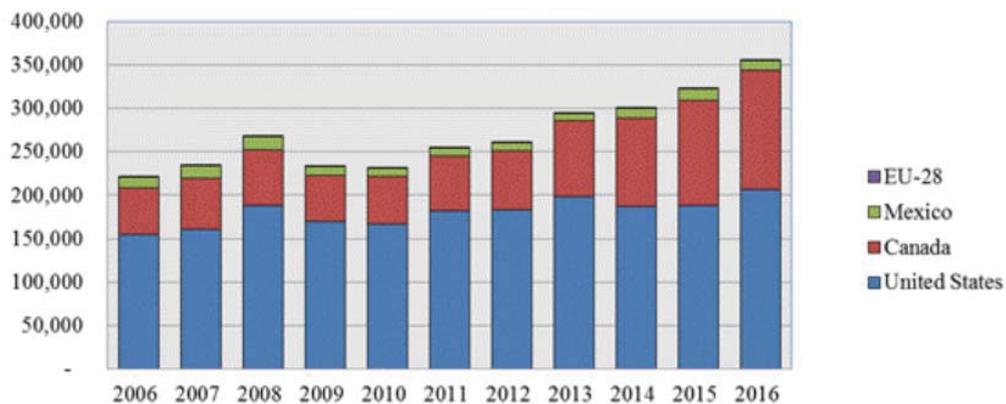
There is ample reason for American pork farmers to be concerned about foreign competition in the Japanese market. While the US is currently the leading exporter of fresh and chilled cuts, Canada has gained market share over recent years. As a member of CPTPP, it would enjoy a greater cost advantage relative to America in lieu of a US-Japan trade agreement to reduce pork tariffs. An analysis by the Canadian government’s Global Affairs Canada found that CPTPP would actually generate more long-term economic gains for its country than TPP (4.2 billion Canadian dollars compared to 3.4 billion Canadian dollars) due to the tariff advantage over American competitors. Much of Canada’s CPTPP windfall would come from trade with Japan, which would account for 338 million Canadian dollars in tariff savings, or almost 80% of the total 428 million Canadian dollar tariff savings from CPTPP.⁵⁰ Furthermore, the EU is already the largest supplier of frozen pork to Japan, and both it and several CPTPP countries stand to benefit at the US’ expense should their products face lower import duties.

Chart 4
Japanese Pork Imports, Frozen Cuts (MT)



Source: Global Trade Atlas. HS: 020321, 020322, 020329

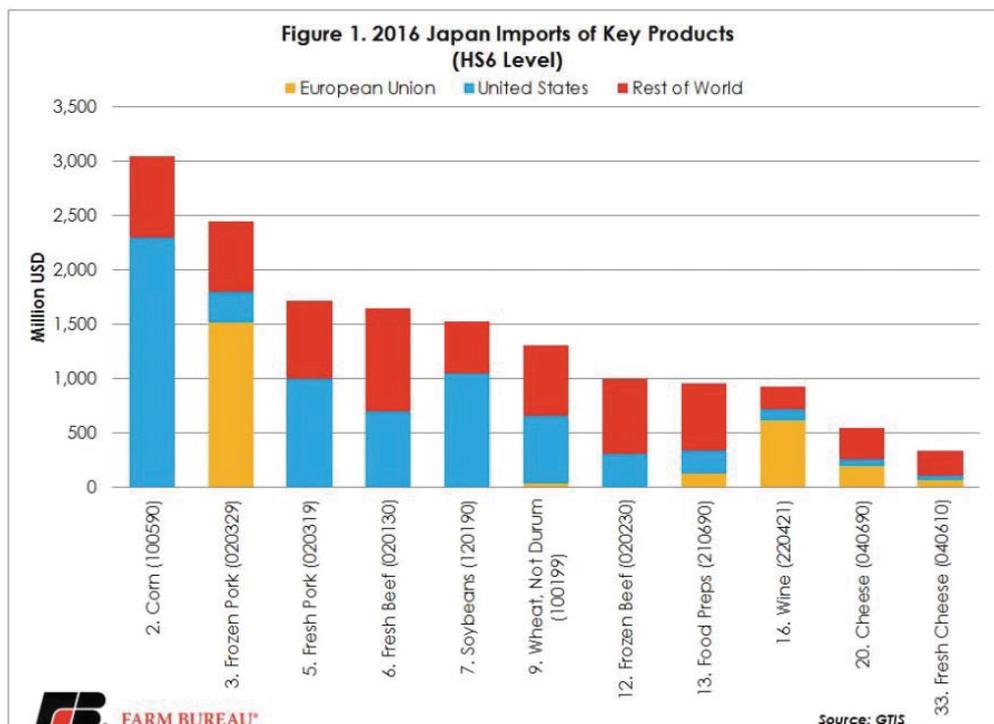
Chart 3
Japanese Pork Imports, Fresh/Chilled Cuts (MT)



Source: Global Trade Atlas. HS: 020311, 020312, 020319

(Source: Office of the Chief Economist)⁵¹

While pork and beef exports will be the most dramatically affected, several other products are also likely to be impacted. Erik Brattberg and James L. Schoff of the Carnegie Endowment for International Peace have cited wine, shoes, cosmetics, plastics, and automobiles as sectors in which European producers will be able to edge out their American rivals in the Japanese market.⁵² The Farm Bureau notes that the concessions granted to European agricultural products under the Japan-EU EPA are similar to those that the US would have received in TPP. The agricultural products that Japan imports from both the US and the EU are shown in the graph below.



(Source: Japan Times)⁵³

NAFTA’s Implications for Japanese Investment in the US

In addition to his withdrawal from TPP, Trump has vocally criticized the North American Free Trade Agreement (NAFTA). In his first debate with Hillary Clinton, he deemed it “the worst trade deal maybe ever signed anywhere, but certainly ever signed in this country.”⁵⁴ After taking office, he called for a renegotiation of NAFTA and warned that he could withdraw the United States from the agreement if he did not get his way.⁵⁵

Should NAFTA be dismantled, it would almost certainly have a negative effect on Japanese companies in Mexico, many of which export to the United States. However, even subsidiaries of Japanese firms located in the US currently benefit from the agreement. In

JETRO's 2017 survey of Japanese companies in the US, one-third of respondents reported that they took advantage of NAFTA; most of these exported from the US to Canada or Mexico.⁵⁶

Several Japanese business representatives have spoken out against the removal or excessive modification of NAFTA. For instance, the Japan Business Federation (Keidanren) signed a joint letter in February 2018 with the United States Council for International Business (USCIB) to Nevada Governor Brian Sandoval, the head of the National Governors Association. Keidanren and USCIB argued that NAFTA had been responsible for the explosion of Japanese FDI in the US and that certain sections of the agreement, such as rules of origin, needed to be preserved in their current state.⁵⁷ In November 2017, the US-Japan Business Council and its Japanese counterpart, the Japan-US Business Council, released a statement expressing concern over US demands in NAFTA negotiations. Like Keidanren and USCIB, they took particular issue with the proposal to require that automobiles contain at least 50% US-made parts and at least 85% NAFTA-made parts.⁵⁸

The consequences of the Trump administration's NAFTA demands for Japanese businesses depends on how many ultimately are accepted. As of the beginning of May 2018, the three NAFTA countries appear to be far from coming to an agreement.⁵⁹ The upcoming Mexican presidential election in July and American midterm elections in November raise the potential for further complications. The ramifications for Japanese businesses will become clearer either after these events or the conclusion of NAFTA negotiations, whichever comes earlier.

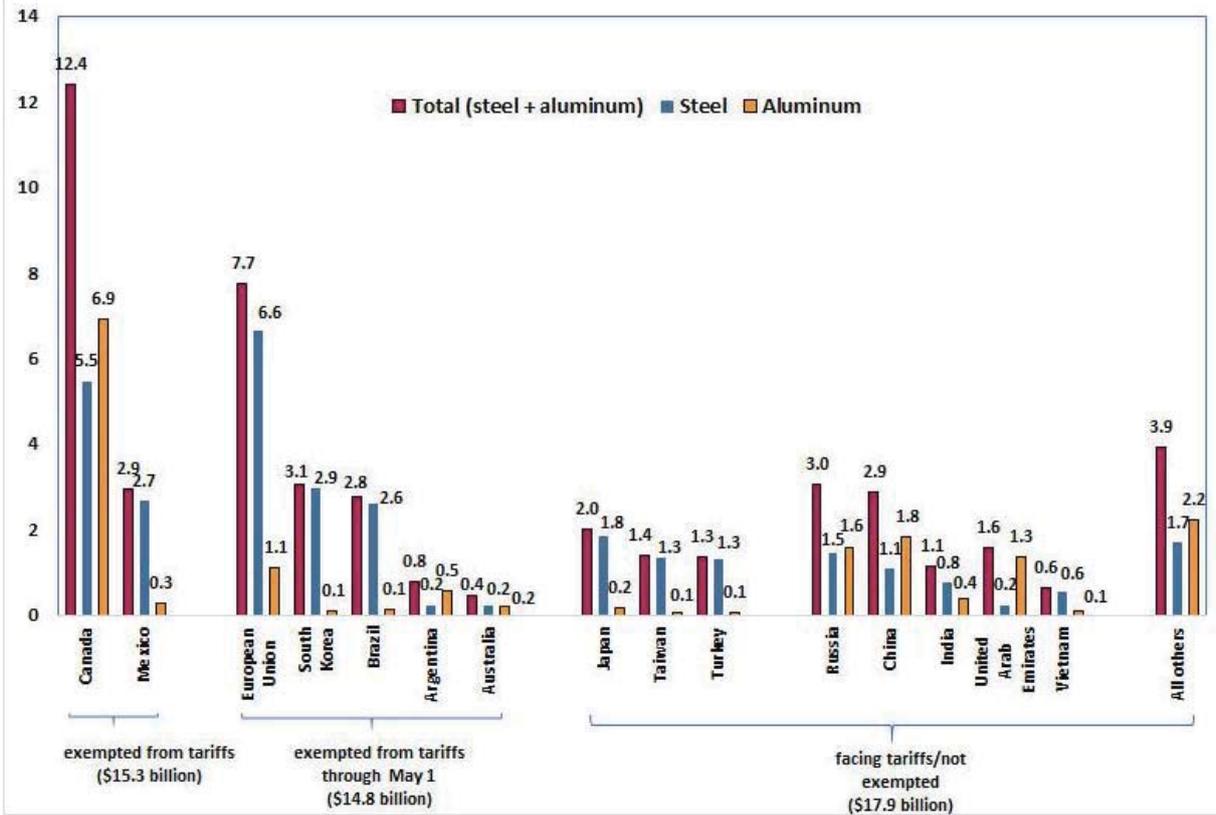
Antidumping and Tariffs

Aside from opposing multilateral FTAs, the Trump administration has limited or signaled a desire to limit Japanese imports through direct trade barriers. An early example of this was in May 2017, when as a result of an Obama-era case, the ITC imposed antidumping duties of up to 48.67% on carbon and alloy steel cut-to-length plates from eight countries, including Japan. While Trump and his appointees were not directly responsible for the decision, they did nothing to stop it, and Commerce Secretary Ross indicated that the administration would bring even more antidumping cases in the future of its own accord.⁶⁰

On March 23, 2018, the Trump administration imposed tariffs of 25% on steel imports and 10% on aluminum imports after previously announcing that it would do so. While permanent or temporary exemptions were granted to many US allies, including the four that are its top source of steel exports, Japan was notably absent from this list despite providing 5% of US steel imports⁶¹ amounting to nearly \$2 billion.

Figure 1 US imports of steel and aluminum in 2017, by selected trading partner and tariff/exemption status

billions of dollars



(Source: Reuters)⁶²

Due to the recency of these measures, the extent to which they will reduce steel imports from Japan cannot be fully evaluated. Many Japanese suppliers are confident that the type of steel they produce cannot be obtained from other countries and predict that their American clients will press the Trump administration for tariff exemptions on a case-by-case basis. Furthermore, the US is a relatively minor market for Japanese steel manufacturers compared to Asia.⁶³ Nonetheless, both the absolute rise in the price of Japanese steel, as well as an increase in relative price compared to foreign competitors, can only harm US-Japan trade in that industry.

Similarly, Trump's plan to look into imposing duties on automobile imports also bodes poorly for bilateral trade going forward. While some experts believe that Trump is simply posturing in order to win concessions from trading partners, others, such as Edward Alden of the Council of Foreign Relations, consider this threat to be credible. Alden has stated that these measures could come into effect as soon as fall 2018.⁶⁴ The importance of American-bound auto exports to Japan creates large potential fallout from such an action. Furthermore, it is not

inconceivable that the mere threat of trade barriers, even if they ultimately do not enter into effect, could lead to supply chain disruption or abandonment of investment plans.

Sticks Over Carrots: Can Trump Pressure Japan into Buying and Hiring American?

Aside from his efforts to conclude a bilateral FTA with Japan, Trump has attempted to apply diplomatic pressure on the Japanese governments and Japanese businesses to encourage them to buy more American goods and further increase American investment. For instance, during his November 2017 trip to Japan, Trump railed against Japanese trade practices and argued that Tokyo should work to close the trade deficit by buying more American military equipment. Abe deflected this attack by noting that Japan had already agreed to purchase F-35A fighter jets and missile interceptors from American companies.⁶⁵ Nonetheless, shortly after, Bloomberg reported that Japan was in talks with the Department of Defense to discuss buying more missile defense systems.⁶⁶ In February 2018, Reuters revealed that the Japanese government had plans to buy an additional twenty F-35A planes. At the same time, it is unclear to what extent these deals were influenced by Trump's entreaties. Regarding the second F-35A purchase, Japanese government sources commented that purchasing the jets from the United States would save \$30 million per unit. Furthermore, Japan's decision to strengthen its defenses came at a time of increasing regional tensions, with advances in North Korea's nuclear program and increasing displays of military strength by China.⁶⁷ It is thus possible that the purchases would have been made with or without the president's demands.

The president has similarly attempted to use the bully pulpit to demand that Japanese companies manufacturing in Mexico move their operations to the United States. For instance, in January 2017, Trump responded to plans by Toyota to increase investment in Mexico by tweeting, "Build plant in U.S. or pay big border tax."⁶⁸ Nine months later, Toyota announced that it would scale back capital expenditure plans for its Guanajuato plant in Mexico from \$1 billion to \$700 million. The company denied that it was giving into Trump's pressure, however, claiming that the decision was a result of increased demand for US-manufactured Tacomas rather than Mexican-produced Corollas.⁶⁹ Three months after that, it also announced a joint \$1.6 billion investment in Alabama with Mazda, which Reuters referred to as "a victory for President Donald Trump."⁷⁰

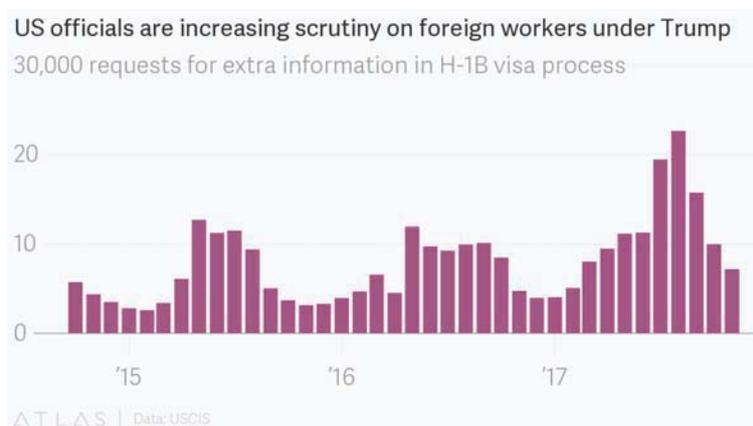
While investment by the Japanese automotive industry has increased under Trump administration, it is not evident that correlation equals causation. Though Toyota did ultimately reduce the size of its Guanajuato investment and announce a new project in the US, it had considered switching Tacoma production to Mexico even following the president's threats.⁷¹ Many Japanese automakers already had widespread American operations even before Trump took office: 70% of the cars that Honda sold in the US in 2016 were manufactured within the

country, and Toyota already had its largest factory in the world in Kentucky.⁷² Even though Toyota expanded its Kentucky plant after Trump took office, it denied that the president had played a role.⁷³ Mireya Solis of the Brookings Institution has surmised that, while Trump could potentially influence automakers’ business decisions through publicity, he has little legal authority to control them. Solis has further remarked of Japanese car companies, “They will not lightly make the costly decision to restructure their footprint across the region if Trump will only be in power a few years.”⁷⁴

Is Trump’s Immigration Policy Hurting Japanese Businesses?

Aside from trade, another potential area in which Trump’s policies may be burdening Japanese investors in the US is immigration policy. In the aforementioned 2017 JETRO survey of Japanese companies in the US, 23.3% cited regulation as a source of rising costs for them. Of these firms, 33.1% specifically referred to the costs of securing visas for Japanese employees, more than double the previous year’s 15.4%.⁷⁵

The dramatic increase in this number raises the possibility that Trump’s restrictive visa policy is imposing burdens on Japanese businesses. For instance, Trump’s April 2017 “Buy American and Hire American” executive order directed several agencies to “propose new rules and issue new guidance...to protect the interests of United States workers in the administration of our immigration system.”⁷⁶ That same month, a report by JETRO’s Kenjiro Watanabe noted that Japanese firms employing high numbers of foreigners could be susceptible to a change in the H-1B skilled visa system.⁷⁷ Indeed, since Trump’s ascension to office, the administrative hurdles for H-1B applicants have increased significantly. This is reflected in the sharp increase in requests for information from such applicants by US Citizen and Immigration Services (USCIS). According to Diane Rish of the American Immigration Lawyers Association, the process of dealing with these requests can take two to three months.



(Source: JETRO)⁷⁸

At the same time, the extent to which Trump's immigration policy hurts Japanese businesses is unclear. The JETRO survey does not cite any reasons for the rise in visa-related costs. Furthermore, despite the large relative increase in firms experiencing such costs, they still constituted a mere 7.7% of total survey respondents. In lieu of evidence that these administrative burdens are directly related to Trump's policies or are affecting more Japanese businesses in the US, it is reasonable to classify visa costs as a relatively small negative effect of the Trump administration on US-Japan economic relations.

Policy Implications of the Abe-Trump Relationship

As mentioned above, another potential implication of Trump's presidency for the US-Japan economic relationship is his close personal friendship with Abe. Trump often asks for Abe's opinion on diplomatic dealings with other countries, and as of January 26, 2018, the two leaders had spoken on the phone seventeen times. Abe has sought to leverage this relationship in his efforts to convince Trump to return to TPP.⁷⁹

As the lack of FTA headway and failure of Japan to win tariff exemptions suggests, however, the personal rapport between Abe and Trump has not had any impact for Trump's stewardship of the US-Japan economic relationship. *Mainichi News* quotes an anonymous former USTR official as saying that Abe and Trump's friendship merely allows the two to have frank discussions but that Trump's actions will always be based on his "America First" principles.⁸⁰

Tax Cuts and Deregulation: The Impact of Domestic Policy on Japanese Businesses

In contrast to the starkly negative effect of the president's actions on trade, the ramifications of his domestic policy on Japanese businesses has been more mixed. One of the ways Trump has affected Japanese firms most is through his signature tax reform bill, the Tax Cuts and Jobs Act. In JETRO's survey of Japanese companies, 62.5% of respondents expressed an interest in Trump's corporate tax policy.⁸¹

Perhaps unsurprisingly, tax reform has mostly been a boon to Japanese businesses. In addition to cutting the corporate tax rate from 35% to 21%, the new law introduced accounting measures to encourage investment, such as permitting immediate total depreciation of fixed assets and allowing for infinite loss carryforwards.⁸² A report by Sumitomo Mitsui Banking Corporation (SMBC), while not offering any specific estimates, states that "Japanese firms can expect lower tax costs for their American affiliates due to the US corporate tax rate cut" (*Beikoku no hōjinzei teika ni yori, Nikkei kigyō ga Beikoku ni yūsuru genchi hōjin no zeikin kosuto no genshō ga kitai dekimasu*).⁸³ The companies in Nikkei's survey who cited the corporate tax rate

reduction as a reason for Trump's positive impact on their businesses constituted nearly one-third of total respondents.⁸⁴

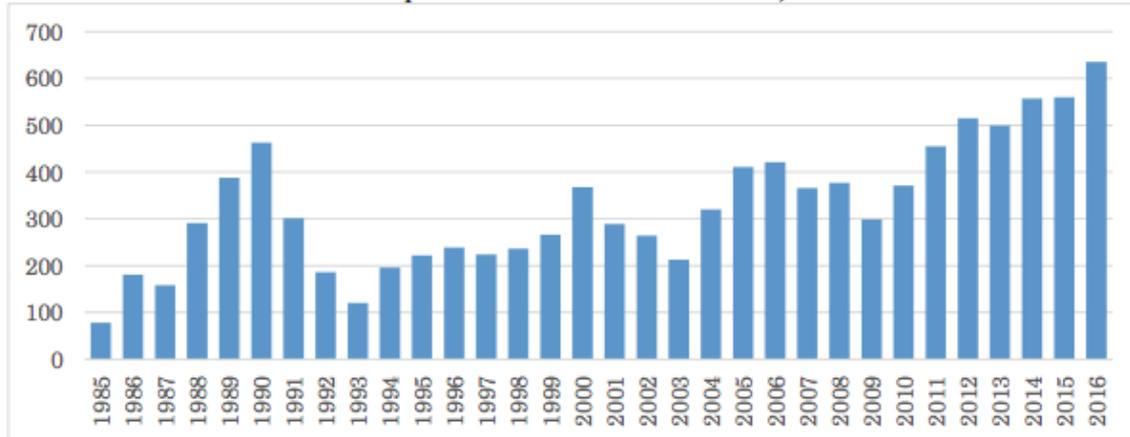
At the same time, tax reform has not been without its drawbacks. In addition to the corporate tax rate reduction, the law established a new levy called the Base Erosion Anti-Abuse Tax, or BEAT. This made certain expenses, such as royalty payments, tax deductible only if paid to firms within the United States; remittals from Japanese subsidiaries in America to their parent firms face an additional 10% tax. Tetsuya Yamagishi, a partner at PricewaterhouseCoopers, has described it as “truly ‘America First’ tax reform” (*masa ni Beikoku faasuto no zeisei kaikaku*).⁸⁵ SMBC notes that some Japanese companies pay large amounts of money to foreign affiliates and hence BEAT may partially counteract the benefits from corporate tax savings for these firms.⁸⁶ While tax reform should be a boon to domestic operations, it is likely to impede the flow of capital from subsidiaries to their parent companies in Japan.

Trump's general push for deregulation, separate from tax reform, has also won plaudits in the corporate world. However, the advantages for Japanese firms have been limited in scale. The 2017 JETRO survey credits Trump's deregulatory policies for a decline in Japanese companies' costs, noting that of survey respondents facing higher costs due to regulation, the percentage confronting environmental regulations fell from 43.6% in 2016 to 38.2% in 2017.⁸⁷ At the same time, because the overall percentage of survey respondents encountering higher regulatory costs rose from 18.0% in 2016 to 23.3% in 2017, the ratio of overall firms with higher environmental costs actually rose slightly, from 7.8% to 8.9%.⁸⁸ Furthermore, in the *Nikkei* survey, those who cited deregulation of finance as a factor for Trump's positive effect on their business accounted for a mere 5% of total respondents. Despite Trump's attacks on the Paris Climate Accord as “job-killing,”⁸⁹ no respondent to the *Nikkei* poll cited his withdrawal from the agreement as a benefit.⁹⁰

One area in which the Trump administration's deregulation policy bears further monitoring is that of mergers and acquisitions (M&A), which is the source of a significant portion of Japanese investment in the United States. After first becoming prominent in the 1980s, during the heyday of Japan's asset bubble, such cross-border deals have again made headlines in the 2010s. Prominent Japanese buyouts of American firms in recent years have included SoftBank's acquisition of Sprint for \$22 billion, Suntory's acquisition of Beam for \$16 billion, and Daikin's acquisition of Goodman for \$3.7 billion.⁹¹ As the graph below indicates, the absolute number of deals has spiked in recent years.⁹²

The president's policy towards Japanese M&A is not yet clear. In general, Trump has been notably strict on allowing foreign takeovers of American technology firms. As of March 2018, he had blocked ten such deals, most of which were bids by Chinese companies. None of

Table 2: Number of Japanese Outbound M&A to US, from 1985 to 2016



(Recof Data, 2017, February Issue)

these would-be purchasers, however, were Japanese.⁹³ An early test of ramifications for Japan may come with the proposed merger of cellphone carriers Sprint and T-Mobile. Although Georgetown Law professor Andrew Schwartzman, a telecommunications expert, has commented that it will be “difficult” to win approval from the federal government, the two providers announced their deal under the belief that the Trump administration would be more favorable to them than the Obama government.⁹⁴ At the same time, SoftBank CEO Masayoshi Son has not been involved with the merger, making it unclear whether the plan was part of his pledge to Trump to invest \$50 billion in the US and create 50,000 new jobs in the US.⁹⁵ Nonetheless, the deal bears watching as a potential bellwether for future Japanese M&A.

Infrastructure Investment: New Connections Forming

The area in which the Trump administration has been perhaps most effective in strengthening US-Japan economic ties is infrastructure investment. In the *Nikkei* survey, 60% of companies claiming positive effects from the Trump administration, accounting for over one-fifth of total respondents, credited him with expanding infrastructure investment.⁹⁶ The importance of infrastructure to Japanese businesses is reinforced by the 2017 JETRO survey, in which over half cited logistics and transportation as a key factor when considering expansion into different states.⁹⁷ The Japanese government has expressed optimism regarding President Trump’s plan to invest over \$1 trillion in domestic infrastructure, with the top transportation official, Keiichi Ishii, declaring that it “can be a big business chance for Japanese companies.”⁹⁸ Should Trump successfully push through his plan, it is likely to encourage further interest in US investment by Japanese companies.

The president has also moved forward on infrastructure cooperation with Japan abroad. During a visit to Japan in November 2017, he oversaw the signing of two deals with Japan to work together on projects in the Indo-Pacific region. The first, a memorandum between the

Overseas Private Investment Corporation and its Japanese counterparts, established a framework for supporting joint infrastructure investments in the Indo-Pacific region. This, Trump declared, reflected his and Abe's shared value that "infrastructure projects in the Indo-Pacific should be consistent with market competition and transparency, responsible financing arrangements, open and fair market access, and high standards of good governance." The second agreement created the Japan-United States Strategic Energy Partnership, aimed at "fostering the development and use of advanced energy technologies, encouraging an efficient, transparent global natural gas market, and promoting the development and integration of energy-related infrastructure."⁹⁹

In addition to the above agreements, the US Trade and Development Agency (USTDA) and Japan's Ministry of Economy, Trade and Industry (METI) forged an arrangement of their own. Noting the February 2017 pledge by Trump and Abe to deepen economic ties as well as the Strategic Energy Partnership, the USTDA proclaimed that it and METI would "assist countries in the [Indo-Pacific] region in obtaining transparent and efficient public procurement systems and establishing procurement policies and procedures consistent with international best practices. The cooperation will also demonstrate the high-quality value proposition that U.S. and Japanese companies excel at providing in infrastructure development."¹⁰⁰ This and the other November 2017 agreements represent an encouraging sign for future US-Japan infrastructure cooperation.

Ambassador Hagerty: A Boon to Business Ties

On March 27, 2017, Trump appointed William Hagerty to be US Ambassador to Japan; and four months later, Hagerty was sworn into office. In addition to serving in the George H. W. Bush administration, Hagerty had spent three years working as a management consultant in Tokyo. He had also spent four years as Commissioner of the Tennessee Department of Economic and Community Development,¹⁰¹ in a state where exports to Japan support nearly 17,000 jobs and Japanese firms employ 34,000 local workers.¹⁰² In that position, Hagerty sought to attract investment from Japanese companies such as Nissan and Bridgestone. While he echoed Trump by pledging to reduce the trade deficit with Japan during his Senate confirmation hearing, his stated method for doing so was not limiting Japanese imports, but rather promoting US exports, such as beef and liquefied natural gas (LNG).¹⁰³

Although it is hard to quantify Hagerty's impact on US-Japan economic relations, several experts on US-Japan relations have praised his work thus far. Dan Kachur, Jessica Berlow, and Adam Van Deusen of the American embassy in Tokyo noted that the ambassador met with 100 business leaders during his first ninety days in office, which allayed concerns of many business leaders about the Trump administration.¹⁰⁴ Berkshire-Miller of JIIA referred to him as a "great asset for business-to-business relations."¹⁰⁵ In contrast to Commerce Secretary Ross, who used a speech at the 2017 US-Japan Council Annual Conference to lambast Japan's trade practices,¹⁰⁶

Trump's pick for ambassador appears to have found a more receptive audience in the Japanese business community. The Ambassador continues to take a high-profile approach in his efforts to promote US interests and mutual exchanges, as seen in the coverage of his public activities in the Japanese news media.

Conclusion

Overall, the economic policies of President Trump have been a net negative on US-Japan relations, starting with the US withdrawal from TPP. This is reflected in the overall negative judgment of his presidency by Japanese firms. At the same time, there are several caveats to this assessment. One is the fact that some of the president's actions, regardless of their overall effect on the American economy and society, have benefited Japanese businesses and encouraged investment. Secondly, the president's unpredictable nature means that his policies, and hence impact on US-Japan economic relations, are subject to change. A prime example of this is his brief flirtation with rejoining TPP. Another example is his new threat to impose a 25% tariff on imported automobiles, a measure if imposed would deal a great blow to Japanese auto makers. We will have to wait and see whether this draconian measure will be imposed, and likely spark an international trade war.

Similarly, while economic models suggest that Trump's policies would hurt US-Japan trade, these are largely based on future projections rather than actual, verifiable numbers. This is particularly true for TPP; as it never actually went into effect, it is impossible to know exactly how it would have impacted the movement of goods and services between Japan and America.

Trump's insistence on removing chronic trade deficits by imposing tariffs and promoting measures to increase US exports will likely continue to drive US trade policy toward Japan and other trading partners. Most economists, however, dismiss such efforts as having minimum impact. Trade deficits reflect flows of capital across borders and are determined by savings and investments. Trump's trade policy, therefore, inevitably will do little to reduce the US trade deficit with Japan or any other major trading partner.

Finally, not all of Trump's effects on US-Japan economic relations are quantifiable. In particular, his administration's move towards infrastructure cooperation with Tokyo in third countries will not have a measurable effect on capital flows between the US and Japan. However, it is fair to say that these agreements also further economic exchange between the two countries. Depending on the actual benefits brought by such deals, as well as other intangible factors including the trade and investment promotion efforts of Ambassador Hagerty, it may be necessary to revisit the Trump effect on the US-Japan economic relationship in the future. Over the long run, Japan, always adapting to changing circumstances, may come out ahead.

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¹⁰⁶ Wilbur L. Ross, Jr., keynote address at U.S.-Japan Council Annual Conference 2017 (speech, Washington, DC, November 13, 2017).

America's Forward Strategy and the Okinawa Basing Issue

By Jane Schott

Introduction

Since the end of World War II, the notion that the United States must maintain a large forward presence abroad with numerous bases and tens of thousands of military personnel has been the cornerstone of its national security policy. This belief, often referred to as the “forward strategy,” gained prominence during the Cold War Era and operated under the assumption that Soviet Union expansion could be contained by a large presence of American bases and soldiers right outside the USSR’s borders, backed by a nuclear deterrence.¹ It has been almost thirty years since the Soviet Union collapsed, and while China has risen to be a major economic power since the 1990s and more recently has expanded its maritime military presence in regional waters, no major superpower has taken over the USSR’s once formidable role as the United States’ primary aggressor.

Despite the lack of another superpower rival, the notion that America’s foreign bases and troops are necessary to protect the country has, on the whole, remained unchallenged in Washington. When asked how many base sites the Department of Defense maintains overseas, the publicized count is a staggering 686.² While partisanship is a constant problem in United States politics, the economic and defensive benefit of America’s forward force appears to be one of the very few areas where Republicans and Democrats alike agree. For example, in its “2010 Quadrennial Defense Review Report,” the Obama administration maintained, “forward-stationed and rotationally deployed U.S. forces continue to be relevant and required.”³

Moreover, even though President Donald Trump gained notoriety during his election campaign for his damning criticism of the economic disadvantages of American security commitments abroad, especially in regards to the NATO countries and Japan, his vitriolic rhetoric has resulted in no real defense policy changes during his first year and a half in office. Indeed, there has been a strong push back from Department of Defense officials and Hill Republicans and Democrats alike.⁴ While it is possible base realignment and closure policies may gain movement in the US political arena in the future, for the present, maintaining the status quo appears to be the mostly likely course of action. The defense budget in fact has been increased significantly under Trump, and there is no sign of fiscal frugality when it comes to overseas bases and personnel.

US policymakers often portray America’s military presence abroad as a double gift to base-hosting communities, offering both economic and security benefits. However, while this stance may win approval in America, worldwide problems surrounding bases -- environmental

damage to local ecosystems, military personnel crimes against local populations, and the displacement of local people from their lands -- paint a very different picture. Time and time again the debate between these two contrasting theories has played out in the politics of base hosting communities throughout the world.

There has perhaps never been a basing debate quite as intense or drawn-out as the one that surrounds the Marine Corps Air Station (MCAS) Futenma in Okinawa, Japan. Established in 1945, Futenma Air Station has, over the last twenty-five years, become the focal point and symbol of Okinawan grievances towards the American military presence on their island. Futenma gained this notoriety after a plan was adopted in 1996 to relocate the helicopter-functions of the base from the center of the densely populated southern Okinawan city Ginowan to the rural northern village of Henoko. Large aircraft stationed there would be moved to another base in Kyushu.

Since then, a fierce political, social, and legal three-way battle between the people of Okinawa, the Japanese central government, and the American military has erupted on the subtropical island chain. As the 2010s draw to a close, a solution to this issue, and the systematic problems it represents, seems to be as unachievable as ever, with political forces in Okinawa lined up against the central government in Tokyo. After years of expended political capital and economic resources on this issue, Futenma remains open for business. The impasse seems to call into question the ultimate legitimacy of the United States' Forward Strategy approach and the toll it has on its ally relations. For Okinawa residents, a base located in the midst of a densely populated area where accidents have already occurred is a liability that should be removed as soon as possible to someplace outside of the prefecture.

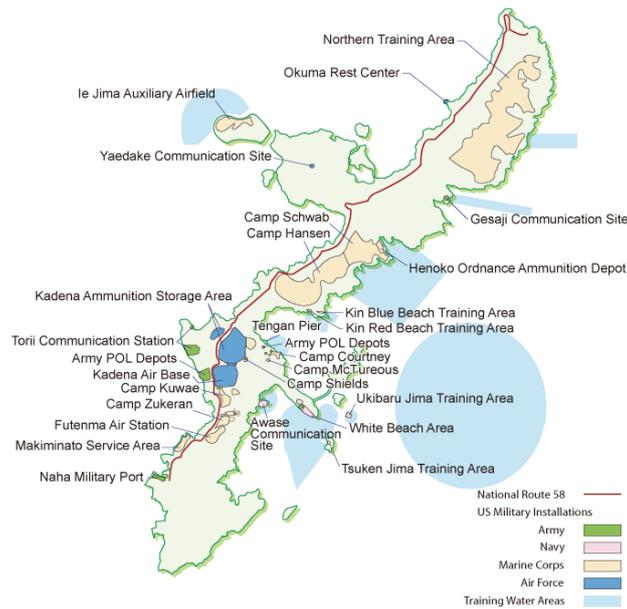
Okinawa's Grievances and America's Military Bases

In 2003, as he flew over MCAS Futenma, then Secretary of Defense Donald Rumsfeld looked down and declared it to be the "most dangerous base in the world."⁵ While this categorization might have been an overstatement, it certainly highlights one of the primary problems with Futenma's continued operations. The base, which is 480 hectares and includes a 2,800 meter-long and 46-meter wide runway, is located directly in the center of Ginowan City and takes up approximately 25% of the city's land space.⁶ The base is also located just blocks, and in some cases only yards, from ten elementary schools, five junior high schools, four high schools, the Okinawa International University, and a variety of hospitals and local institutions.⁷ Futenma's proximity to the heart of the city that hosts it has resulted in numerous incidents and accidents involving military personnel. Local residents have had to contend with the negative effects of the base's daily operations, such as noise pollution and equipment failure. These irritants at best result in a lower quality of life for the local population, and at worst, incidents or

accidents have resulted in the injury or death of local people. It is within this context, Futenma Air Station has crystalized into the symbol of the anti-base movement in Okinawa, which traces itself to the end of World War II.

While a large portion of news regarding the Okinawan base issue focuses on Futenma, Okinawa has installations from all four US military branches scattered throughout its main island. In fact, even though Okinawa only makes up less than 1% of Japan's land area, the prefecture hosts 73.9% of the United States Forces Japan's (USFJ) exclusive-use areas and over half of the US military personnel stationed in Japan.⁸

Map of U.S. Military Bases in Okinawa



(Source : <http://www.pref.okinawa.jp/site/chijiko/kichitai/25185.html>)

Okinawa's Military History

The large imbalance between the burden placed on Okinawa to host US bases, compared to the rest of Japan, has added to the historically ingrained notion there that its well-being has been, and continues to be, sacrificed for the good of the mainland. Okinawans see the over-presence of US bases as discriminatory. Originally the independent Ryukyu Kingdom, Okinawa has been a prefecture of Japan since 1879. Yet, there remains a cultural and social divide between Okinawa and mainland Japan that stems from years of historic oppression and discrimination. As Izumi Wakugawa, a researcher at the Rebuild Japan Initiative Foundation who was born and raised on Okinawa, put it, it is not uncommon for Okinawan people to first identify with their island's distinct culture and heritage before identifying with their Japanese nationality.⁹ This

separation has fed into the “othering” of Okinawan citizens and is only exasperated by the United States’ military presence on the island.

The United States military first planted its roots on Okinawa during and after the Battle of Okinawa in 1945. While memories have faded about this three-month long battle in the United States, Okinawans remain keenly aware that it was the Pacific War’s largest and deadliest clash, resulting in the deaths of up to 150,000 Okinawan civilians, or about one third of the island’s population.¹⁰ For the American forces, Okinawa was seen as a potential launching point for the invasion of mainland Japan, while Japanese strategists hoped to stall the Americans long enough on the islands in order to build up their forces and capabilities on the mainland. The ensuing clash resulted in the destruction of ninety percent of the city of Naha¹¹, and after the conflict, the immediate construction of American military bases atop the razed villages and towns of Okinawa. Within a year, the conquering American forces had seized control of 20% of the island’s arable land.¹²

After the atomic bombs dropped on Hiroshima and Nagasaki ended the war in 1945, Japan came under US occupation, but when the country finally regained its sovereignty in 1952, American negotiators insisted on retaining control over Okinawa. Even though Japan at the time had residual sovereignty over the prefecture, the US government retained the right to establish military facilities on the island and essentially govern it as they wished. This was particularly useful to the American forces in the 1950s and 1960s as Okinawa was used as an important hub for the American military during the Korean and Vietnam Wars. While there were scattered Okinawa protests during the onset of the occupation, because Okinawa was neither protected under the American Constitution nor the new Constitution of Japan, there was little that Okinawans could do to stop the military buildup.

By the mid-1950s, the American military had displaced half of Okinawa’s population from their lands and gained control of almost fifty percent of its farmland by either negotiation or force.¹³ This, coupled with the lack of economic development on the islands in comparison to mainland Japan, highlighted the high level of inequality and lack of opportunity for Okinawans during the American occupation. Furthermore, resentment towards the occupying presence of the American military reached a peak in 1955 over the highly publicized “Yumiko-Chan” incident, which refers to the horrific rape and murder of a six-year-old Okinawan girl by an American serviceman.¹⁴ The way the US side handled the crime further alienated the Okinawan people because the perpetrator, due to extraterritoriality enjoyed by Americans in Okinawa, never underwent an Okinawan trial but was court martialed instead. (He was sentenced to death but this was later reduced to 45 years, after he was returned to the US, without informing Okinawan officials.) This incident, and others later on, encouraged the Okinawans to pursue reunification

with the Japanese mainland, which they achieved in 1972, twenty-seven years after the end of World War II.

The years leading up to the reversion were crucial in creating the pacifist attitude and activism still prevalent on the island today. Having experienced military domination by the US, many Okinawans aspired to reversion with the mainland because it would mean access to and rule under the Japan's peace Constitution. Okinawans also strongly opposed America's nuclear policy, convinced that nuclear weapons were stored at US bases, and they opposed the use of Okinawan bases to stage operations during the Vietnam War. Many Okinawans believed that reversion to Japan would lead to Okinawa's demilitarization.¹⁵ This, however, was not to happen, for after Okinawa was returned to Japan under the Okinawa Reversion Agreement of 1971, the years that followed actually saw an increase in the proportion of United States bases in Okinawa, compared to the rest of Japan. In less than a hundred years, Okinawa, once an independent kingdom, had become a de facto colony of two countries against its will. Even though Okinawa has essentially integrated into Japan over the last fifty years, while retaining much of its culture and customs, its history of oppression and discrimination continues to color many of its interactions with both the central government and the US forces stationed there.

Okinawa's Strategic Significance and Futenma's Importance

Even while Okinawa was an independent kingdom, the islands that later became a prefecture of Japan were recognized as a major strategic point in the Pacific. It is centrally located in the East China Sea and is surrounded by other key locations such as the Korean Peninsula, Taiwan, the Philippines, and Guam.

During the Occupation, General MacArthur coined the term for Okinawa as being the "Keystone of the Pacific." Since then, the US forces in Japan and the central government of Japan have adamantly defended that categorization. As mentioned above, throughout the Cold War, Okinawa was primarily used as a bulwark to contain the Soviet Union's Pacific fleet and as a staging point for military operations during the Korean and Vietnam wars.

Okinawa's location, however, has again become strategically important over the past few decades as East Asia contends with the potential rise of North Korean aggression under the leadership of Kim Jong Un and the Chinese People's Liberation Army Navy increases its assertiveness in the South and East China Seas. The United States' military presence in Okinawa allows it to fulfill its obligations to defend Japan and maintain security in the Asia-Pacific region under the 1960 Treaty of Mutual Cooperation and Security.¹⁶ Furthermore, as the Senkaku/Diaoyu/Daiyutai Islands territorial dispute continues to intensify, the rationale for the 19,000 marines stationed on Okinawa, including those at Futenma Air Base, has been reinforced greatly.

And while the United States Marines' role in a hypothetical altercation over the uninhabited islands remains unclear, it cannot be argued that their operational capabilities are well suited for the job.

Okinawa's Strategic Location Relative to Other Countries



(Source: <https://www.heritage.org/asia/report/us-should-stay-firm-implementation-okinawa-force-realignment>)

It is with these ideas in mind the United States' State Department¹⁷ and Japanese Ministry of Foreign Affairs,¹⁸ maintain that the Okinawan Marine Corps and Futenma Air Base are and always have been strategically significant and essential components of the United States' and Japanese's defense program and strategy. Futenma Air Base itself remains essential because it is the launching pad for the Marine Corps, which is the fastest tool the Alliance has to response to counterinsurgency issues and conflicts in the Asia-Pacific region if they occur. While the Marine Corps' potential uses during a conflict are numerous, their primary purpose on Okinawa is to act as a deterrence to dissuade any state or non-state actors from disrupting the peace of the Asia-Pacific region.

Modern Day Views on Military Bases in Okinawa

The opinions surrounding the United States military bases today remain as complex and tangled as the history that sculpted them. Because the bases have been on the islands for so long,

they have become ingrained in the cultural and historical identity of the Okinawan people, making it very hard for them to gain a clear view of the basing issue without having it confounded or diluted by other problems. While there are many residents of base-hosting communities, such as base employees or local business owners who serve American customers, who appreciate their economic benefits, there are also a number of residents who dislike the bases due to the negative impact they have on their environment and quality of life. Furthermore, opinions on the bases change dramatically based on a variety of factors including age, economic background, occupation, and geographical location.

In August of 2017, Japan's national public broadcasting organization NHK, conducted a survey tracking Okinawan views of the military bases and how they compared to the rest of the Japan. The survey showed that there is a strong generational gap in Okinawa; people who were born after the reversion are less negative about the U.S. military presence than people born before the revision. However, despite this age gap, when asked what they thought about the U.S. bases in Okinawa in the context of Japan's security, Okinawa's public opinion was almost equally split between the options "accept" and "not accept". It also showed that while most nationwide participants believed that the military bases were indispensable to Okinawa's economic growth, most Okinawans did not agree with this sentiment and over 70% of them believed that those living outside of Okinawa did not understand their feelings.¹⁹

However, in an interview with Yukie Yoshikawa, Representative of the Okinawa Base Issue to the United States government under then Governor Nakaima, she suggested that while the bases are extremely embroiled in Okinawan politics, a large portion of Okinawa residents, or the "silent majority," remain quite neutral on the topic.²⁰ Despite this fact though, the anti-base movement remains strong and vocal in Okinawa. For many who protest the bases, their concerns are split into two distinct groups. The first is generally concerned that America's presence degrades their local quality of life in terms of personal safety, noise, crime, and the natural environment.²¹ The second is concerned with pacifism and anti-militarism. This second group generally believes that the U.S. military bases make Okinawa a target for America's enemies. They remember the Battle of Okinawa and do not want to be in another war. However, they believe that as long as there are bases in Okinawa, they are in danger and will be forced to carry the burden of another country's battle one more time.²²

Incidents and Accidents

Even though the majority of Okinawan people may not have a strong stance towards the base issue, this is often only in the context of times when relations between the local people and soldiers are good and relatively conflict free. Okinawans have long taken note of what they call "incidents and accidents" that occur on the island because of the U.S. military presence and they

help to feed into the anti-base movement’s anger. These incident and accidents range all the way from petty crimes committed by soldiers during a night of drinking at one of the many nightlife districts developed specifically for their use, to more serious offenses, such as rape or murder, and military equipment failures. For example, in 2004 a helicopter from Futenma Air Base crashed at a university in Ginowan close to Futenma, injuring three crewmembers, and in December 2017 a window fell from a U.S. military transport helicopter on to the grounds of an elementary schoolyard when physical education class was in session.²³

While only a minority of troops are involved with these “incidents and accidents,” (in actuality American soldiers in Okinawa commit fewer crimes per capita than the general population²⁴), they are never seen as isolated events and spark resentment across the prefecture. The Okinawan government condones these feeling by keeping an up to date record of every reported incident or accident that has occurred on the island since the reversion. While each new crime is a separate occurrence, to the people of Okinawa they are just more problems that top off a long list of earlier misconduct.

▪ **Number of accidents involving U.S. Military Aircraft***²⁵

Crashes	Forced Landings	Other	Total
47	518	144	709

*From Okinawa’s reversion to Japan (1972) until 2016

▪ **Number of criminal arrests of U.S. military affiliated personnel***²⁶

Felonious Offenses	Violent Offenses	Larceny Offenses	Intellectual Offences	Moral Offenses	Other	Total
576	1,067	2,939	237	71	1,029	5,919

*From Okinawa’s reversion to Japan (1972) until 2016

Whenever one of these accidents or incidents occurs, anti-base sentiments spark throughout the islands. Okinawan feelings towards the bases, while complex, have been likened to magma. Local communities can experience long periods of harmony and relationship building with their bases, but as soon as a more serious offense occurs anger and protests explode throughout the island nullifying any sort of progress made. Policymaker and scholars alike admit that the modern-day view of military bases on Okinawa is like a volcano: fine when everything is going well and explosive the second problems occur.

Why Futenma Airbase?

The grievances in Okinawa against the military bases are immensely complex and depend greatly on individual people's interaction and relationship with the soldiers, as well as their local government's efforts to build relationships with the military. Why, then, has Futenma become such a contentious case in Okinawa? The incidents and accidents recorded by the Okinawan government are not solely related to Futenma alone and the issues the people of Ginowan contend with on a daily basis are similar to those that any base hosting community deals with. Why has Futenma specifically crystalized into the center point of Japanese base politics? And why, after 22 years and enormous resources spent, has the Japanese government and U.S. military been unable to create a solution to Futenma that satisfies the will and wishes of the Okinawa people?

The furor over Futenma began in 1995 after three American servicemen, two Marines and one Navy Seaman serving at Camp Hansen in northern Okinawa, kidnapped and brutally raped an elementary schoolgirl. After the incident became publicized, public outrage erupted over the attack across the nation and tens of thousands of people gathered to protest the incident in the biggest political rally Okinawa had ever seen.²⁷ The anger over the rape was particularly explosive because of a provision in the US-Japan Status of Force Agreement (SOFA) that allowed the military to deny the Japanese police custody of the three servicemen until a formal indictment went through: "The custody of an accused member of the United States armed forces or the civilian component over whom Japan is to exercise jurisdiction shall, if he is in the hands of the United States, remain with the United States until he is charged."²⁸ While the suspects were brought daily to the Naha police for questioning, it took almost a month before they were transferred to Okinawa police custody, thus highlighting the inequalities that underlay Japan's SOFA agreement.

In response to the protests over the rape, a bilateral Security Consultative Committee, composed of the United States' Secretaries of State and Defense and their Japanese counterparts, established the Special Action Committee on Okinawa (SACO) in April of 1996 to alleviate base-hosting communities' overall burden. The arrangement reached by the 1996 SACO included measures to "realign, consolidate, and reduce U.S. facilities and areas, and adjust operational procedures of US forces in Okinawa consistent with their respective obligations under the Treaty of Mutual Cooperation and Security and other related agreements."²⁹ The final report mandated the return of thousands of acres of land that had been used by the United States since World War II back to the Okinawan people, including MCAS Futenma. The report also stipulated that Futenma's land area would be returned within five to seven years and a replacement facility would be built somewhere on the main island of Okinawa. After much deliberation, it was later decided that an offshore runway off of Henoko Point in the northern part of Okinawa island would be constructed in its place. Although the work to implement the plan was slated to begin immediately, political gridlock and local resistance prevented any real

progress on the agreement, which would become a pattern in the subsequent twenty years. The plan for the runway also was changed several times until the current one of a V-shaped runway on Henoko Point adjacent to Camp Schwab.

The Policy Behind The Relocation of MCAS Futenma

In 1996, in order to decrease the burden on the Okinawan people, the SACO Final Report mandated Futenma Airbase's closure and its return to roughly 3,000 private landowners. But little attention was given to the base's actual closure until 2002, when a bilateral initiative to enhance the alliance called the Defense Policy Review Initiative (DPRI) began. It was spurred on in 2004 when a Futenma-based helicopter crashed into the grounds of the Okinawa International University near the base. No one was killed. The two events forced US and Japanese policymakers to speed up progress towards Futenma's closure, and in 2005 a Security Consultative Committee (SCC) Joint statement finally solidified the alliance's plan to realign a portion of the Marine Corps from Okinawa to Guam and relocate Futenma's operations to a new base off the Henoko shoreline.

The implementation for Futenma's relocation plan, known as the Futenma Replacement Facility (FRF), was laid out in the May 2006 "U.S.-Japan Roadmap for Realignment Implementation." The document ultimately linked certain aspects of the 2002 DPRI to Futenma's successful relocation to Henoko. The Roadmap stipulated:

1. The Third Marine Expeditionary Force's relocation to Guam was dependent on the tangible progress of the Henoko base construction.
2. The land return for [five] areas south of Kadena Air Base was dependent upon the completion of the Marine Corps' relocation to Guam and Henoko.³⁰

This roadmap plan was endorsed by three subsequent SCC joint statements but again due to political interference, including the machinations of DPJ Prime Minister Yukio Hatamoto in 2009-2010 to cancel the project and move Futenma off Okinawa, it did not see any real action until April 2012. At that time, Washington and Tokyo signed an agreement that reconfirmed their endorsement of the Futenma relocation to Henoko but removed the linkage between the construction of a new facility and the relocation of the Marines (up to 9,000) to Guam because of their inability to make progress on the FPF plan.

Besides the slow progress in relocating Futenma, due to political controversies over the past decade, the DPRI initiative has been fairly successful. For example, within the last few years, the U.S. military has returned several plots of land to the Okinawans including 125 acres that were formerly the West Futenma Housing area. In addition, Futenma's squadron of KC-130 cargo aircrafts were relocated in 2014 to MCAS Iwakuni in Kyushu.³¹ Moreover, following the decision in 2012 to delink the Marine relocation and Futenma issues, the US and Japanese

governments have been able to start the process. Currently, approximately 19,000 US marines are stationed on Okinawa, but the United States plans to start moving about 9,000 of them off the island by the first half of the 2020s.³² By the time the relocation is complete, about 4,000 marines will be moved to Guam, while the rest will be on rotational deployment to other areas such as Northern Australia, Hawaii, and the US mainland.³³

Since the early 2000s, US basing policy regarding Futenma's relocation plan has been straightforward, clear-cut and consistent. But, as we will see below, the issue over the years has been muddled considerably by political maneuvering at the local and central government levels.

Issues Surrounding the Move to Henoko

The 1996 schoolgirl rape incident led Washington and Tokyo to reexamine the presence of US bases in Okinawa, resulting in the decision to close and relocate MCAS Futenma. The reputation of the base as dangerous was further reinforced over the past twenty-two years as military equipment failures occurred one after the other, with one helicopter crashing into a neighboring university in 2004.

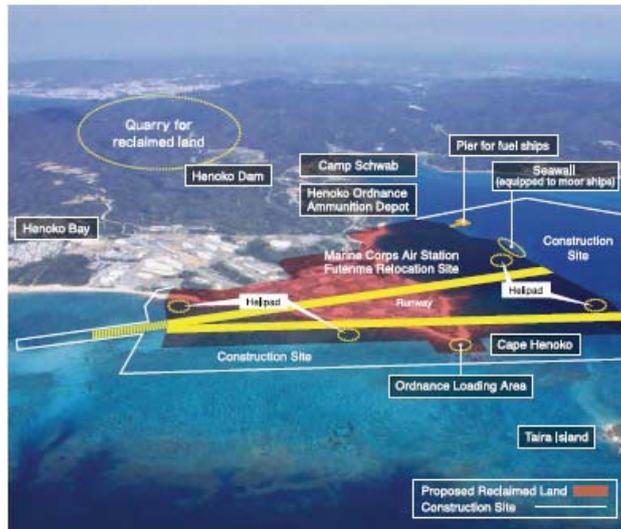
Okinawans' anger towards the long-festering Futenma issue goes beyond the delay in the base's closure. Indeed, the Okinawan government has already created blueprints for what they will do with the land once it is returned and how it will boost Okinawa's economy.³⁴ The vexing issue has been the plan to move the helicopter functions of the base to another location in the remote northern part of Okinawa Island, Henoko, instead of to mainland Japan. Okinawans see this as the creation of a new base in the prefecture and perceive this as another unequal burden the central government placed on them without their consideration or consent.

In April 1996, when Prime Minister Ryutaro Hashimoto and US Ambassador to Japan Walter Mondale announced Futenma's closure, there was no specificity of where it would be relocated or what type of facility it would be.³⁵ In November, Defense Minister Fumio Kyuma presented Okinawa with a plan to build a sea-based facility with a 1,500 meter runway off the coast of Henoko to be built on top of the coral reefs in shallow waters there.³⁶ The off-shore location would be adjacent to the Marine Corps' Camp Schwab. Although Nago City in a 1997 referendum rejected this proposal, the relocation plan was not changed. Ultimately, though, protests at the site by environmentalists and other activists delayed the project.

Since that initial skirmish, it has been a constant battle between the Okinawans, who do not understand why Futenma must be relocated to a different part of their island instead of to another part of Japan, and the Japanese and U.S. governments that claim Henoko was chosen as the only option for the replacement facility after many alternatives were considered.³⁷ While

outside experts throughout the years have proposed alternative plans to the Henoko Replacement Facility, not only have their suggestions been ignored, the plans for the Henoko base have been reviewed and changed from the original single sea-based runway off the village's coast to two short runways built in a "V" formation on top of 395 acres of reclaimed land.³⁸

Planned Futenma Replacement Facility off the Henoko Cape's Coast



(Source: <http://dc-office.org/post/640>)

Opinions in Okinawa on the replacement facility at Henoko are divided. Henoko itself is a poor, rural village cut off by mountains from the main part of Nago City, where significant economic development has been going on. The northern part of the island where Henoko is located has fallen behind other areas in Okinawa in terms of wealth and development.³⁹ This was one of the main reasons why it was chosen for Futenma's relocation. Its isolated location would limit the Marine's footprint on Okinawa, while improving the district's economic situation. For some villagers, the economic benefits of having more US military personnel will bring cash to local businesses and base-related employment have convinced them to support the replacement facility plan, but others worry that the disadvantages associated with living near a new base will disrupt their lives.⁴⁰ There are also major concerns across Okinawa that the new base will ruin the natural environment of Oura Bay, which is home to a variety of endangered and unique species and beautiful coral reefs.

Gubernatorial Politics and the Futenma Issue

In the history of the US-Japan alliance, the tendency in negotiating security arrangements, including basing decisions, has been to widely ignore local concerns and opinions. Moreover, the Status of Forces Agreement (SOFA) provides US military personnel a

maximum amount of extraterritoriality. Even when the anti-base movement in Okinawa grew stronger in recent years, Tokyo has been unable or unwilling to spend the political capital needed to truly reduce the strains and resentment building toward the presence of US troops in Okinawa. Communication between the central government and Okinawa actually worsened during the three year rule of the Democratic Party of Japan (DPJ), particularly when Prime Minister Hatoyama tried in vain to force the US to relocate Futenma outside the prefecture. Distrust of the central government has only been exacerbated in recent years by the hardline stance the Abe administration has taken towards maintaining the status quo in Okinawa, including the Futenma relocation plan. To Abe's credit, however, other planned reversions to Okinawa like part of the Northern Training Ground have been carried out. Still, Futenma basing issue has remained as a lightning rod for political activists opposed not only to the Henoko plan but also to the over-presence of US troops in the prefecture.

Since 1996, it has been the governor of Okinawa who has set the tone and pace of sparring between the prefecture and central government over the basing issue. The governor's office has a great deal of political and legal influence over development in Okinawa. For example, the governor alone has the authority to approve or reject offshore landfill construction.⁴¹ This meant that for years the Okinawa Prefectural Government (OPG) was able to effectively stall the central government's plan to move MCAS Futenma to Henoko Cape because the replacement facility depended on a reclaimed land project that would push the coastline out into the bay.

This stonewalling, however, finally came to an abrupt end in 2013 when then Governor Hirokazu Nakaima approved the central government's bid for the landfill. Nakaima, a career bureaucrat who was born in Osaka and grew up in Naha, was elected as governor of Okinawa in 2006. In 2010, he ran for his second term in office on an anti-Futenma Relocation Facility platform to remain competitive against his radical opponent, Yoichi Iha. However, in what proved to be his last few months in office, he suddenly reversed his campaign promise and approved Henoko's landfill permit. While many members of the international community saw Nakaima's decision to approve the landfill permit as a breakthrough that would resolve the long political Futenma stalemate that had plagued the Alliance for years, Okinawans, who voted him out of office, felt that his pragmatic decision, made for the overall economic benefit of the prefecture, was an ultimate betrayal of their trust.⁴²

Governor Nakaima, due to his unpopular decision, ultimately lost his bid for reelection in 2014 to Takeshi Onaga, a hardliner on basing issues. Onaga, who was the Naha mayor prior to becoming governor, ran on a campaign promise to "stop the new base construction using every possible and legitimate means"⁴³ and so far he has tried to keep this promise, though unsuccessfully so far. Despite the Abe-administration's icy treatment of him, Onaga, over the last

four years, has filed a number of legal actions, all of which have failed, and to plead his prefecture's case in not only Tokyo, but in Washington D.C. and at the United Nations' Human Rights Council as well. In fall of 2015, after his negotiations with the central government to reconsider the landfill project failed, Onaga appointed an expert commission to study Governor Nakaima's approval of Henoko's landfill permit. The commissioner determined that the approval had been illegal, which allowed Onaga to use to its findings as the basis to revoke the landfill permit.⁴⁴

Since Onaga revoked the landfill permit in October 2015, there have been four lawsuits with the Japanese central government over the legality of the revocation. In December 2016, the courts reached a final decision in favor of the central government, forcing the Okinawa prefectural government to agree to comply with the decision of the Supreme Court and retract the revocation of reclamation approval.⁴⁵ However, while the Supreme Court's verdict was undoubtedly a political win for Tokyo, the court's decision only covers the approval for the landfill off the Cape of Henoko and not the rest of the new facility's construction procedures. Once the landfill is complete, the central government must once again approach the Okinawan prefectural government to gain approval for the base's actual construction. While policymakers in Tokyo are currently hopeful that the landfill approval is a sign that Okinawa is gradually beginning to accept the Futenma Replacement Facility in Henoko, it is highly unlikely that their goal will ever come into fruition as long as Onaga, or another anti-Henoko plan governor, is in power. Onaga is up for reelection in the fall of 2018. If he wins, the battle will continue.

The central government in 2018 has gained another significant political breakthrough with election of the Nago mayor going to the Liberal Democratic Party's candidate. For years, Nago was under the leadership of anti-Henoko relocation advocate Susumu Inamine. In February, however, Inamine lost to the Komeito and LDP backed candidate Taketoyo Toguchi by a little less than 3,500 votes.⁴⁶ Toguchi ran on a platform that empathized developing Nago's local economy, while Inamine continued his anti-base stance. To many observers, this shift from Inamine to Toguchi signifies a change in the Nago populations' priorities that suggests they are now more interested in their city's economic development than continued stonewalling of the Futenma Relocation Facility.

Although it is still too early to tell whether Nago City is finally starting to accept the reality that a new facility will be built at Henoko as planned, opinion toward US bases there, as well as in the rest of Okinawa remain as divided as ever. This spring, Nago experienced a six-day demonstration with over 500 people joining to protest Henoko's land reclamation process.⁴⁷ Furthermore, while Toguchi's election suggests that the central government now has an ally leading Nago City, Toguchi has not publicly announced what his stance towards the relocation project will be. He has only noted that he was "aware that citizens have complicated views and

feelings (about the issue),” and that he “needed to maintain a certain distance from the central government (over the issue).”⁴⁸ This opaque approach is a common tactic LDP politicians have used in the past to gain favor because it is generally accepted that a pro-base candidate cannot win an Okinawan election. Therefore, while the central government may have deluded itself into believing Nago City will accept the Henoko Base in the near future, it is highly unlikely that until the issue is discussed directly with Nago’s citizens, any real or useful ideological reversal regarding the bases will materialize.

MCAS Futenma and The Trump Factor

Since his election in 2012, Prime Minister Abe, who is a strong supporter of the Alliance, has taken an unbending stance toward completing the Futenma relocation plan. In fact, it is widely believed that Governor Nakaima’s decision to approve the Henoko landfill application in 2013 was the result of the Abe administration’s carrot and stick approach to the FRF project. The prefecture received increased funds when Nakaima accepted the plan. The previous Obama administration and now the Trump administration share the same policy view, seeing the Henoko replacement plan as the only option for Futenma’s closure. Whether any replacement facility is now even necessary has not been considered.

The Trump endorsement of the plan came out on April 18, 2018, when the White House released a statement following Prime Minister Abe’s latest meeting with President Trump at Mar-a-Lago. The statement reconfirmed that the relocation of MCAS Futenma to Henoko remains the only solution that avoids the continued use of Futenma Air Station while ensuring the Alliance’s ability to provide for peace and security in the Asia-Pacific region.⁴⁹ Chief of Staff John Kelly briefed Trump on the relocation project before his summit with Prime Minister Abe and when Kelly explained that the plan benefited the United States’ interests and the Japanese would pay for most of the cost, Trump reportedly said: “This is a very good deal.”⁵⁰ The President may know little about the historical controversy surrounding MCAS Futenma, but under his watch, he already has overseen a strengthening of the US-Japan alliance relationship, focusing as a priority on the North Korea threat. Moreover, Futenma’s relocation, which will mostly be paid for by Japan, falls in line with his “America First” policy of encouraging the United States’ allies to pay more for their defense.

Conclusion

Twenty-two years have gone by since Japan and the United States agreed in 1996 that the Marine Corps Air Station Futenma must be relocated. Ten Japanese Prime Ministers, four American Presidents, and four Okinawa governors have become involved in the issue, but the relocation issue as far as Okinawa is concerned is just as far away from resolution as before. In the

meantime, as trouble continues to dog the project, legally through the blocking efforts of the governor and politically through protests and campaigns, Futenma Airbase continues its daily operations and remains a danger and inconvenience to the citizens of Ginowan City. The question remains, when if ever will that base be finally closed and handed over to Okinawa?

The United States and Japanese governments continue to stand by their 1996 conclusion that the Marine Corps need to have that base relocated within Okinawa for logistic purposes – helicopters and combat marines that use them need to be located close together -- in reality the global order and warfare have changed dramatically since the Cold War Era that created Futenma. This has led a growing number of military analysts to question not only the Alliance's logic in moving Futenma to Henoko, but also the Marine Corps' presence in Okinawa itself. The Marine's last amphibious landing was more than half a century ago in the Korean War and as the United States' adversaries in the Pacific continue to develop the range and accuracy of their missile programs, the need for a large, amphibious armed service presence in Okinawa seems to have little, if any strategic value. Interestingly, the Self-Defense Forces is developing its own amphibious assault capability that will be based on Okinawa's islands. Such units could replace the US Marines at some point.

As defense expert Joseph Nye put it in 2014: "Fixed bases are still of value. But with the increase in Chinese ballistic missile capabilities, it means you have to be aware of their vulnerability, and if you put all your eggs in one basket, you are increasing your risks."⁵¹ The United States' decision to move 9,000 Marines off of Okinawa shows that it understands this threat. However, if the Marine's main purpose in Okinawa is to, as the United States government states, "act as a deterrence in the region" what good are they if half of them are not even there? There thus would seem to be a need for a new articulation from Washington of the true rationale for keeping so many Marines in Okinawa. While the Futenma Relocation Facility represents a short-term political solution to reducing the American military's footprint in Okinawa, whether the facility is even needed now or in the future should be addressed. It may prove not to be a long-term solution that will benefit the Alliance's defense capabilities or safety in the future.

In short, Futenma's relocation ceased to be a security issue long ago and is very much only a political one today. Though the Futenma relocation project seems to be moving forward again, after so many fits and starts, additional progress depends greatly on the upcoming Okinawan gubernatorial election this November. If Governor Onaga, or a candidate with similar views, wins, the governor will continue his tactic of using every legal effort to block the FRF plan over the next four years. However, if the Nago City trend continues and an LDP backed candidate wins, the Henoko plan will most certainly move forward and may even be completed by its 2022 target date. One must assume that Futenma then will finally be closed. Regardless of path the Okinawan people choose to take in November, this author hopes that the United States,

Japanese, and Okinawan governments are able to somehow reach a mutual understanding on closing Futenma even earlier, because remember, this is “the most dangerous base in the world.”

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Japan's Strategic Interests and Role in the South China Sea Dispute

By Ruohao Shen

Introduction

Conflicting territorial claims in the South China Sea involving China, Vietnam, the Philippines, Taiwan, Malaysia and Brunei have escalated tensions in recent years and threaten to erupt into open conflict. China has backed its claims to much of the waters with island-building, military installations, and maritime patrols. Although the US says that it does not take sides in territorial disputes, it continues to send naval vessels and planes near disputed islands, calling them "freedom of navigation" operations (FONOPS) to ensure access to key shipping and air routes.

The South China Sea dispute has drawn international attention as tensions have risen to an unprecedentedly high level recently. China's rejection of the decision of the South China Sea Arbitration by a tribunal established under the UN Convention on the Law of the Sea (UNCLOS) has further exacerbated the issue. UNCLOS allows for compulsory adjudication of disputes concerning the interpretation and application of the Convention. The Philippines filed its case against China in 2013. Although an UNCLOS member, China declined to participate in the establishment of the Tribunal or to appear before it. Events like China's refusal to accept the tribunal's finding against it in 2016 have further added to long-simmering regional tensions, with no resolution in sight.

The South China Sea dispute dates back to the late 1940s when the Republic of China (ROC) government (now Taiwan) first claimed sovereignty over much of the South China Sea with the "Eleven Dashes" proclamation. After 1949, the "eleven dashes" claim was subsequently picked up by the PRC government, and it was modified by Premier Zhou Enlai in 1952 to the current "nine-dash line". The nine-dash line includes mostly all the South China Sea region, which is of course not acknowledged by other countries in the region, becoming the major source of contention and conflict until now.

The issue eventually took on a global context due to the region's crucial geographic location – being the corridor connecting the Indian Ocean and the Pacific. For countries not part of this region, it has taken on a national security aspect. From the US' perspective, it is a freedom of navigation issue; for Japan, it has life and death security ramifications, since most of Japan's commercial shipping, including oil from the Middle East, comes through those waters.

This research paper, after setting the background of the South China Sea disputes, will then analyze the South China Sea situation as it affects Japan's interests. The paper will answer the following key questions: How does Japan's security policy deal with the South China Sea and how is it applied? How do the US and its ally Japan coordinate joint approaches in the region? How is Japan using its diplomacy and other soft-power tools like ODA to build regional capacity and strategic partnerships with Southeast Asian countries? How is Japan actually facing China in the region? The paper will end by projecting a scenario about how the SCS situation might evolve over time and the international implications of this.

The History of South China Sea Disputes

According to International Hydrographic Organization (IHO), the South China Sea is located south of China; east of Vietnam; west of the Philippines; east of the Malay peninsula and Sumatra, up to the Strait of Singapore in the western, and north of the Bangka Belitung Islands and Borneo.¹ This oceanic region contains over 250 islands, cays, and reefs, most of which are uninhabited. China has claimed sovereignty over most of the sea since 1947, when the term "eleven dashes" was first used. The dotted line on Chinese maps lost two of its hyphens in 1952, when, in a moment of socialist bonhomie with Vietnam, Chairman Mao Zedong abandoned Chinese claims to the Gulf of Tonkin², and the demarcation line became the current "nine dashes", also known as the "Cow's Tongue" for its shape.

Figure 1 : "The Cow's Tongue"



(Source: <https://www.theglobalist.com/wordpress/wp-content/uploads/2016/02/WAR-BookMap.jpg>)

As Southeast Asian countries obtained their independence and began nation-building, some realized the importance of the South China Sea territorial issue and began to claim islands in the 1970s. Since then, there has been no letup in the dispute and skirmishes about overlapping maritime territorial boundaries and EEZs. However, the South China Sea issue did not elevate to the center of international concern until the *Philippines v. China* Case in 2013. In the 2016 judgment, the Permanent Court of Arbitration stated:

- (1) *The [UNCLOS] Convention defines the scope of maritime entitlements in the South China Sea, which may not extend beyond the limits imposed therein.*
- (2) *China's claims to historic rights, or other sovereign rights or jurisdiction, with respect to the maritime areas of the South China Sea encompassed by the relevant part of the 'nine-dash line' are contrary to the Convention and without lawful effect to the extent that they exceed the geographic and substantive limits of China's maritime entitlements under the Convention. The Convention superseded any historic rights or other sovereign rights or jurisdiction in excess of the limits imposed therein.*³

Although China refused to attend the hearings and consistently held the stance of “neither accept nor recognize the award”, the international consensus applauded the ruling and condemned China's reaction. China was seen as disregarding international law and attempting to break the status quo through the use of force in the sea. Further complicating the issue, China has continued to expand its presence in those waters.

Geostrategic and Economic Importance of the South China Sea

Why has China been so adamant on its claims in the sea? And why are other players outside the region so concerned about the issue? The answer lies in the South China Sea's geostrategic location. The South China Sea is the corridor connecting the Indian Ocean and the Pacific and includes one of the most critical chokepoints in the world – the Strait of Malacca.

The South China Sea is a prominent shipping passage with \$5.3 trillion worth of trade traversing its waters every year. That is nearly one-third of all global maritime trade.⁴ In the case of Japan, over 80 per cent of its oil imports from the Middle East must pass through those waters, making freedom of navigation there a life and death situation. As a result, successive Japanese governments since the 1960s have invested heavily in securing sea lines of communication. Moreover, Japan has founded or given impetus to organizations or agreements whose aims were to enhance maritime safety, such as the Malacca Strait Council and the Regional Cooperation Agreement on Combatting Piracy. For Japan, a naval blockade in those waters would be

disastrous.

Another cause of escalation in the territorial disputes is the presence of large reserves of natural resources under the sea. There are an estimated 125 billion barrels of oil and 500 trillion cubic feet of natural gas waiting for development in undiscovered areas of the sea. This is a greater figure than any other oil-producing country in the world except Saudi Arabia. Some Chinese observers have labelled the South China Sea as “the second Persian Gulf.”⁵ If that is true, those enormous reserves of natural resources would help satisfy the enormous energy needs of China, not to mention other regional countries. It will eliminate reliance on the narrow Malacca Strait and thus better ensure energy security for countries in the region.

Japan’s Engagement in South China Sea

Japan’s territorial interests in the South China Sea faded when the San Francisco Treaty was signed in 1951. Article 2 (f) states: “Japan renounces all right, title and claim to the Spratly Islands and to the Paracel Islands.”⁶ Japan thus has no national stake in the region.

But times change, and Japan now sees the region in security terms. The impetus for Japan to seek involvement in regional affairs reflects the dynamic changes in the Indo-Pacific, marked by the rapid rise of China and India. The Obama administration’s much touted Asia pivot or rebalancing strategy also prodded Japan to pay more attention to its broader role in the US-Japan security relationship.

Instead of becoming directly involved in regional or global issues, Japan, as a soft-power advocate with limited aspirations for hard-power, has focused its efforts on using diplomacy and economic tools to address key international issue. Japan, which has been described by Yoshihide Soeya as a Middle Power, has accepted the security restrictions of its peace Constitution and embraces the cause of internationalism, cooperating with like-minded states in order to strengthen a liberal and open international order.⁷ For the South China Sea, Japan’s role has been to cooperate strategically with countries sharing similar values and thinking in order to promote regional peace and development.

In that context, Prime Minister Shinzo Abe has put forward a Free and Open Indo-Pacific strategy that has become a key concept in his foreign policy. Foreign Minister Taro Kono has woven it into his active diplomacy, and both have worked hard to get other countries and organizations, including the US and EU, to endorse it. While Abe’s Free and Open Indo-Pacific (FOIP) has resonated positively with international audiences, others have criticized it as being an appealing cover for the pursuit of Japan’s narrow economic and strategic interests.

The main aim of Japan's FOIP is to promote connectivity between Asia, the Middle East, and Africa. This means that the strategy is closely related to promoting free trade, infrastructure investment, and development. Prime Minister Shinzo Abe chose the Tokyo International Conference on African Development (TICAD) as the venue to introduce his policy in August 2016.

The FOIP flows from a worldview that Japan benefits from a regional order that is based on rule-of-law; transparency; openness; high quality rules for trade, investment and infrastructure; and the prevention of coercive actions against smaller states.⁸ In short, the "Free and Open Indo-Pacific" strategy can be summarized with three bullets:

- (1) Developing an environment for international peace, stability and prosperity, and sharing universal values;
- (2) Addressing global issues by achieving the Sustainable Development Goals (SDGs), a collection of 17 global goals set by the United Nations in 2015, and by promoting human security; and
- (3) Economic diplomacy that aims at "quality growth" within developing countries and contributes to regional revitalization.⁹

To implement the Free and Open Indo-Pacific strategy, Prime Minister Abe has viewed the South China Sea problem as a nice entry point for Japan. He and his administration have thus become more outspoken on that issue since the strategy was unveiled, as listed below.

The Abe government in 2013 issued a landmark National Security Strategy that laid out Japan's fundamental policies for the first time. In it, China and the South China Sea issue was singled out for policy attention:

"China has taken actions that can be regarded as attempts to change the status quo by coercion based on [its] own assertions, which are incompatible with the existing order of international law, in the maritime and aerial domains, including the East China Sea and the South China Sea."¹⁰

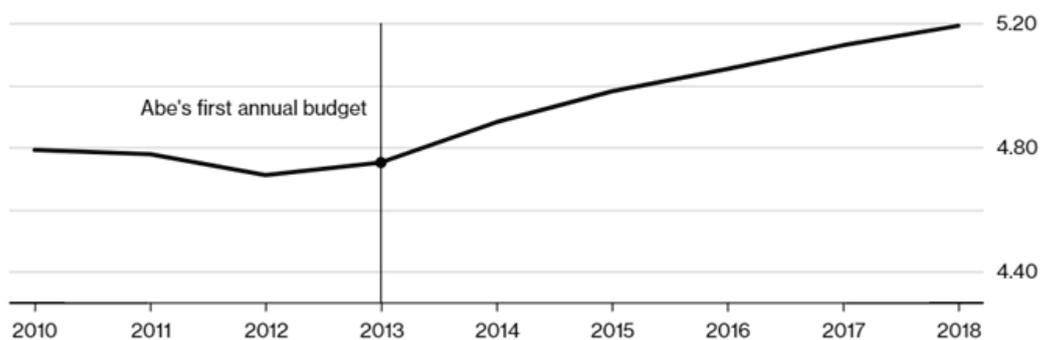
Similarly, the 2015 White Paper on Defense included aerial photographs of China's island-building in the South China Sea. Also, during the Shangri-La Dialogue, then Defense Minister Tomomi Inada delivered pointed criticism of China, deploring its attempts to "upend the rules-based order" and "alter the status quo based on assertions incompatible with existing international norms." This rare censure expressed by a senior Japanese official really reflected how Japanese policy has shifted towards South China Sea issues.

Japan's defense budget, which has been steadily rising under Abe, mirrors the policy shift to build up defenses toward the area south of mainland Japan. Japan used to abide by a one-percent GDP cap on defense spending for decades. Under Prime Minister Abe, however, the cap has been removed, as he stated in a policy speech at the start of the ordinary session of the Diet in January 2017. He stated: "I will secure defense spending to protect our nation, to protect Japanese people's life efficiently, considering issues such as the security environment in Asia-Pacific region, of course including financial situation."¹¹ Recently, Abe's party, the Liberal Democratic Party (LDP) has come out with a proposal to raise defense spending to as high as two percent of GDP, though such become a reality is unlikely.

Statistically, as the figures show below, defense spending increased from \$4.7 billion (2013) to the current \$5.2 billion (2018), which is over 10% growth.

Rising Under Abe

Japan defense spending (trillions of yen)



Source: Japanese Defense Ministry

From a legal perspective, the Abe administration also did a considerable amount of groundwork in order to cement the US-Japan alliance, defend the outer periphery of the Japanese homeland, and enhance Japan's capability to respond to a regional situation. In July 2014, the Abe Cabinet reinterpreted the war-renouncing Article 9 of the Constitution to allow Japan to use the right of collective self-defense. Now, Japan can come to the aid of its ally the US in case its vessels or aircraft are attacked in a regional contingency. Moreover, Japan can respond to situations in other parts of the globe that threaten its existence. Under this policy change, the Self-Defense Forces can act in ways that more reflect the normal activities of a nation. Enabling security legislation was passed in 2015.

In another decision by the Abe Cabinet, Japan in 2014 removed a decades-long ban on weapons exports, seen as a move aimed at helping Japan assume a larger regional security role to offset China's growing military presence in the East and South China seas. With the lifting of the ban, Japan will be able to enhance its regional influence by offering its technologically advanced defense hardware to other countries with territorial disputes with an increasingly assertive China.

In addition, the Abe government in 2015 issued a new official development assistance (ODA) charter authorizing Tokyo to use the development budget in order to train and support foreign armed forces for "non-military purposes," including coast guard operations.¹² These landmark changes in security policy and relevant legislation will allow the Abe administration to further carry out its Free and Open Indo-Pacific initiative, as well as its South China Sea strategy. They reflect a long-term evolution from reactive to proactive security policy that will allow Japan to beef up its defenses as well as play a role in regional geopolitics that buttresses that of its ally the US.

The US-Japan Alliance and the South China Sea Issue

In April 2015, the US and Japan issued an updated set of guidelines for bilateral defense cooperation that further enhanced the ability of the two countries to jointly respond to regional threats and actions. In the guidelines, maritime security was given high priority. The relevant portion states:

The Self-Defense Forces and the United States Armed Forces will cooperate, as appropriate, on various efforts such as maintaining and enhancing bilateral presence in the maritime domain through ISR and training and exercises, while further developing and enhancing shared maritime domain awareness including by coordinating with relevant agencies, as necessary.

Cooperative measures may include, but are not limited to, information-sharing and inspection of ships based on a United Nations Security Council resolution or other basis under international law.¹³

In short, Japan, as the US's most powerful ally in the Indo-Pacific region, is asked to be the "assistant balancer", which can be taken to mean as working to counter the influence of China in the region. Distracted by North Korea, Syria, and Iran, the US is not likely to deploy significantly more naval and air power in the South China Sea. On the other hand, rising expectations of Washington for Tokyo to pick up some of the slack will give Japan a reason to do more to help Southeast Asian countries facing China's looming presence. At present, aiding some of those countries to build more capacity is the strategy. Japan need not be a direct participant.

Moreover, the experience of US-Japan military cooperation and its implications, including intelligence-sharing and potentially ship-inspections, could help Japan cope with its East China Sea dilemma, where Japan has put most of its naval assets. Currently, a number of joint military exercises by the US and Japan are regularly held, focusing on humanitarian assistance and other regional scenarios.

Lacking in such joint actions are Freedom of Navigation Operations, or FONOP, which by definition “support the longstanding US national interest of freedom of the seas.” While not a defined term under international law, the US Pentagon uses “freedom of the seas” to mean all of the rights, freedoms, and lawful uses of the sea and airspace, including for military ships and aircraft, guaranteed to all nations under international law.”¹⁴

For over a decade, China has been the subject of US FONOP and it has been the most important claimant in this issue. As the table shows above, China was involved in six “Excessive Maritime Claims,” with half of them about the South China Sea and Spratly Islands: Jurisdiction over airspace above the exclusive economic zone; Domestic law criminalizing survey activity by foreign entities in the EEZ; Actions/statements that indicate a claim to a TTS around features not so entitled.

China	* Excessive straight baselines	Paracel Islands
	* Jurisdiction over airspace above the exclusive economic zone (EEZ)	South China Sea and East China Sea
	* Restriction on foreign aircraft flying through an Air Defense Identification Zone (ADIZ) without the intent to enter national airspace	East China Sea
	* Domestic law criminalizing survey activity by foreign entities in the EEZ	South China Sea
	Prior permission required for innocent passage of foreign military ships through the TTS	Paracel Islands
	* Actions/statements that indicate a claim to a TTS around features not so entitled	Spratly Islands

(Source: *Annual Freedom of Navigation Report Fiscal Year 2017*)

To cope with China’s excessive maritime claims, the US Navy has been sending out destroyers and scout planes to implement FONOP. President Trump has been working with China to rein in North Korea on the nuclear issue and thus has not focused on the South China issue, compared to the Obama administration. Yet, there were six FONOP conducted in that

region during Trump's first year in office. The latest operation at this writing took place in March 27, 2018, when the USS Mustin sailed within 12 nautical miles of the Chinese-controlled Mischief Reef¹⁵ in the Spratly Islands.

This FONOP was considered different since it occurred while the US and China were sparring over trade issues, and Trump signed the Taiwan Travel Act in March 2018 which "encourages visits between officials of the United States and Taiwan at all levels." China's defense ministry responded by calling the intrusion "illegal and provocative" and "seriously harming Chinese sovereignty and security."¹⁶In addition, two Chinese warships were dispatched to keep an eye on Mustin. No direct confrontation occurred, however.

But the US Navy has become increasingly focused on operations related to the North Korean threat and lacks sufficient resources to give as much attention to the South China Sea in recent years. The US thus has been inviting Japan, as well as other allies, to take part in FONOP designed to balance out China's maritime presence. The Abe government has initially expressed its interest in principle in joining FONOP. For instance, then Defense Minister Gen Nakatani told the media in 2015 after a meeting with Defense Secretary Ashton Carter that there might be a possibility of dispatching Japanese naval vessels to join US patrols in the South China Sea.¹⁷ But Prime Minister Abe was quite vague when queried by the media about the subject following his summit with President Obama in November 2015. "With regard to activity by the Self-Defense Forces in the South China Sea, I will consider it while focusing on what effect the situation has on Japan's security," he said.¹⁸ Further, Chief Cabinet Secretary Yoshihide Suga in clarifying Abe's statement, said, "The SDF has no plans to participate in US freedom of navigation operations."

US Navy destroyers have continued a series of high-profile FONOPs near Chinese-occupied isles and reefs in the South China Sea, challenging China's territorial claims. The pace continues to pick up. Only one FONOP occurred in 2015 but jumped to three in 2016. In 2017, the Trump administration accelerated the pace for such FONOPs with the Navy officially carrying out four FONOPs between May to October. Two took place already in the first three months of 2018.

Despite Japan's reticence to join US FONOPs in the South China Seas, many Japanese naval ships have called on Vietnamese ports recently. Significantly, the helicopter destroyer JS Izumo conducted its first regional voyage in 2017, when it visited Vietnam. Japan's Maritime Self Defense Force (MSDF) is rumored to have plans for converting the Izumo class, currently two of its largest warships, into true aircraft carriers capable of supporting aircraft like the F-35. In that context, the Izumo's first trip abroad could be the start of an increased military presence in the region, designed to counter Chinese influence.

Another phenomenon regarding US and Japan cooperating on the South China Sea issue is that both countries have been playing a pivotal role in rapidly developing multilateral security fora in the Indo-Pacific region — is seen as another international platform for Japan to build capacity. The best example is the “Quad”.

The Quad is an informal inter-governmental strategic forum between US, Japan, India, and Australia. Established in 2007, it was reactivated in November 2017 — a result of shifting geopolitical tides in East Asia and the resurgence of China in South China Sea. These four countries share common maritime-security interests. Australia has defined the Indo-Pacific as a strategic domain; India has come out with its “Act East” policy; Japan has its Free and Open Indo-Pacific policy; and the US continues its FONOPs in the region. There is broad consensus that the status quo ensured by international law in the Indo-Pacific, including the South China Sea, is vitally important.

China showed its concerns for being isolated by Quad with such responses, as iterated by a Beijing spokesperson:

“China is glad to see relevant countries develop friendly and cooperative relations, but we hope that such relations would not target a third party and should contribute to regional peace, stability and prosperity. And this principle and policy is applicable to all new initiatives and proposals.”¹⁹

In an interview, Jonathan Miller, senior visiting scholar at JIIA, commented on the Quad and China: “All sides should look at nurturing this moment and finding the right balance, so that the Quad can be focused and effective yet not overly adversarial – especially in light of concerns from China.” In a word, Quad, no matter from which country’s stance, should never become a mechanism to target China. Quad is not a NATO-like organization in Indo-Pacific, but a forum dedicated to shared values and norms, as well as a complementary platform to other mechanisms in this region.

Japan and ASEAN Countries

ASEAN’s role in dealing with the South China Sea issue is critical. According to Nilsson-Wright and Fujiwara, “While the US and Australia can provide the muscle in terms of military hardware and alliance support to deter China, ASEAN provides critical political support and legitimacy to Japan’s efforts to balance against China’s rise.”²⁰ Given the fact that most of ASEAN countries are having disputes with China in the South China Sea, for Japan, maintaining

firm ties with ASEAN countries is undoubtedly another effective method to build regional capacity.

Since the late 1960s, ASEAN countries have been major recipients of Japanese ODA in the form of yen loans, grants, and technological aid. From 1960 to 2011, about 35% of Japan's ODA went to ASEAN countries.²¹ During the 2013 Japan-ASEAN Commemorative Summit, Japan promised to provide ODA of 2 trillion yen to ASEAN Countries over a five-year period.²²

Maritime Safety was included in Japan's new mid-term plan. Differing from traditional ODA types like infrastructure and financial support, maritime safety includes assistance for capacity building of maritime safety response and assistance for creating harmonized standards on maritime traffic. It is obviously connected to the current South China Sea situation. In fact, Japan has been working together with ASEAN countries like the Philippines, Indonesia, and Vietnam on coastal guard and naval training to build so-called "maritime domain awareness", meaning "the effective understanding of any activity associated with the maritime environment that could impact upon the security, safety, economy or environment"²³ Interestingly, the program actually began with the Democratic Party of Japan (DPJ) government in 2011.

As mentioned above, the removal of the ban on arms exports accelerated Japan's pace of helping ASEAN countries. The Philippines and Vietnam were the first two recipients in this case. In September 2015, after the summit with General Secretary of Vietnam's Communist Party Nguyen Phu Trong, Prime Minister Abe promised that Japan would sell six second-hand patrol vessels to Vietnam at a low price of \$4.5 million, and he indicated that there would be more opportunities in the future regarding equipment trade between the two countries. Similarly, Abe pledged to the President of the Philippines Benigno Aquino that Japan would offer 10 patrol ships, which the Philippines would purchase with loans. In return, the two countries concluded a Visiting Forces Agreement which would permit JSDF vessels to refuel in Philippine ports and take part in joint military exercises as a response to Chinese activity in the region.²⁴

Japan has built even stronger ties with ASEAN through Prime Minister Abe's frequent visits to ASEAN countries since he came into office. In the case of the Philippines, the "Strategic Partnership" was upgraded to "Strengthened Strategic Partnership" in 2015. Even under President Duterte, whose policies are thought to be unpredictable, the bilateral relationship is going smoothly. President Duterte having made two official visits to Japan so far to seek more cooperation and aid for infrastructure.²⁵

Japan's relations with Vietnam have strengthened as well. The two countries announced

an “Extensive Strategic Partnership for Peace and Prosperity in Asia” in 2015. The partnership includes: high-level mutual visits and dialogue mechanisms; defense cooperation; maritime cooperation; cooperation in public safety and security; cooperation in the justice sector and legal system development; and non-traditional security issues.²⁶ In addition, Japan has signed a memorandum with Malaysia launching cooperation between their ministries of defense for future military equipment sales. Japan also has signed a memorandum with Indonesia for defense cooperation and exchanges.

China’s Reaction to Japan’s Engagement

China has consistently taken a tough stand on the South China Sea issue, indicating that it is resolved not to weaken its stance on territorial sovereignty. As President Xi Jinping told the Nineteenth Party Congress, “To build a strong marine force is the inevitable choice to achieve the Chinese dream”.²⁷ The value to China of the South China Sea thus is no longer limited to geopolitics, resources, and military uses, but also is being linked to China’s rising nationalism. By taking a tough and solid stance on maritime issues, with the South China Seas being the best case among them, Beijing believes this will give great legitimacy and cohesion to the ruling Chinese Communist Party.

Such a stance explains why China wants to win the game in the South China Sea so desperately. Notably, on March 26, President Xi oversaw the largest naval parade ever in SCS, over 10000 soldiers took part in and involved 48 naval vessels and 76 fighter jets.²⁸ Clearly, this unprecedented military drill conveyed a message to the countries who oppose to China’s advance in South China Sea, including US and Japan, that its army will be ready for any situation from now.

When it comes to ASEAN, the competition between China and Japan to get its support is rather fierce. First, in view of this, ASEAN itself is far from a unified entity, not always speaking with one voice on regional issues. It is easy for China to appeal to weaker states like Cambodia or Laos in order to split ASEAN views, and thus undermine ASEAN’s stance toward the South China Sea. Second, China is rapidly building ties with ASEAN either as a whole or with single countries, using FTAs.

The launchings of the Asian Infrastructure Investment Bank (AIIB) and the Belt and Road Initiative were designed to build a new Indo-Pacific mechanism under China’s leadership. These efforts are much more ambitious than any strategic partnerships proposed by Japan. And of course, Japan, just like the US, is not an AIIB member.

China's reaction to Japan diplomatically has been to switch between soft and hard lines. On the South China Sea issue, though, China has been tough, reminding the world of Japan's former occupation of the region and to show its "high alert against Japan's attempt to return to the South China Sea through military means."²⁹

Still, there are also good signals that the two countries are trying to ease tensions in their territorial dispute in the East China Sea. The two militaries are now setting up a hotline to avoid unplanned or unintended incidents on the high seas. Although concerns still exist, Chinese naval vessels regularly approaching the disputed Senkaku Islands, both governments seem confident that tensions can be eased with the maritime crisis hotline. Defense Minister Itsunori Onodera told the media recently, "I don't think that there are big barriers remaining."³⁰

Amelioration of the Japan-China confrontation in the East China Sea may have positive implications for some kind of understanding in the future on the South China Sea as the two countries build mutual trust. The recent visit to Japan by Chinese Premier Li Keqiang was a step forward in that direction. Another area for mutual cooperation is the North Korea nuclear issue. With President Trump heading into a summit with North Korean leader Kim Jong-un, Japan fears that any deal struck with North Korea might ignore its concerns. China also is working hard to make sure that North Korea does not move out of its sphere of influence.³¹ Perhaps the need to cooperate on the North Korea issue could open a new and more positive chapter for Sino-Japan relations based on mutual interest to avoid a Korean Peninsula showdown.

Conclusion

Japan has made rapid strides to enhance its strategic engagement in the South China Sea issue. The Free and Open Indo Pacific initiative is a grand strategy that Japan has been lacking for decades – a strategy that is likely to enhance Japan's regional role in the future. Japan, however, should keep in mind that such a strategy should be reactive, used as a framework to guide the region's response to the Chinese assertiveness, instead of a means to directly containing China. Containment will never be a silver bullet for the China problem, for the impact on regional stability will be enormous.

In addition, there are many restraints preventing Japan from going too far in its South China Sea engagement. First, after two decades of economic stagnation, the Japanese people care more about their personal lives and do not have such interest in Japan becoming involved in big-power politics in contentious parts of the world. What is going on in South China Sea does not touch Japan's core interests from the public's point of view, which is more concerned now about

North Korea's existential threat to Japan.

Second, the Abe administration remains constrained by its peace Constitution, even with the reinterpretation allowing limited use of collective self-defense in an alliance context. The defense budget, too, will remain tight, given Japan's severe fiscal situation. And politics, too, plays a role in Japan's ability to become involved in international disputes. The opposition forces in Japan's Diet remain critical and wary of Abe's new security architecture, and the public is not far behind.

Although the Abe administration promised that the expanded roles and missions of the SDF will never drag Japan into conflicts or wars, the public remains suspicious. Conservative members of the ruling LDP may talk about increasing defense spending to 2% of GDP and propose constitutional revision of the war renouncing Article 9, but so far, the public is not behind such rapid changes. And Prime Minister Abe has seen his popularity drop precipitately over several scandals implicating him personally.

Third, the SDF and coast guard are overstretched, with much of their resources, including a new amphibious assault unit, deployed in the East China Sea. It is unlikely that Japan will opt to join the US in FONOPs in the South China Sea or do much more in the region than it is doing now. For the time being, the shaky status quo in that region is likely to continue, with no party willing to go too far to upset the game.

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The Transformation of Japan's Strategic Aid

By Elle Sweeney

Introduction

Official Development Assistance (ODA) has long been one of Japan's leading foreign policy tools. This soft-power approach to international relations is unique – rooted in that democracy's commitment to peace under its pacifist Constitution. Since its emergence as a diplomatic tool in the 1950s, Japan's aid program has been transformed with the times, evolving from a reparations system following World War II to a vehicle for mercantilism during its reconstruction and high-growth years, then to an instrument that quietly supported democratic ideals, as well as US strategic goals throughout the Cold War, and then over the past several decades to a leading global institution for the promotion of human progress. Today, the nature of Japan's aid program is changing once again – and, this time, it is tilting in the direction of securitization.

This paper argues that the strategic transformation of Japan's ODA under the administration of Prime Minister Shinzo Abe (2012-) was largely the natural culmination of a policy evolution, spurred on in recent decades by a changing international environment affecting Japan's national interests and compelling it to enhance its role in the international community. Still, the implication of this strategic transformation is significant, since it could threaten the legitimacy and effectiveness of Japan's overall development efforts that emphasized: humanitarian considerations; recognition of interdependence among nations of the international community; environmental conservation; and support for self-help efforts of recipient countries (ODA Charter 1995).

Today, Japan is deploying aid strategically in three ways: 1) promoting economic growth initiatives to benefit its own private sector and domestic economy; 2) making aid policy decisions of a strategic nature without coordination with the United States; and 3) advancing Japan's national interests abroad, especially in Asia, through security-related uses of ODA resources. These policy shifts are understandable, given the dangerous international environment around Japan and in various other key regions of the world, but using ODA in such uncharted waters for Japan could seed new challenges for it in the future. That is to say, Prime Minister Abe's diplomatic agenda – the use of soft power tools with hard power features – may not be sustainable, creating a contradiction between traditional human development programs and others intended to explicitly forward national security and economic growth.

This paper also describes and analyzes the factors contributing to the steady transformation of Japan's ODA program since its inception, with special attention given to the

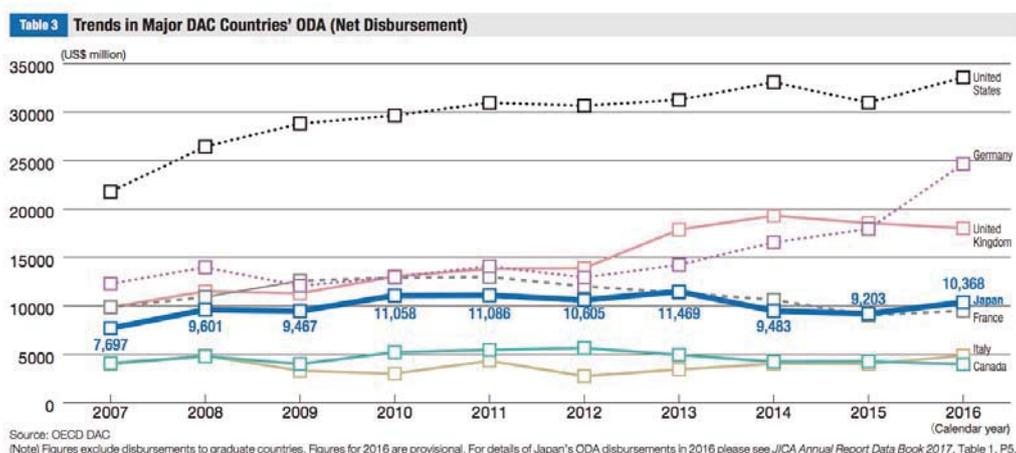
past five years under Abe. It argues that the current government's shift in ODA focus reflects both Abe's proactive diplomacy as well as broader changes in Japan's international role in the international system on a whole, and specific roles and missions in its alliance with the United States. It concludes by offering policy recommendations for Japan's future development activities.

Economic Growth Initiatives

The first significant change that is taking place to Japan's ODA program under the Abe administration is a focus on economic growth initiatives that would also help Japan's domestic economy. Years of slow economic growth at home has meant that less resources can be devoted to the country's ODA programs abroad. The ODA budget expanded from the 1960s to the 1990s as the economy recovered after the war and then took off. In 1989, Japan became the world's top aid donor, a position it maintained for the next 16 years. Over the past two decades, the ODA budget has been slashed, due to fiscal constraints. Today, Japan teeters between ranking fourth and fifth in ODA disbursements after the United States, Britain, Germany and, by some measurements, France.¹

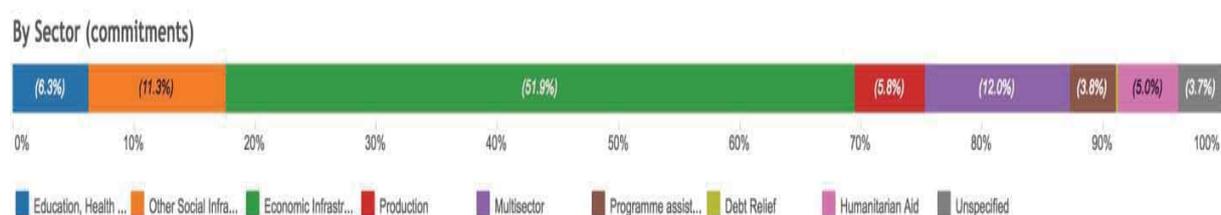
Reports by the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) show that Japan's aid budget today appears to be stable, but Japan International Cooperation Agency (JICA) – the governmental agency that coordinates official development assistance for the government of Japan – notes that the value of the Japanese Yen has weakened significantly. Thus, funding today is not going as far as it once did in the past. In fact, Japan's ODA budget is less than half of what it was at its peak.² To cover the shrinking pot, the Japanese government has attempted to raise the quality of aid by focusing more on sustainable development, but, at the same time, is promoting involvement by Japan's private sector and initiatives that could be perceived as self-serving.³

Recent Flows of Japan's ODA



The bulk of Japanese assistance, particularly concessional loans, has long been directed at middle-income countries, while grant aid, in lesser quantities, favors poorer countries. The loans have tended to fund large-scale brick-and-mortar projects for social or economic infrastructure. Such ODA projects, even when untied, seemed to favor Japanese commercial interests.

Japan ODA Data in Fiscal 2016



Japan's ODA has for many decades been seen by critics as prioritizing domestic commercial benefit over the true economic interests of aid beneficiaries. Even before the program's official establishment in 1956, Japan's war reparations program laid the foundation for what would come to be known as Japanese "tied-aid," or linking aid projects to contracts with Japanese firms. The tying of aid was prevalent throughout the country's high-growth years, though it slackened off during the 1980s. During these years, the influence of the Ministry of International Trade (MITI) played a large role in such a practice. Japan's ODA terms and quality during those years were constantly criticized by DAC evaluations. Up to 70 percent of Japan's aid then flowed to Asian countries, where Japanese firms, already entrenched there, not only tended to get contracts for the projects, they often "found" the project that the donor country would then request from Japan.

However, in recent years, the pattern has changed. According to the Japanese Ministry of Foreign Affairs (MOFA) website:

Recent years have seen Japanese ODA broaden its regional and sectoral scope. Though the focus is still on Asia, Japan is also recognized as a major aid donor outside the region. In the meantime, it has been stepping up its expertise-based aid for projects on a variety of fronts, including education and global environmental problems, health care, public hygiene and social services, human resources development, institution-building, and facility operation and administration.

In the 1980s, the implementation of Japanese aid projects tended to be characteristically top-down in nature, with aid officials almost exclusively hiring Japanese nationals for labor

contracts rather than employing workers from the local population. In addition, large and expensive infrastructure projects tended to be prioritized over small social capital-related ones.⁴

Table 2 Japan's ODA by Type 2016 (Provisional Figure)

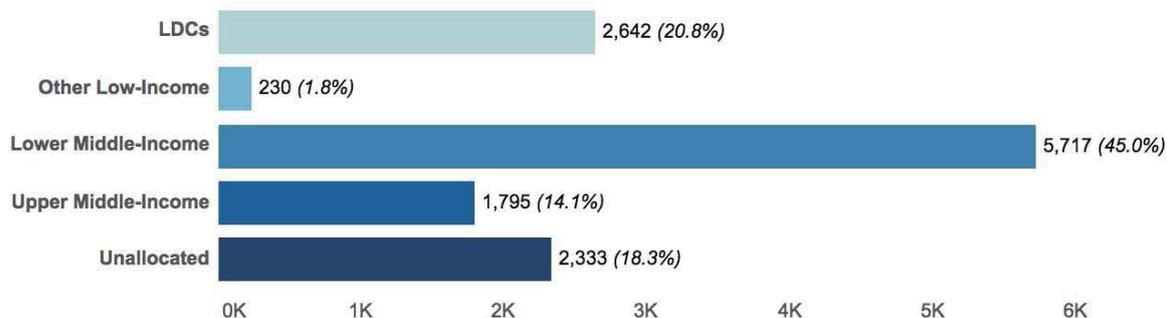
Type	ODA Disbursements (Calendar Year 2016)			Dollar Basis (US\$ million)			Yen Basis (¥ billion)			Percent of Total
	Current Year	Previous Year	Change from the Previous Year (%)	Current Year	Previous Year	Change from the Previous Year (%)	Current Year	Previous Year	Change from the Previous Year (%)	
Bilateral ODA	Grants	2,828.59	2,626.83	7.7	307.759	317.852	-3.2	27.4		
	Technical Cooperation*	2,765.33	2,372.14	16.6	300.876	287.034	4.8	26.8		
	Total Grants	5,593.93	4,998.96	11.9	608.634	604.886	0.6	54.1		
	Loan Aid	1,422.17	1,116.83	27.3	154.736	135.139	14.5	13.8		
	Total Bilateral ODA (Net Disbursement Basis)	7,016.09	6,115.80	14.7	763.370	740.026	3.2	67.9		
	Contributions and Subscriptions to International Organizations (Net Disbursement Basis)	3,315.33	3,055.38	8.5	360.716	369.709	-2.4	32.0		
Total ODA (Net Disbursement)	10,331.42	9,171.18	12.7	1,124.086	1,109.734	1.3	100.0			
Preliminary Estimate of Nominal Gross National Income (GNI) (US\$ billion, ¥ billion)	5,099.73	4,553.33	12.0	554,864.50	550,963.30	0.7				
% of GNI	0.20	0.20		0.20	0.20					

Japan ODA Data in Fiscal 2016

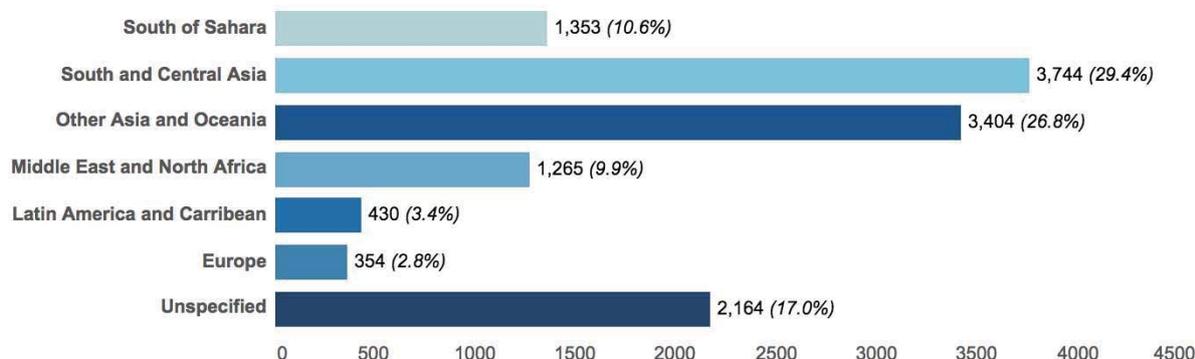
Over the years, the Organization for Economic Cooperation and Development (OECD), served as chief critic of Japanese aid, pressuring Japan to improve ODA quality and untie yen loans. Japan began to do this in the 1980s and 1990s,⁵ by opening up bidding processes for its ODA contracts, expanding its regional focuses, and making it easier for locals to work on projects. Still, the commercial nature of Japan's ODA did not disappear entirely. Japanese firms tended to be better suited to work on Japanese ODA projects because of shared business cultures and operational practices. Thus, these domestic firms continued to win most ODA opportunities. Regional targets did expand, but, in retrospect, it appears that this trend occurred not because Japan necessarily wanted to serve the needier populations but because the country hoped to diversify the risk of its investments, take advantage of new emerging markets, or adhere to international security interests of the United States. Moreover, even with the expanded scope, Asia continued to be the focus of the ODA program. And although more locals were being hired to work on projects, such practices may have been more a business decision than a moral commitment to contributing to the local economy. As one JICA official noted, as labor costs of employing Japanese workers increased, it became more cost-effective to hire local.⁶

Today, the Abe administration's national growth strategy (Abenomics) has been in place for about five years, but it has yet to kick-start the economy in the way that the Prime Minister has envisioned. "Abenomics" as a comprehensive strategy covering all aspects of the economy, even includes the ODA program.⁷ Under that new ODA policy, the government has renewed the emphasis on large infrastructure projects as a means of providing business opportunities for

By Income Group (USD million)



By Region (USD million)



Japanese firms. ODA policy is now linked to Abe's broader goal of increasing connectivity throughout Asia – a main pillar of his recently announced Free and Open Indo-Pacific Strategy.

This new diplomatic initiative, like Abe's economic growth strategy, has been actively coordinated with the latest ODA Charter, which was revised in 2015. Greater connectivity throughout Asia is expected to help with job creation, trade, business expansion, and sustainable development. Humanitarian assistance is included as one of the pillars of the new Indo-Pacific Strategy.

The Japanese government hopes to build connections all the way from the Pacific Islands to the continent of Africa. But critics have seen the new strategy as a cover for narrow economic and strategic interests. And Japan's push on infrastructure works seems to be motivated also by a need to counter China's One Belt One Road Initiative (BRI), which itself aims at building a trade and infrastructure network along the Silk Road.⁸ Thus, aid to promote physical infrastructure initiatives are likely an instrument of Japan's broader power-balancing efforts in Asia in the face of rising China.

Some experts argue that Japan is focusing too much on physical infrastructure and not enough on basic human needs-related lesser projects. Japan is using direct both bilateral aid for these works and also channeling money through the World Bank and the Asian Development Bank (ADB). Tokyo justifies such large-scale infrastructure projects as advancing long-term sustainability and human development in recipient countries. Often, Japanese companies collaborate on projects by providing development technologies. Professor Izumi Ohno of GRIPS, an expert on Japan's ODA, argues that an overemphasis and over-financing on these types of projects could potentially bring about new problems for recipient countries, citing such examples as adding to the debt of a country by burdening it with loans to fund costly, high-maintenance projects. In limiting its aid portfolio to large physical infrastructure ventures, Ohno argues that Japan is also ignoring important social infrastructure undertakings that focus directly on poverty alleviation and human progress. Moreover, the regional tilt of the Free and Open Indo Pacific Strategy, combined with Abe's economic growth strategy, means that only certain populations are being served by Japan's development – namely, those in more developed parts of the world where investment potential is high and the need for concessional loans has lessened.⁹

Japan ODA Data in Fiscal 2016

Another innovation being increasingly promoted by the Abe administration are public-private partnership (PPP) endeavors for ODA projects. According to JICA, 90 to 95% of Japanese ODA goes directly to governments in developing countries. Traditionally, these governments then lend out the aid resources to public organizations, energy companies, or other implementing actors within the recipient country. Now, however, Japan has a new program in which the remaining 5% of aid funds are given directly to private firms. More importantly, of the entire ODA budget, including the funds given to governments, JICA estimates that roughly half involves Japanese companies either directly or indirectly.¹⁰

These economic growth- and PPP-promoting reforms under Abe are raising questions about the integrity of Japan's ODA. With increased inclusion of the private sector, as well as concerted efforts to only focus on regions and projects of strategic economic importance to narrow Japanese interests, the aid program is seen by critics as regaining a reputation of self-interestedness, rather than – as development institutions are supposed to have – a image of altruism. Whether these judgements are correct or not, such perceptions could erode international confidence in Japan's otherwise prestigious ODA program.

No Longer Coordinating Aid with the United States

Development assistance has long been a way for Japan to collaborate with its ally, the United States. Today, however, coordination with America on aid – and possibly on other policy

matters – is occurring less frequently. Under the Abe administration, there seems to have been an about-face away from coordination with Washington in favor instead of unilateral Japanese action or coordination with new partners. This change may not have been the result of a conscious decision, but instead, as was the case for Abe’s concerted efforts to increase focus on economic growth opportunities and securitization of aid, an inadvertent transformation in response to changing priorities. It is likely that this disengagement arose not because Abe wanted to untangle Japanese aid from US influence. Quite the contrary, the lessening of aid coordination during Abe’s term seems to have occurred because Washington itself has been gradually relinquishing its oversight of Japanese policies in general – arguably the mark of the maturity and growing equality in the US-Japan relationship. Washington does not seem to be that interested in how Japan uses its ODA resources.

With the Cold War over and Japan’s aid capabilities diminished as a result of the country’s economic recession in the 1990s, America’s interest – and ability – to use Japan as a proxy influencer in critical regions around the globe became less necessary and less realistic. To be sure, the alliance between the US and Japan remains strong, particularly in the security area; but, as can be seen in ODA, coordination seems to have waned. During the Cold War, the US had a strong interest in asking Japan to use its unique “soft-power” foreign policy tools to push the American agenda of countering the communist threat in developing countries or shoring up weak countries that were democratizing. Japan went along with this because it shared the US’s strategic view and felt obliged to contribute to the alliance that guaranteed its security. Through Japan’s aid, the US was able to infiltrate regions – such as Iran and Vietnam – it would have otherwise been locked out of. In return, Japan gained economic opportunities, international prestige, and a defensive shield from the world’s strongest military power. With the fall of the Soviet Union in the early 1990s, however, America lost an enemy – and it also lost the need to direct Japan’s aid to countries of policy interest.¹¹

Since then, the use of Japanese aid to promote American foreign policy interests is no longer of as much of a strategic priority as it was in the past. According to JICA, when it comes to aid, Japan is largely independent in its decision-making nowadays.¹² Nevertheless, Japan and the US have not completely disregarded their partnership since the 1990s. Both countries continue to promote values of democracy and human rights abroad and work together on several development initiatives around the world. For example, during the Bush administration, Japan supported the US after 9/11 via development assistance in Iraq and Afghanistan. But, there is one big difference between US and Japanese ODA: the use of funds for military purposes – which was banned by Japan during this period. Thus, while the US became increasingly immersed in peace, development, and humanitarian efforts to combat extremism in the war-torn Middle East, Japan could only support these efforts so much, and thus turned its attention to other regions of

greater importance to its own national interests.¹³ Japan is now on its own, when it comes to targeting aid.

Coordination of aid policy between Japan and the US was never easy due to differing approaches to development work. Over the decades, divergent philosophies on foreign assistance have arisen making coordination on aid projects less practical from a conceptual standpoint. Though the US and Japan continue to share similar development values – such as the promotion of democracy and human security – the types of projects, the way they are funded, and the regions where they are implemented no longer align as closely as was true in the past.

The so-called East Asian model of aid (Japan, South Korea and China) is said to differ strongly from the Western model (US, Europe, etc.). In comparing these two approaches, the first appears to be more ingredient-based and the second more framework-based. Western countries focus on good governance and human rights issues and seek to steer macro-policy for the recipient economies. In contrast, the East Asian approach, favored by the Japanese, focuses on implementation at the micro-level. Japan tries to avoid policy interference in domestic matters when it comes to development and, instead, supports industry development, especially for small- and medium-sized enterprises (SMEs). It is a “teach” rather than “do” philosophy, according to Professor Ohno, where Japan serves as a facilitator.¹⁴

Beyond conceptual philosophies of development, there are other key ways in which Japanese and American aid programs do not align. For example, non-governmental organizations (NGOs) are a key part of the American development community. This is not the case in Japan. Following Japan’s earthquake disaster in 2011 that was accompanied by a tsunami and a meltdown at the Fukushima Daiichi nuclear power plant, Japan witnessed a surge in volunteering that the country had never seen before. But though NGOs are on the rise in Japan, most of these organizations focus on domestic social issues, rather than international development efforts. Moreover, JICA’s Peace Corps-like overseas volunteer program is meager compared to its American counterpart.

Japan's ODA has promoted trade and investment through infrastructure development, institution building, and human resource development. Hand in hand with its development program, Japan has also worked directly on trade promotion in recipient countries for many years – a type of work that the US is less versed in – through the Japan External Trade Organization (JETRO), established in 1958. During the Cold War years, the United States saw value in trade promotion and network building, especially in places such as Vietnam. Today, however, supporting these types of programs are less of a critical interest to US administrations and, thus, coordinating with Japan is not a priority.¹⁵

Despite diverging implementation approaches and different development strategies, until recently, partnership with the US represented an important part of Japan's ODA program. Even the Abe administration has tried to keep such ties alive. Under the Trump administration, however, aid cooperation seems to have slackened. Japanese development experts once believed that the United Nation's (UN) Sustainable Development Goals (SDGs) was the world's best hope. These goals were once shared by the US:

GOAL 1: No Poverty.

GOAL 2: Zero Hunger.

GOAL 3: Good Health and Well-being.

GOAL 4: Quality Education.

GOAL 5: Gender Equality.

GOAL 6: Clean Water and Sanitation.

GOAL 7: Affordable and Clean Energy.

GOAL 8: Decent Work and Economic Growth.

Now, though, the US seems to be giving up its role as an international leader and defender of these values. China has claimed that it will take the US's place, but the Chinese are defining their own goals. At this point, it seems that there are no global leaders for development.¹⁶

JICA is concerned about what policy changes may be enacted under the Trump administration that would impact Japan's own development operations.¹⁷ President Trump, however, has yet to set any new direction for American aid but he has sought to cut USAID's budget by a third. To date, there have been different divergent signals sent from the White House. For example, in regard to the humanitarian field, Trump recently decided to increase its contribution to the World Food Program (WFP), while at the same time, decrease funding provision to other programs, such as United Nations Relief and Works Agency for Palestine Refugees (UNRWA).¹⁸

Trump's indifference towards multilateral institutions, such as the UN and Asian Development Bank (ADB), has led to the further severing of ties on aid coordination between the US and Japan. For example, to date (May 2018), Trump has still failed to appoint a new ambassador to the ADB, already well over a year into his first term. This multilateral development bank (MDB) has long been a critical arm of Japan's development program and a strong mechanism for American-Japanese coordination. Now, however, for the near future, bilateral partnership through institutions such as the ADB seem bleak.¹⁹

On the other hand, with the lessening of coordination between Japan and the US on ODA policy, Japan has been forced to assume more of a leadership role in strategically

disbursing aid to countries of policy interest. As a result, there is a growing feeling in the Abe administration that Japan must begin to prepare to take more of its own defense and security matters into its own hands. Foreign assistance may be a forerunner of that tectonic shift.

Linking Aid to National Security

Under Abe, foreign aid is now linked to Japanese national security interests in a way that was never explicitly delineated before. This reform, made official with the 2015 revision to Japan's ODA Charter (now the Development Coordination Charter). That Charter is now aligned with Japan's broader National Security Strategy. Today, Japanese aid can be used for indirect security-related projects, for example, providing non-combat military equipment like patrol boats and aircraft to countries in Asia. Such uses of aid were forbidden under Japan's first ODA charter. Non-military assets have already been provided to several countries since 2015, including the Philippines, Indonesia, and Sri Lanka. In addition, Japanese assistance has been deployed for port construction (presumably to benefit militaries) and for coastguard trainings on natural disasters responses and routine patrolling functions.²⁰

Officials from JICA argue that the demand for such a reform dates back to 2010, and in fact came not from inside Japan but from Asian neighbors increasingly concerned about illegal fishing within their sovereign territorial waters by foreign vessels, mostly Chinese. The aid reforms in 2015, however, reflect the policy agenda of Abe, who is now focused on revision of Article 9 and beefing up Japan's defenses.²¹

Japan's ODA, to be clear, is not being used directly for military purposes, i.e. the funding of armed forces, training of personnel on combat, or military technology sales. Instead, Japan is deploying security-related aid to build up the capacities of countries of strategic interest. Helping Southeast Asian countries train their coast guard officers will only indirectly help Japan's security interests. Such programs allow Japan to build strategic partnerships and subtly expand Japan's influence in the region as a kind of counter to the growing influence and military presence of China in the South China Sea. These partnership-building measures that help other countries address their respective security interests in return – with China being the common country of great concern.

Most recently, Abe has begun to coordinate ODA with his new signature policy initiative, the Free and Open Indo-Pacific Strategy. The result of China's maritime aggressiveness in the South China Sea, the Indo-Pacific Strategy had become the principle driver behind Japan's development policy decision-making.²² Japan's original ODA Charter stressed full attention to efforts to promote democratization and the protection of human rights and freedoms. It also bluntly prohibited the use of foreign aid for military purposes. Ten years later,

A New Foreign Policy Strategy: "Free and Open Indo-Pacific Strategy"

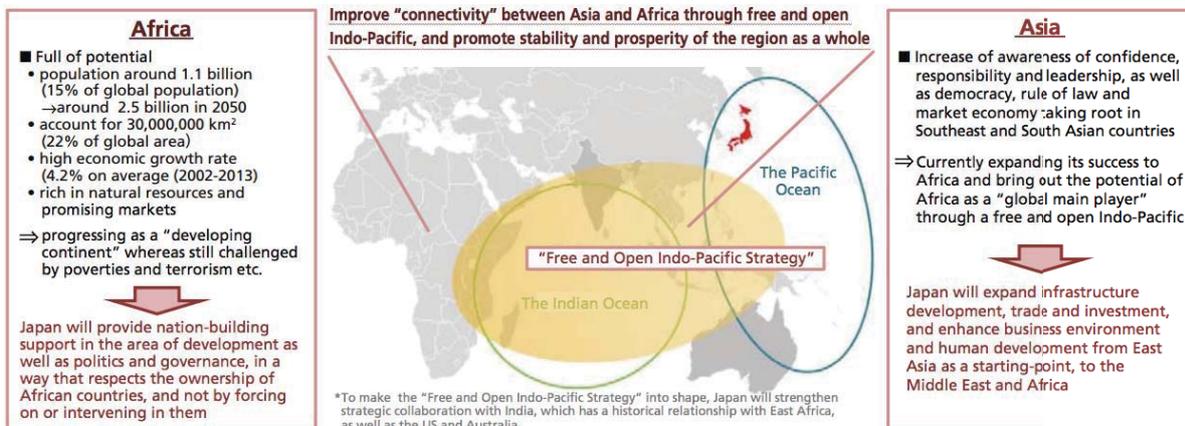
"Diplomacy that takes a panoramic perspective of the world map"

"Proactive Contribution to Peace" based on the principle of international cooperation

Based on the accomplishments of the Abe Administration, Japan intends to further improve and expand these diplomatic concepts

"Free and Open Indo-Pacific Strategy"

A key for stability and prosperity of the international community is dynamism that is created by combining "Two Continents": Asia that is rapidly growing and Africa that possess huge potential of growth; and "Two Oceans": Free and open Pacific Ocean and Indian Ocean
 ⇒ broaden the horizon of Japanese foreign policy by envisioning the above as an overarching, comprehensive concept



Basic Policies

- **Contributing to peace and prosperity through cooperation for non-military purposes**
 Japan is proactively contributing to securing the peace, stability and prosperity of the international community through appropriate ways for Japan as a peace-loving nation and complying with the principle of avoiding any use of development cooperation for military purposes or for aggravation of international conflicts. Taking into account the fact that situations are increasing in which cooperation for non-military purposes with armed forces or members of the armed forces is necessary when undertaking the important issues of the international community, we have clarified the policy for development cooperation for non-military purposes with these people, which had not been sufficiently clear before.
- **Promoting human security**
 Japan will focus on individuals – especially those liable to be vulnerable, and provide cooperation for their protection and empowerment so that people can live with dignity, free from fear and want.
- **Cooperation aimed at self-reliant development through assistance for self-help efforts, as well as dialogue and collaboration based on Japan's experience and expertise**
 Japan will attach importance to human resources development, economic and social infrastructure building etc., which constitute the basis for the initiatives and self-help efforts of developing countries, and will focus on dialogue and collaboration in order to ascertain the true needs of the partner countries.

Priority issues

- "Quality growth" and poverty eradication through such growth
- Sharing universal values and realizing a peaceful and secure society
- Building a sustainable and resilient international community through efforts to address global challenges

Prime Minister Junichiro Koizumi toned down these principles, stipulating that ODA for military purposes should be *avoided*. Attention should still largely remain on human progress in developing countries. Abe's reforms reiterated the long-standing principles of the promotion of human security, but it is clear that national and regional security principles are becoming more front and center on a number of aid decisions. The tying of the Development Coordination Chart to the Free and Open Pacific Charter is further evidence of this move.

Critics of the Abe government's overt use of foreign aid for security-related purposes say that it is a slippery slope. They raise concerns that Japanese ODA could end up funding military operations, despite buffers set-up to ensure that aid is channeled only for non-military purposes. The Abe administration says that extra precautions will be put in place when disbursing assistance because aid is fungible, but the critics argue, how can Japan really be sure that monies are being spent for the purposes they are intended for? Moreover, is the Abe administration – given its overarching National Security Strategy and its policies for the Indo-Pacific region – truly incentivized to prevent misuse of aid funds? Only time will tell.

Aid Successes

The evolution of Japan's development assistance programs under Prime Minister Abe reached its peak in 2017 with the announcement of the new strategy that linked ODA to the Indo-Pacific Strategy encompassing an area from South East Asia to the Indian subcontinent. There are “three pillars” in the initiative: the promotion of a rules-based order in the region, building connectivity through ‘high-quality’ infrastructure, and the implementation of maritime law enforcement. In addition, Africa in recent years has become the other area of priority importance.

Enabling such expansions of the aid programs has been the government's reversal of the declining aid budget. According to JICA, ODA funding has become stable and even robust in recent years. Even though government allocations are not expanding, net disbursements of ODA have increased as a result of repayments of yen loans from the 1960s and 1970s. Japan is recycling these funds for new projects, such as initiatives in Africa to promote universal health coverage.²³

Asia remains the prime target of assistance, but Japan is indeed expanding its global focus. The Tokyo International Conference on Africa's Development (TICAD) is working actively to bring Africa further into Japan's aid landscape. Other efforts, such as Japan's African Business Education Program, are providing overseas study opportunities for young Africans to learn best business practices. The lack of focus on Africa in past decades was partially the region's fiscal instability, which rendered many African nation unqualified to borrow

concessional Japanese loans. Today, however, 39% of all Japanese loans are distributed to this region.²⁴

In the future, aid to Africa will likely continue to increase as the Indo-Pacific Strategy becomes fully operational. For Latin America, aid has been trickier from the Japanese to provide in recent years due to the rapid growth of many economies in this part of the world. A number of Latin American countries are no longer considered by the OECD's DAC to be in need of development assistance. Nevertheless, Japan is making special arrangements to enable the distribution of at least some resources and training to address ongoing human needs throughout the region.²⁵ The Middle East remains a significant target of Japan's aid as well, as it has been since the 1970s and especially the rise of international terrorism since the 2000s. Japan is a major donor to the Palestinians, with a new \$40 million pledged announced by JICA in 2018 for nation building. In addition, Afghanistan is one of the top five recipients of Japanese grants and Iraq is a major recipient of Japanese loans.²⁶

Japan's 2015 ODA Charter has been criticized by many, but it is important to note that some revisions to aid policy are commendable. Prior to the 1990s, Japan's ODA operated without a legal framework. Today, Japan's Charter stands as the framework for the country's vast development operations and the recent revisions to this document are working to strengthen its pillars so that Japanese ODA can be more effective.²⁷ The Prime Minister's reforms have been seen by some as merely efforts to incorporate his National Security Strategy, and then the later Free and Open Indo-Pacific Strategy, into Japanese ODA for the purpose of serving domestic interests exclusively. This is inaccurate, and in fact Abe's new Charter explicitly refers to new international approaches to development, including Sustainable Development Goals (SDGs), 17 global goals set by the United Nations for social and economic development. As such, while Japanese ODA today is certainly more focused on national interests, it is also increasingly aligned with global trends of development assistance.²⁸

While Japan's linkage of ODA to economic growth-promotion has received criticism, new research on development strategy supports the idea that such programs, like JICAs, aimed at alleviating poverty through economic growth initiatives are actually more effective than older aid models. Interviewed for this paper, Dr. Intarakumnerd, an expert at GRIPS on innovation in development, recommends that all donor countries prioritize industrialization. His research has found that once a country has sustainable physical infrastructure, it is much easier for social infrastructure issues to be addressed.²⁹ What's more, Japan's aid infrastructure projects also emphasize quality, which is important for the long-term sustainability of growth. According to an expert at Japan's Finance Ministry, Japan's projects will have lower life-cycle costs and be able to withstand risks, such as natural disasters.³⁰ Such attention to quality and overall value of development is critical to moving the needle on long-term human progress.

Inclusion of the private sector in aid work is also gaining credibility around the world. The criticisms of Japanese tied-aid during the 1980s were valid, but Japan's inclusion of private companies in its development work over the years also had its benefits, specifically the provision to the recipient country of relevant technology and knowledge transfer. For example, Japanese construction companies formerly employed only Japanese engineers to work on their overseas projects, much as China does today. But rising labor costs made it more cost-effective to hire locally, resulting in Japanese technical know-how and best practices being transferred to engineers and others with expertise hired in the recipient country. Such technology and knowhow transfers are now a part of Japan's ODA program thanks to the recent reforms.³¹

As Japan and the US went their separate ways on aid policy, the impact on Japan's aid model has been positive. Japan believes that the Eastern Model for Development is potentially more effective than the Western Model, so a lessening of aid-coordination with the US means a spreading of this approach to the benefit of local communities ripe for industrialization. Western nations, by contrast, seem to focus more on developing governance mechanisms rather than technological capacity as the Japanese do. In addition, the Western-style is generally more at the macro-level, promoting institutions and regimes, such as environmental protection practices, but without an emphasis on the details of how to make such policies work at the ground-level.

Japan, on the other hand, seeks to avoid intervening in internal government affairs within recipient countries. It instead leaves change to market forces. For example, the Japanese would rather promote environmentally-friendly production techniques, rather than advising governments to institute regulations. Thus, Japanese aid agencies undertake projects to provide training directly to companies on clean production techniques and lean manufacturing processes. Such an approach to development, directly through investment policy rather than governance changes, is viewed by experts in Japan as the more effective.

With the US backing away from its global leadership role, Japan has the opportunity to take the lead in a variety of areas including trade (resurrecting the Trans-Pacific Partnership (TPP) after the US walked away from the agreement), and development cooperation. Japan is already seeking to increase its partnership with donor countries in Europe such as Germany and Britain. In addition, it is strengthening new alliances with rising powers like India to the benefit of Japan, India, and the region. There is also a surprising Asian acceptance of Japan's growing role in the region. For decades after World War II, most countries in Asia with bitter wartime memories were wary of Japan spreading its influence in the region. Now, however, the idea of a strong Japan is more palatable, even desirable, given the rise of China as a military and economic power in the region. Japan's aid and economic presence in Asia is seen as a welcome counterweight to Beijing's growing influence.

The Trump administration's dislike of multilateralism, in favor of bilateralism, has boosted Japan's leadership role in multilateral institutions, as well. The former president of JICA earlier headed the UN Refugee Agency (UNHCR). The current president, an academic, was once Japan's ambassador to the United Nations. As a result, JICA today is actually one of the few agencies in Japan already seeking to work more effectively with the UN.³² Japan is also already the largest donor to the ADB – and traditionally holds its presidency – and the second largest donor to the World Bank. Japan has long been supportive of these and other multilateral organizations, a commitment that remains strong.³³ Japan is also taking a leadership role on climate change and other global issues where the US has withdrawn its active participation.

For example, JICA is centering more of its work around climate change initiatives and private business engagement. Recently, the organization was accredited to the Green Climate Fund, which provides it with additional monies to work promote environmental protection efforts. In addition, JICA is working to implement projects related to the UN's SDGs on business. With more interest by both Japanese companies and international countries in getting involved in development work, Japan is using the SDGs as a guide for developing effective investor programs.³⁴

Despite the move toward security-related aid, as described above, Japan is taking precautions to ensure that such aid is not used militarily. Under the new ODA Charter, memorandums of understanding (MOUs) must be signed by recipient governments to ensure that Japanese funds or resources are not used for military purposes.³⁵ MOFA, committed to maintaining the peaceful use of aid, has been actively working to avoid development projects that could be related to or construed to be military cooperation.³⁶

There is increasing evidence to support the effectiveness of development efforts that take into account both human security and national security interests. The new ODA Charter links the two approaches effectively.³⁷ As a result, Japan largely retains its image as a neutral party in international development affairs and will likely continue to play a role in stabilizing controversial countries like Myanmar for the sake the collective good in ways that other countries with a political agenda cannot.³⁸

The China Factor

On China, Japan's somewhat risky efforts to balance power relations in Asia has served to put pressure on that country, as an aid provider, to improve its performance against international standards in implementing development projects. China is becoming increasingly immersed in the development scene, largely through its BRI strategy but also through the well-

funded Asian Infrastructure Investment Bank (AIIB).³⁹ The Abe administration has stated that it has no problem with China's One Belt, One Road initiative so long as they are implemented with openness, fairness, and transparency. If this is done, Abe has indicated that Japan would collaborate with the BRI and even combine it into its Indo-Pacific Strategy. With regard to the AIIB, Japan is also advising China to make sure that new loans do not impose unmanageable borrowing burdens on recipient countries.⁴⁰

Japan's aid relations with China have had positive results. Trust-building with countries is a key aspect of JICA's development philosophy, including with other donors. China and Japan have and will continue to work together to improve collective development efforts in Asia and beyond. In fact, this year marked Japan's 9th Annual Dialogue with the Chinese on foreign assistance. Despite strains between the two countries in recent years over territorial and historical issues, development ties, founded during the period when Japan was providing yen loans to China, still exist and have the potential to grow.⁴¹

Finally, it is important to keep in mind that aid is aid – no matter the motives behind it. Japan's ongoing efforts to support the international community should be highly evaluated, given the real progress it is helping to make possible in overlooked developing countries. Japan's leadership in the field of development is critical, especially given its long history working in the sector and unique experience as a country which had its own success with rapid development. Although elements of Japan's ODA program under Abe are designed for national self-interest, it is important to note that JICA remains independently administrated and committed to best development practices. Human security and economic growth remain driving motivators behind all of JICA's work, and the organization plans to continue its emphasis on quality assistance to ensure inclusivity and sustainability.

Conclusion

Japan's ODA program has undergone significant changes since its inception in the 1950s. These changes have always been a response to evolving domestic and global circumstances that impacted not just foreign economic assistance but all areas of Japanese policymaking. The most recent changes under the Abe administration are no different. Given Japanese economic, political, and security situation, the evolution of Japan's ODA program can be viewed as a natural progression. Nevertheless, there are implications stemming from these changes that could bring negatively affect the program. If such changes lead the perception or reality of decreasing effectiveness of Japanese assistance, the legitimacy of Japan's soft-power approach to diplomacy would be challenged.

Moreover, increased questioning of the legitimacy of Japan's ODA could undermine domestic support for the program, as well as pose a danger to aid workers abroad. To mitigate such a possibility, the following suggestions are presented.

First, more attention should be paid to dialogue and consensus building. Infrastructure development is important but there also needs to be capacity development and social infrastructure.⁴² Japan should continue to lead efforts to promote such transparency as well as respect for international standards.⁴³ There is a need for Japan to take-up more of a leadership position in the global community. Japan can do this by finding like-minded countries to work with on ODA.⁴⁴ Japan's ODA program would also do well to better link development to knowledge creation and sharing. As more and more countries move into later stages of development, there will be a growing need for the sharing of Japanese proprietary business knowledge in order for industry innovation and upgrading to continue.⁴⁵ Quality will be the focus, especially given the limited nature of funding for this type of work. To do this, coordination will need to improve between domestic, regional, and international organizations.⁴⁶

Most importantly though, Japan may need to have a different budget for security and economic growth issues, rather than using aid strategically for these objectives in the way it is doing now. Private sector involvement in development is expected to grow rapidly in the next five to ten years. Thus, the boundaries between business and ODA will continue to blur. With the rise of China, too, national security as it relates to development aid will likely become even more important. Japan's ODA should thus focus on works that help to maintain peace. There is risk in having mixed objectives – meaning development and national security – so there may be a need to think about creating new institutions for the future.⁴⁷ Japan is on the path towards normalization of its approach to international relations, thanks in large part to the efforts of Prime Minister Abe, but inserting security affairs into Japan's ODA program is not the way to do it. As Japan continues to move toward become a mid-power “normal” country, its leaders and citizens will need to keep aid and national security at arm's length in order to preserve the integrity of the ODA program in the eyes of the world.

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Rethinking Japan's Role in America's Indo-Pacific Strategy

By Ji Hoon Yoo

Introduction

The Liberal Democratic Party's (LDP) proposed revision of Article 9 is a historical step that would secure Prime Minister Shinzo Abe's conservative legacy, should it pass the Diet and popular referendum. The international community is watching how events unfold. Washington unofficially welcomes constitutional reform that strengthens the Alliance and views Japan as a key ally in pursuing a free and open Indo-Pacific region. China and South Korea are suspicious of any revision of Japan's peace Constitution, seeing such as rooted in Japan's militarist past. Meanwhile, the Japanese public opinion remains sharply divided.

The purpose of this research paper is to examine what the revision of Article 9 means for the Alliance, as well as the region, explore historical drivers and the constraints, and assess how much and in what ways the revision would impact the Japanese Self Defense Force (JSDF), the US and Japan alliance, and the broader security environment in the Indo-Pacific region. Lastly, this research will conclude with opportunities to strengthen the alliance where both US and Japanese objectives align, and national interests intersect

The security environment of Japan's immediate neighborhood is complex, always changing, and is becoming increasingly dangerous. Northeast Asia is where the world's four largest armed forces intersect, and all four powers are nuclear capable. Moreover, a rising, more confident, and militarily capable China contests territory with Japan, and the growing frequency of tactical skirmishes increases the risk of miscalculation and unintended escalation. Meanwhile, a nuclearized North Korea continues to defy the US-led world order, seeking to drive a wedge between the US and its allies, while ensuring regime survival. In 2017 alone, North Korea conducted 16 missile tests and an underground detonation of a nuclear device.¹ Lastly, innovation in cyber, space, and asymmetric warfare, combined with persistent transnational threats, have highlighted Japan's vulnerability, resulting in the once pacifist-minded country to position itself as a realist state.

Against this backdrop, security observers and academics agree that Japan is at a pivotal transition point as its leaders are poised to revise the war-renouncing Article 9 of the peace Constitution. Japan appears to be shedding its "pacifist" image by expanding its role in protecting its people and sovereignty from the ever-changing threats, while taking more active diplomatic and security roles in contributing to stability, commensurate with its place in the world today.

Article 9 is the part of Japan's constitution that bans war and the ability to maintain a standing military. As currently written, it states:

Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.

In order to accomplish the aim of the preceding paragraph, land, sea, and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognized.

Debates about Japan's pacifism date back to the US occupation before the Constitution was even promulgated. Washington initially supported the idea of a Japan that could never again militarize, but a war-weary America that sought to rebuild its economy and the unexpected start of the Korean War demanded that Japan be urged to rearm. Meanwhile, pacifist critics pointed out then, as they still do now, that Japan should never again be able to go down the dark path of militarism. In contrast, conservatives waving the flag of nationalism constantly beat the drum of Japan's vulnerability in pushing for expanding defense capabilities. The conservative Liberal Democratic Party (LDP) that emerged in 1955 to rule Japan settled on a security treaty with the US that allowed Japan to focus on its economic development while maintaining a lightly-armed military capability. The US in return obtained bases in Japan for its forward deployed forces.

Over time, external drivers and domestic acceptance created a political climate and subsequent legislation that allowed the Japanese Self Defense Force (JSDF) to participate in international security missions on a temporary, case-by-case basis. Eventually, under the current government of Prime Minister Shinzo Abe, Japan's reinterpretation of Article 9 permanently expanded the JSDF's roles to include the right to use collective self-defense, authorizing the JSDF to provide lethal assistance to partners under direct threat, rendering the US-Japan alliance more symmetrical, as a result.

Currently, a proposed revision of Article 9 is at the front and center of Prime Minister Abe's security policy agenda. If the Constitution is amended by the Diet, including revision of Article 9, and ratified by a popular referendum, the groundbreaking move would finally cease debate about the constitutionality of the JSDF. More importantly, it would better allow Japan to stand shoulder to shoulder with its ally, the US to confront the security challenges of a complex, always changing, and increasingly dangerous region. The proposed revision of Article 9 is not likely to have significant operational implications for the US and Japan alliance; however, areas of opportunities to strengthen the alliance, considering the proposed revision, include security cooperation in Southeast Asia, preparing for a Korean contingency, and capacity building in Japan's nascent joint force.

Assumptions

The assumption that this paper makes to reach its judgements is that a formal amendment to Article 9 is unlikely to be easily achieved, due to the requirements specified in Article 96.² To amend the Constitution, Article 96 requires a two-thirds majority vote of both legislative houses and a majority vote from a popular referendum.³ As a result, no formal amendment has succeeded in the seven decade history of the Constitution.⁴

In addition to the high bar set by Article 96, the highly politicized and sharply divided domestic sentiment surrounding Article 9, combined with the Abe administration's difficult political climate makes it unlikely for the administration to achieve a formal amendment. In the February 2018 Jiji Press public opinion poll, 35.2 percent stated paragraphs one and two of Article 9 should be retained and the existence of the JSDF should be explicitly stated. 24.6 percent supported the deletion of paragraph two and explicitly stating the JSDF's purpose. 28.1 percent stated that there is no need to revise Article 9, and 12 percent did not know. Other polls show that a majority of respondents prefer that constitutional revision be carried out after Abe leaves office. Moreover, plagued by minor scandals, Abe has seen his approval ratings in the polls this year plummet, with an April Nippon TV survey bottoming out at 26.7 percent, marking the lowest point within his two terms. The rating in this and other polls has increased since then, but the non-support rate for the Abe Cabinet remains higher than the approval rate.

The public's wariness of Article 9 revision has not been matched by its overall reaction to the reinterpretation of it. Most Japanese seem quite content with the use of collective self-defense under the present guidelines. The reason may be that any progress in *reinterpreting* Article 9 could be reversed by a future government. Moreover, additions could be redacted or modified by future administrations, negatively impacting any forward progress in Japan's security legislation.⁵ In contrast, a formal *revision* under the provisions of Article 96 would be permanent.

However, a low probability high impact event such as an attack on Japan, similar to the September 11, 2001, Al Qaeda attacks on the nerve centers of the US, no doubt would fundamentally shift domestic sentiment to overwhelmingly favor a formal amendment to Article 9 in a way that permanently expand the roles and responsibilities of the JSDF. Such a crisis would likely cause Tokyo to seek a more unilateral and assertive security posture. Any event short of this, such as more North Korean nuclear and missile tests, would likely continue the trend of slow, incremental changes.

The Past: Sense of Failure, US Pressure, and Changing Security Environment

In retrospect, Japanese policy makers have long been slowly removing the constraints of Article 9 since the 1990s in response to a sense of international and domestic crises, as well as US pressure to strengthen the alliance.

Japan experienced a deep sense of failure following the 1991 Gulf War when the international community, including Kuwait, never appreciated its massive financial contributions to the war effort. The bitter experience caused Japan to re-examine its security policy, and its significant response to the Iraq war a decade later was the result.⁶ But in 1991, just after the end of the Cold War, when Japan played a passive role, the government was under significant constraints, both legal and political, that prevented it from considering the possibility of military personnel support to the US-led multinational force at the time.⁷ The JSDF had never deployed outside its own territories, even for non-combat peace-keeping missions under the United Nations, and the forces lacked the training and the legal provisions to contribute in a meaningful way.⁸ As a result, Japan provided a \$13 billion donation to underwrite the cost of the war, and after conflict ended, it sent mine-sweepers to the Gulf.⁹ Despite this, Japan was chagrined by Kuwait's omission of Japan from the list of contributors in its official expression of thanks. Japanese elites vowed that in the future, should there be a similar international dispute requiring multilateral action, it would have the ability to respond in a manner that went beyond checkbook diplomacy.¹⁰

This humiliation and sense of failure set the political conditions that led to a series of legislation, allowing the JSDF to play a more active role outside the immediate defense of Japan. Months after Gulf War, the United Nations passed the Paris Peace Accords, ending the Third Indochina War in Cambodia. Learning from the Gulf War experience, Japan passed the International Peace Cooperation Law in June 1992.¹¹ This law authorized the JSDF to deploy troops for peacekeeping operations, which was also the first time that Japanese service members were deployed overseas since WWII.¹² Upon successful completion of peacekeeping operations in Cambodia (though one police officer on PKO assignment was killed, resulting in a political crisis in Tokyo), Japan participated in subsequent UN peacekeeping missions in Zaire, Mozambique, the Golan Heights, and East Timor.¹³

In addition to the growing sense of international responsibility following its failure to send personnel to participate in the Gulf War, Japan found US pressure to be a convenient rationale for domestic debates favoring Japan to take more ownership of its security affairs. Pressure from Washington included high-profile think-tank reports associated with figures like Richard Armitage and Joseph Nye (both serving at various times in senior positions in the State Department and/or Pentagon). Most notably, three Armitage reports (2000, 2007, and 2012) had

a significant singular and cumulative impact on thinking in Tokyo. Each report articulated Washington's unofficial position in desiring a meaningful alliance with a global scope, where Japan would provide tangible support in facing security challenges.¹⁴ Significantly, the "pressure" on elitist opinion in Tokyo from each report helped the government in office at the time to overcome domestic resistance and make changes in Japan's security policy.

Specifically, the 2000 Armitage report envisioned an alliance with Japan similar to that the US has with the United Kingdom. The report also stated that, "Japan's prohibition against collective self-defense is a constraint on alliance cooperation" suggesting that the US desired an alliance where Japan would provide tangible assistance in addressing the many challenges around the world.¹⁵ The concept of "collective self-defense" refers to the right of all UN countries to use military force to defend other members from attack, according to Article 51 of the 1945 UN Charter.¹⁶ At the time, the interpretation used by the Japanese government was that the Constitution banned Japan's use of the right of collective self-defense, despite the UN Charter.

Following the September 2001 terrorist attacks on the US, in which 24 Japanese lives were lost when the World Trade Tower collapsed, the Japanese government, with Prime Minister Koizumi at the helm, went through some serious soul-searching, resulting in moral and then physical support of the US-led war on terror that resulted. Koizumi pushed special legislation through the Diet that allowed the JSDF to support multinational operations in Iraq, Kuwait, and the Indian Ocean as part of the coalition of the willing. But Koizumi was careful to send Japanese troops to the region for non-combat operations in areas that would not put them in harms way. He refused to legally consider the issue of collective self-defense, and it was not until the second administration of Prime Minister Shinzo Abe (2012-) that Tokyo crossed the Rubicon and reinterpreted the Constitution to authorize collective self-defense.

The second Armitage report in 2007 advocated strengthening the alliance while expressing support for Japan to become a permanent UN Security Council member, progressing Japan to becoming a more "normal" nation.¹⁷ In addition, the report praised Japan's ongoing debate on the constitutionality of collective self-defense.¹⁸ The report went on to acknowledge Japan's role as a security contributor and signaled Washington's desire for Japan to take on more security responsibilities commensurate with their role in the world.

The last Armitage report released in 2012 expressed that Japan was in danger of drifting from a tier-one to tier-two status partner and articulated Washington's desire for a more symmetrical relationship.¹⁹ The assertive tone of the report sought a stronger and more equal alliance while turning Tokyo's attention to the common "threat" of a rising China.²⁰

Collectively, the three reports appear to have significant influence in Japan's defense policy. Abe even cited the latest report in his 2013 speech in Washington DC:

Last year, Richard Armitage, Joseph Nye, Michael Green and others published a paper about Japan in which they asked if Japan would end up becoming a Tier-two nation. Secretary Armitage, here is my answer to you. Japan is not, and will never be, a Tier-two country. That is the core message I am here to make. And I reiterate this by saying, I am back, and so shall Japan be.²¹

To date, Tokyo has met Washington in the middle in implementing many of the desires outlined in the Armitage reports. Japan is now authorized to exercise collective self-defense under the reinterpretation of Article 9. It is also procuring state-of-the-art weaponry, including the F-35A Joint Strike Fighter, V-22 tilt-rotor transport aircraft, new destroyers, and additional submarines according to the five-year Mid-Term Defense Plan released in 2013.²²

Geopolitically, Japan also appears to take a lead role in counter-balancing China by deepening its strategic-partner relationships with India, Vietnam, and Australia, albeit with differences in degree. Australia appears to be transforming into a quasi-ally, while the others are strategic partners without the substance of a deep defense relationship.

Lastly, the changing security environment of a nuclearized North Korea and an increasingly assertive China compelled Japan to drastically review its defense and security policy. Japan envisioned scenarios that would directly affect its security and almost certainly meet its three new conditions under which to exercise collective self-defense: 1) a clear threat to the fundamental rights of the people for life, liberty, and the pursuit of happiness; 2) no other appropriate methods to ensure the continued existence of Japan and protect the lives of the people; and 3) force is exercised to the minimum extent required.²³

Specifically, in a Korean contingency Japan would be obligated to provide military support, under the provisions of collective self-defense. The nature of support would most likely be assisting in the evacuation of civilians, facilitate bringing in additional US forces onto the Korean peninsula, and implement disaster management procedures to protect Japanese citizens within range of North Korea's missiles. Similarly, both the US and Japan are now bound to militarily assist one another in a regional contingency, with the Senkaku / Diaoyu Island dispute being one likely scenario.

The Present: How Much Does Article 9 Matter?

While Japan has rearmed enough to adequately defend the homeland, the debate of how fast and how far to rearm beyond the minimum amount required has evolved over time. On one side, the proponents of the Yoshida Line [based on the 1950s grand strategy of then Prime Minister Shigeru Yoshida] argued that Japan should remain lightly armed, while relying heavily on the protection of US military presence. Progressives (Japan Socialist Party and its successor parties) went even further to question the constitutionality of the JSDF and warned that rearming could lead to repeating Japan’s troubled militarist past. In contrast, the LDP and other conservative parties favoring constitutional revision have argued that Japan has outgrown “MacArthur’s Constitution”, including Article 9.

Figure 1: Japan’s military expenditure ranking in 2016 according to SIPRI

Table 1. The 15 countries with the highest military expenditure in 2016
 Spending figures are in US\$, at current prices and exchange rates. Figures for changes are calculated from spending figures in constant (2015) prices. Figures may not add up to displayed totals due to the conventions of rounding.

Rank		Country	Spending, 2016 (\$ b., MER)	Change, 2007–16 (%)	World share, 2016 (%)	Spending as a share of GDP (%) ^b	
2016	2015 ^d					2007	2016
1	1	USA	611	-4.8	36	3.8	3.3
2	2	China	[215]	118	[13]	[1.9]	[1.9]
3	4	Russia	69.2	87	4.1	[3.4]	5.3
4	3	Saudi Arabia	[63.7]	20	[3.8]	8.5	[10]
5	7	India	55.9	54	3.3	2.3	2.5
6	5	France	55.7	2.8	3.3	2.3	2.3
7	6	UK	48.3	-12	2.9	2.2	1.9
8	8	Japan	46.1	2.5	2.7	0.9	1.0
9	9	Germany	41.1	6.8	2.4	1.2	1.2
10	10	South Korea	36.8	35	2.2	2.5	2.7
11	11	Italy	27.9	-16	1.7	1.6	1.5
12	13	Australia	24.6	29	1.5	1.8	2.0
13	12	Brazil	23.7	18	1.4	1.5	1.3
14	14	UAE ^c	[22.8]	123	[1.3]	[3.3]	[5.7]
15	15	Israel	18.0	19	1.1	6.7	5.8
Total top 15			1 360	..	81
World total			1 686	14	100	2.3	2.2

[] = SIPRI estimate; GDP = gross domestic product; MER = market exchange rates; UAE = United Arab Emirates.

^d Rankings for 2015 are based on updated military expenditure figures for 2016 in the current edition of the SIPRI Military Expenditure Database. They may therefore differ from the rankings for 2015 given in the *SIPRI Yearbook 2016* and in other SIPRI publications in 2016. Countries are ranked according to military spending calculated using market exchange rates (MER).

^b The figures for military expenditure as a share of gross domestic product (GDP) are based on estimates of 2016 GDP from the International Monetary Fund (IMF) World Economic Outlook and International Financial Statistics database, Oct. 2016.

^c The figures for the UAE are for 2014, as no data is available for 2015 and 2016. The percentage change is from 2007 to 2014.

As of March 2018, the LDP proposed a constitutional amendment that would add Article 9-2 without changing the original two paragraphs of Article 9.²⁴ Article 9-2 states:

The provisions of the preceding clause shall not preclude the implementation of necessary self-defense measures to defend our country’s peace and independence and

ensuring the safety of the country and the people, and for that purpose, the Self-Defense Forces, with its supreme commander being the Prime Minister who is the head of the Cabinet, shall be maintained as an armed organization, as provided by law.

The conduct of the Self-Defense Forces shall follow Diet approval and other control, as provided by law.²⁵

But how much does this really matter? From an operational perspective, not much. US military planners in Japan and security think tanks in Washington do not anticipate significant implications.²⁶ The impact appears to be largely political in nature.

While Article 9, as written and taken literally seemingly prohibits Japan from maintaining a standing military, the reality could not be further from the truth. Today, the JSDF is one of the most capable, interoperable, and technologically advanced uniformed services in the region. They have the eighth largest defense budget in the world, despite the defense budget being capped at only one percent of the GDP. This places Japan just behind the United Kingdom and

Figure 2: Chronology of Japan’s security legislation

Year	Legislation / Event	Impact
1992	International Peace Cooperation Law	Authorize JSDF to deploy troops to support UN peacekeeping operations
2001	Anti-terrorism Special Measures Act	Authorize JSDF to provide logistical support to multi-national forces in Afghanistan
2003	Iraq Special Measures Law	Authorize JSDF to provide reconstruction and humanitarian assistance under the protection of coalition forces
2001	Anti-Piracy Special Measures Law	Authorize JMSDF and Coast Guard to security maritime lines of communications near Sea of Aden and Djibouti
2013	National Security Council	Integrate government departments and enable the Prime Minister to make rapid decisions
2013	National Security Strategy	Adopts policy of “proactive contribution to peace”; shift from “passive” to “active” defense
2014	Three Principles on Transfer of Defense Equipment and Technology	Relax arms export policies to deepen security relationships
2014	Reinterpretation of Article 9	“Three New Conditions” under Article 9 that authorize collective self-defense
2015	New Guidelines for Defense Cooperation	Not legally binding, but clarifies roles and missions of Japan and the US; establish Alliance Coordination Mechanism

ahead of Germany in terms of defense expenditure.²⁷ In relation to other Asian powers, Japan ranks third, behind China and India in 2016.²⁸

Moreover, the Diet has passed a series of laws that have eroded the constraints of Article 9. Prime Minister Abe's set of security laws (2015) built on the policy precedents of previous administrations including those of the rival Democratic Party of Japan (DPJ). While in power (2009-2012), the DPJ adopted a new set of National Defense Program Guidelines (NDPG) (2010) that shifted the JSDF's focus from the out-of-date armored Russian threat in the north to

Figure 3: Japan's military exchanges according to Ministry of Defense White Paper

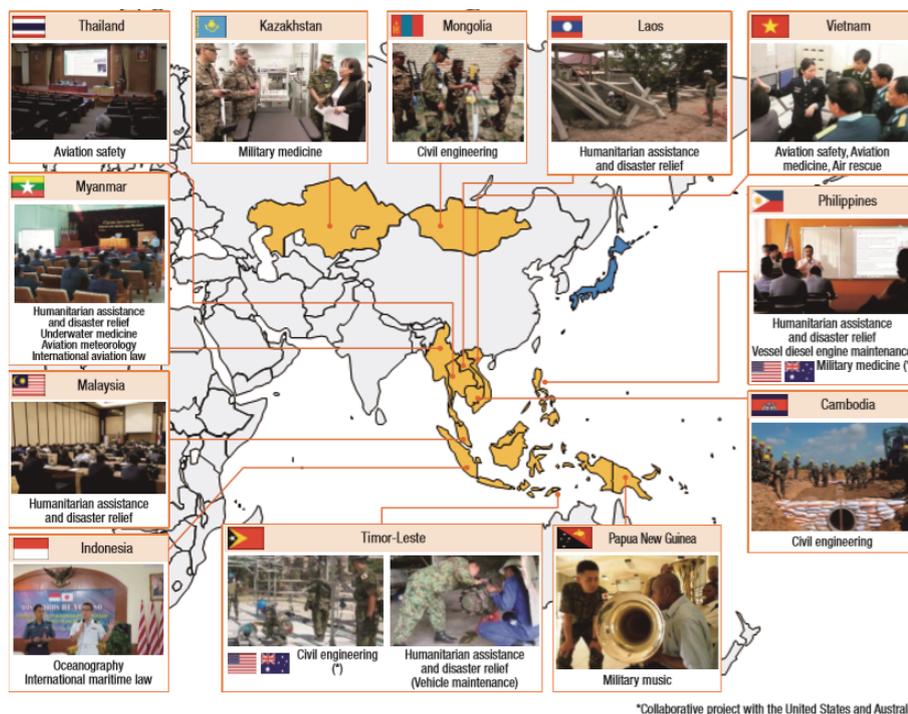


Figure 3: Recent implementation of Capacity Building Assistance (June 2016 - July 2017), according to 2017 Ministry of Defense White Paper

the growing maritime Chinese threat in the south.²⁹ DPJ governments also enhanced the JSDF's participation in global counterpiracy operations, continued to lead donors in financing reconstruction efforts in Afghanistan, and deepened security cooperation with India, Australia, and Southeast Asian nations.³⁰

The actions of a "liberal" administration thus set the conditions that allowed Abe to issue Japan's first National Security Strategy, create the National Security Council, enact a new NDPG and US-Japan Defense Cooperation Guidelines, pass a law to protect state secrets, and revise Japan's Official Development Assistance (ODA) charter to non-combat military aid, and

as mentioned above making a cabinet decision to reinterpret Article 9.³¹ The following chart highlights the sequence of key legislation and events that have broadened the role of the JSDF.

The LDP's proposed revision of Article 9 by adding Article 9-2 would only validate the status quo and secure legislative gains [Japan does not have military law, including a court-martial system; JSDF personnel fall under civilian law]. The primary benefit of adding the JSDF to the Constitution is that this would provide the organization the constitutional basis to exist.³² Supporters argue against questioning the constitutionality of the organization that is defending Japan in the midst of growing security concerns.³³ Moreover, adding the JSDF to the Constitution would eliminate any doubt about the legitimacy of the JSDF and more importantly allow Japan to focus on addressing its security challenges.³⁴

Looking Ahead: Opportunities to Strengthen the Alliance

As stated above, the LDP's proposed revision of Article 9 is not likely to have significant operational implications for the US-Japan alliance. Rather, the implications are political in nature. Specifically, the most significant development would be a constitutional acknowledgement of the legitimacy of the JSDF. For those who are weary of the potential re-emergence of Japanese militarism, the JSDF's focus is centered on defense and the force is already heavily constrained by a web of legal and procedural constraints.

Despite falling short of drastically reforming Japan's security architecture, there are several areas of opportunities for deepened cooperation that play on Japan's strengths and overcome US constraints, while addressing mutual security concerns. These areas include expanding capacity building in Southeast Asia, preparing for a Korean contingency, and assisting the JSDF develop its joint force that is in the nascent stages of development.

1. Southeast Asia: Setting the Theater in "Restricted Terrain"

Since the Abe administration's groundbreaking Three Principles on Transfer of Defense Equipment and Technology Law (2014) and the subsequent development of the Defense Capacity Building Assistance Office, Japan has been aggressively looking for security partners with a focus on Southeast Asia.³⁵ Figure 3 provides an overview of Japan's current military diplomacy efforts.

Japan's initial successes with military diplomacy provides the US with the opportunity of leveraging Japan's access, developed through decades of ODA and foreign direct investment to promote common values—democracy, respect for human rights, and civilian control of the military—through increased exchanges with countries that the US cannot assist due to federal law or finds politically unfavorable to engage. Potential Southeast Asian nations include

Thailand that has a tendency for military coups, Myanmar that is dealing with the Rohingya crisis, the Philippines that resorts to extrajudicial killings in the combat against drugs, and Cambodia that forbids opposition political parties to contest the presidency.

These exchanges should target mid-grade officers of the host nation who demonstrate the potential for positions of increasing prominence and scope of responsibilities within their respective governments. The goal is to shape the officers' world view to one that is more favorable to US diplomacy, sustain communication upon completion of the training, and broaden the officer's outlook on ways to address their own security challenges.

In addition to educational exchanges under the umbrella of military diplomacy, Japan's ability to use of ODA to build maritime capacity in Southeast Asia is another tool that could be dovetailed with US Indo-Pacific Command's (INDOPACOM, renamed from PACOM on May 29, 2018) Southeast Asia Maritime Security Initiative (MSI). Launched in 2015, The MSI seeks to address a range of challenges—including China's growing assertiveness in the South China Sea—through capacity building measures, focusing on Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.³⁶ Funds allocated for MSI, valued at approximately \$100 million for fiscal years, 2018, 2019, and 2020, is a small, yet tangible message that signals Washington's commitment to the region.³⁷

The Japan Coast Guard (JCG) has been central to capacity building efforts in Southeast Asia. The law enforcement nature of the JCG, when compared to the JMSDF, has made it easier to sell to the Japanese public and sovereignty continuous Southeast Asian nations. On October 2016, the Japan International Cooperation Agency (JICA) signed a loan agreement with the Philippines to provide an ODA loan of up to 16.455 billion yen (approximately \$150 million) under the Maritime Safety Capability Project (MSCP).³⁸ Since then, Japan has been training the Philippines coast guard and providing high-speed boats, patrol vessels, and satellite communications equipment through Japan's ODA program. Other countries' coast guards that benefit from Japan's ODA targeting maritime capacity building include Malaysia, Indonesia, and Vietnam.

Leveraging Japan's military exchanges and ODA allows the US to indirectly advance diplomacy with nations that the Leahy amendment restricts. The Leahy amendment is the US federal law that restricts military assistance in the form of equipment and training to countries known to be engaged in gross human rights violations. There are valid reasons for this law, and this research is not attempting to lower the importance of human rights by using Japan as a loophole to get around the law. Rather, the argument is that there is a case to be made for investing in educational exchanges to shape the views of those who will one day be in charge.

The broader objective is to balance China and its growing influence on client states in Southeast Asia.³⁹ Unlike the US, Chinese diplomacy is not constrained by western values and laws, allowing Beijing to exert greater influence with countries that the US refuses to engage or shares strained relations with. Chinese aid in Southeast Asia, often unaligned to the recipient country's development strategy in the form of cash donations and prestige projects enables Beijing to exert enormous influence and achieve their preference of bi-lateral relations, undermining multilateral institutions like the Association of Southeast Asian Nations.

Weaker Southeast Asian nations are forced to hedge, closely managing their relations with China and the US.⁴⁰ They must keep China at arm's length while not being perceived as getting too close to the US.⁴¹ However, Japan's role as a middle power and its emerging defense relations abroad provides opportunities to balance Chinese expansion with countries who seek to minimize the political baggage that comes with close relations with the US.

Building on INDOPACOM's successes in partnership and capacity building efforts, the US should consider integrating Japan in the annual security cooperation cycle. Facilitating dialogue, especially during the planning phase would allow both sides to coordinate policy objectives, ensure that the right conditions are attached to military assistance, and that individual programs are aligned to the recipients' development strategies. Otherwise, individual country teams run the risk of developing their security cooperation plans in a vacuum. More importantly, the opportunity to leverage Japan's access and resources becomes an afterthought during execution.

Large, expensive arms deals tend to make the headlines; however, educational exchanges that often go unnoticed are small investments, considering the long-term return on investment with potential strategic impact.

2. Korea: Solidifying Commitments

A North Korean conflict would certainly directly affect Japan's security and warrant the JSDF's support during a crisis. In a worst-case scenario, Pyongyang could hold Tokyo or Okinawa hostage with nuclear weapons or ballistic missiles to create strategic dilemmas in Washington, resulting in the hesitation of the US military response. Moreover, mass panic would gridlock all major road networks in the Republic of Korea (ROK) as civilians flee south, while US combat forces struggle to push north to reinforce the ROK Army's defensive lines. Learning from past mistakes during the Korean War, the North Korean People's Army (KPA) would most likely restrict access to major ports and potential amphibious landing sites through sabotage, chemical munitions, or sea mines. This would block, or at a minimum delay, US follow-on forces and disrupt potential amphibious operations required to offset the loss of air superiority.

In a Korean contingency scenario, Japan's role would likely be supportive in nature while taking measures to defend its own territory and people. After all, Japan houses the United Nations Command's rear area, with seven US bases in Japanese territories.⁴² Moreover, the Congressional Research Service estimates that up to 690,000 additional US forces, 160 naval vessels, and 2000 aircrafts could deploy to Korea to reinforce US and ROK defensive positions in the event of war.⁴³ Given that these forces and assets would flow through Japan, potential indirect support where the JSDF stay in Japan include guarding US bases, engineer support to include airfield repair and digging in and hardening critical assets, and CBRN warning, protection, and decontamination.⁴⁴

The JSDF's initial measures to provide indirect support on Japanese territory is crucial, because Japan's defense institutions are not designed for rapid decision making, like the Combined Forces Command (CFC) in Korea.⁴⁵ Even with the development of the Alliance Coordination Measures (ACM) and legislation that authorizes collective self-defense, decisions to determine the operational scope and the geographical extent of Japan's support will take time that the operational level does not have.⁴⁶

From the Japanese perspective, direct support to the US during a crisis beyond Japanese territory and into Korean territory risks escalating North Korean attacks on Japan, since JSDF forces on the Korean peninsula provides the justification that date back to Japan's occupation of Korea.⁴⁷ Japan is densely populated, and the greater Tokyo area alone has a population of approximately 38 million.⁴⁸ In addition to the risk to Japanese civilians, North Korea may strike US bases in Japan, possibly with nuclear weapons to disrupt the US response.⁴⁹ Moreover, while ROK military leaders tend to see the value of deepening cooperation with Japan, the presence of the JSDF on Korean territories is not politically feasible for ROK politicians.⁵⁰ As a result, there is likely to be considerable objections to the JSDF providing direct support on Korean territory. The Japanese government would have to carefully weigh these considerations prior to deciding the operational scope and the geographical extent of Japan's support to a Korean crisis, no matter how much pressure Washington exerts.

If Tokyo decides to provide direct support that expands beyond Japanese territory, potential areas for deeper cooperation include non-combatant evacuation and assisting US freedom of movement and action. With over 28,000 US service members and their families stationed in the ROK, non-combatant evacuation operations (NEO) would most likely exceed ROK and US logistical and medical capacity. Combined with the 36,000 Japanese citizens living in the ROK, Japan would not only be well suited to provide direct support but also have a significant stake in supporting NEO, at least to protect their own citizens.

Japan is not only geographically situated away from the immediate threat, but also has the ports, infrastructure, ships, aircrafts, and institutions to support NEO from Korea. An opportunity for deepening cooperation in NEO include an agreement that allows for military planners to account for the estimated number of evacuees, temporary housing and essential services, vehicles and infrastructure required, cost agreements, and standardized procedures for repatriation upon the re-establishment of the Armistice.

Currently, US forces in Korea hold annual peninsula-wide exercises to train and rehearse NEO. During the training, family members of US service members are asked to put together their “NEO books”, consisting of essential documentation in the event of an evacuation. Various units throughout the peninsula are tasked to account, ensure quality control, and process the thousands of family members and non-essential personnel prior to the evacuation off the peninsula that would occur in a real NEO scenario. While this training is beneficial for educating family members and instilling a culture of readiness, the exercise does not account for the mass chaos and panic, gridlocked road networks, and restricted air that would most likely result in a real NEO scenario.

Rehearsals or at minimum simulations for an operation of this magnitude would be optimal; however, the US and ROK should be careful to not send the wrong signal to Pyongyang. Large scale operations outside the norms of the annual training events would most likely alarm Pyongyang and wrongfully provide the perception of an impending offensive operation. To mitigate the risk of miscalculation that could escalate to unwanted tensions, these diplomatic agreements, military plans, and simulations should be conducted behind closed doors.

In addition to supporting NEO, Japan’s recent security legislation allowing for collective self- defense makes the JSDF a suitable partner to enhance the US’ freedom of movement and mitigate operational vulnerabilities. The consolidation of once scattered US bases on the Korean peninsula under the Yongsan Relocation Plan and the Land Partnership Plan makes US airfields and command and control nodes vulnerable to North Korean ballistic missiles and sabotage. In the event that US and ROK ballistic missile defense systems fail to intercept a few well-placed rounds targeting US airfields, US fixed-wing air operations would be significantly degraded.

To complicate matters further, the KPA’s air defense would seek to deny US and ROK air operations to protect KPA’s ground forces, strategic assets, and rear area. As a result, continued freedom of action in the air would most likely require US aircraft carriers and access to Japanese airfields. An example is the Chitose Air Base in Hokkaido that the US Air Force jointly used during the Korean War.

In addition to enabling US air operations, Japan could potentially enhance freedom of movement through mine-clearing and Chemical, Biological, and Nuclear (CBRN)

decontamination operations. Lessons from the Korean War suggest that the KPA would most likely block access to potential amphibious landing sites. Operation Chromite, MacArthur's amphibious landing operation in Incheon may not have been possible if the KPA effectively mined the maritime routes the UN forces took to the Incheon landing sites. Moreover, one of the primary reasons for Kim Il Sung wanting to win the Korean War within 30 days was to deny the use of key ports in the ROK required for US intervention.

The JMSDF is one of the largest, most technologically advanced minesweeping fleets in the world, consisting of 21 Awaji minesweepers.⁵¹ The fleet has gained a reputation for its expertise in "sea clearance", the Japanese euphemism for mine clearing operations.⁵² During the 1991 Iraq War, the JMSDF cleared 1,200 mines laid by Iraqi forces off the coast of Kuwait, enabling the US to rapidly project power.⁵³

In addition to blocking critical maritime routes, the KPA would most likely attempt to restrict or at minimum delay access to key ports through the use of chemical munitions. Sea ports are vital for the US to bring in additional armored forces into Korea, due to the weight and size limitations of strategic air lift. Japan's support through CBRN decontamination operations of these ports would enhance US freedom of action during a potential Korean conflict.

Japan has already allocated funding for the research and development of remotely operated chemical, biological, radiological, and nuclear (CBRN) response vehicle systems, remotely operated reconnaissance systems, threat assessment systems, and early warning sensors.⁵⁴ While the CBRN capability in the JGSDF's Central Readiness Brigade is modern and fully operational, it is unknown whether the JGSDF has enough CBRN capability to support operations in both Japan and Korea.⁵⁵

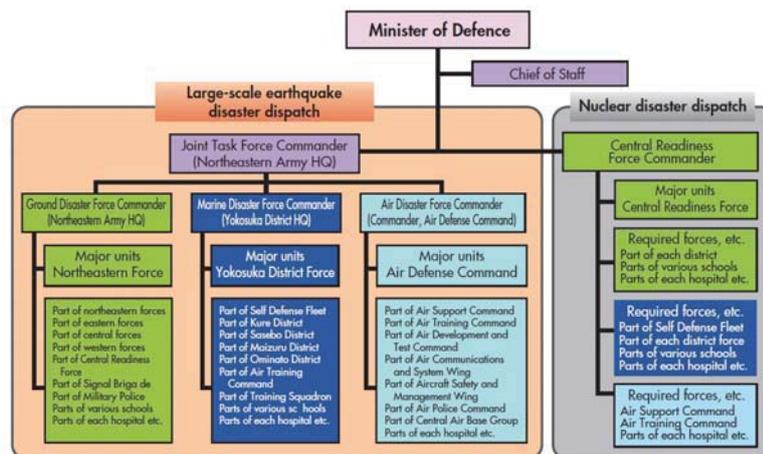
The 2012 Armitage report called on the ROK and Japan to improve political relations and cooperate on mutual security challenges.⁵⁶ Despite US encouragement, mutual distrust brought on by lingering historical legacies continue to obstruct open security cooperation, even in the face of the existential threat from North Korea. The signing of a General Security of Military Information Agreement (GSOMIA), signed in November 2016, is a step in the right direction, but more meaningful cooperation is required to solidify commitments in preparation for a Korean contingency.

3. Dynamic Joint Force: Command and Control in a Complex Environment

In addition to preparing for a Korean contingency, US efforts to assist the JSDF develop their nascent joint capability would enhance the US and Japan alliance. For Japan, the need for a joint capability became clear after the Great East Japanese Earthquake.

At 14:46 on March 11, 2011, an earthquake measured at magnitude 9.0 occurred off the coast of the Tohoku region, in Japan's northeastern region. The massive earthquake triggered a monstrous tsunami and multiple simultaneous crises including a meltdown and radiation leaks from the Fukushima Daiichi Nuclear Power Plant. The resulting humanitarian crisis, power supply failure, and large-scale disruption of supply chains threatened to overpower Japan's capability to respond to the natural disaster.⁵⁷ The devastation resulted in 20,000 people dead or missing, leveled 130,000 houses, and severely damaged 270,000 more.⁵⁸ About 270 railway lines, 15 expressways, 69 national highways, and 638 prefectural and municipal roads were inoperable.⁵⁹ This was as complex of an operating environment as any military planner could expect.

Figure 4: Organization of joint response to the 3/11 Earthquake, according to the 2012 Ministry of Defense White Paper



The JSDF's mobilization in response to the 3/11 Great East Japanese Earthquake at its height reached approximately 107,000 service members, 543 aircrafts, and nearly 54 vessels.⁶⁰ This was the largest mobilization of personnel and capabilities in Japan's postwar history, and this was also Japan's first major joint, interagency, and combined response against a complex problem. To augment the Japanese response effort, the US committed approximately 16,000 service members under the guidance of the bilateral coordination centers, consisting of the Japanese Ministry of Defense, US Forces Japan, and Joint Task Force Headquarters lead by the Northeastern Regional Army.⁶¹ The figure below depicts the organizational structure of the response force.

While the response effort was a colossal feat, it also made it painstakingly clear that Japan needed a joint force capable of handling complex problems. Prior to the earthquake, JSDF services, regional armies, and civilian ministries rarely worked together, plaguing the response

effort with excessive friction, stove piped reporting, delays, and ultimately disrupting unity of effort.⁶²

As a result, the Ministry of Defense sought to develop an effective “dynamic Joint Defense Force”, and this continues to remain a priority.⁶³ Japan has already allocated funding to strengthening their Joint Staff and have already established the Deputy Director and Operations Department.⁶⁴ As of 2018, the JGSDF opened the new Ground Central Command, designed to provide unified command, under the Defense Minister over the regional armies and the newly developed Amphibious Rapid Deployment Brigade.⁶⁵ Prior to the development of the Ground Central Command, there was no headquarters element that exercised control over the five regional armies.⁶⁶ Now, there are essentially three equals among the JGSDF, JMSDF, and the JASDF.⁶⁷ Lastly, serving in joint billets now affects officer promotions, increasing the desire for Japanese officers to serve in joint billets.⁶⁸

Despite these efforts, more work is needed to achieve a joint force. Firstly, Japan still lacks a joint operational command that synchronizes ground, maritime, and air components. While the Chief of Staff is the senior military officer in Japan, the position is mostly advisory in nature and lacks the operational control, similar to those of US geographic combatant commanders.⁶⁹ Secondly, the JSDF is not training for joint operations, with the most significant issue being the synchronization of joint fires.⁷⁰ The JASDF remain focused largely on air to air combat, and there is no training emphasis on close air support.⁷¹ The US / Japan exercise Iron Fist involving around 500 US Marines and 350 service members from the Western Regional Army remains focused on ground and maritime domains.⁷² The US Army has been pushing for Yama Sakura to be more joint, but there has been little progress.⁷³

While there are no easy, quick solutions to assisting Japan develop its “dynamic joint force”, cost effective ways that would help the JSDF progress in the right direction include training objective development and educational exchanges.

INDOPACOM, US Forces Japan, and service components have the potential to play a key role in assisting Japan develop its joint capability. Not only can these organizations provide leader emphasis and endorsement during the exhausting number of bilateral engagements, these organizations can help shape training objectives to the major exercises that US and Japanese forces participate in. Training objectives with specified “go” and “no go” criteria that support the development of joint capabilities is essential, because they drive the joint tasks trained. Equally important, they provide Japanese commanders the opportunity to assess and certify their units in the performance of the specific joint task.

In addition, the US should invest in individual leader development. While the US is assisting Japan modernize its Command, Control, Communications, Computers, and Intelligence (C4I) capabilities through hardware, developing a joint force will require significant leader development.

To put things in perspective, the US military exposes officers to joint and inter-agency operations at around the mid-career level. Soon after, officers are required to complete institutional schooling and serve in a legally mandated, joint billet for a period of at least two years. By the time these officers reach senior ranks, most have completed multiple joint tours, developed a working knowledge of inter-service and inter-agency capabilities, fostered personal relationships with leaders outside their own service, and gained proficiency in navigating the web of bureaucracy that spans across the government.

It will take Japan not only the military hardware, joint doctrine, and the organizational structures conducive to becoming more joint, but also significant investment in leader development. The following chart lists US funded programs that could be used to develop JSDF leaders in support of building a future joint force.

Program	Authorization	Description
International Military Education and Training	Title 22	Grant funding for professional military and education.
Reciprocal, No-Charge PME Student Exchanges	Title 22	Provides the opportunity for both US and international military personnel to experience education and other international exposure at each other's PME institutions at no cost.
Defense Personnel Exchange Program	DoD, defense agency, or MilDep funding	DoD organizations exchange military or civilian personnel with allied or friend country as determined by SecDef.
Multinational Military Centers of Excellence	Title 10	Participation in multilateral military centers designed to enhance the recipient's personnel to engage in joint exercises or coalition of international military operations.

Conclusion

One cannot predict the outcome of the Article 9 debate – Japanese politics being somewhat unpredictable – but two trends remain constant. The pace of policy making in Japan tends to be slow, and the Japanese public tends to resist drastic changes, particularly when it comes to security matters. One can expect thus that security policy change in Japan even under a hawkish prime minister will be slow and incremental. It will not stop, however. Driving this

transformation is a new level of widely-shared pragmatism about security among both the elites and the public to the new realities of a tough security environment.

As of now, Abe's difficult political climate laden with scandals, divided public opinion, and the high bar for constitutional amendment under the provisions of Article 96 suggest that the chances for constitutional revision remain low, at least in the near term. However, there is much that the US and Japan alliance can do with growing opportunities in in Southeast Asia, an unpredictable Korea, and the development of Japan's joint force. There is much that Japan can do to defend its homeland, contribute substantially to the alliance, and add to regional deterrence that does not depend on changing Article 9 of the Constitution.

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Japan and India's Evolving Strategic Partnership

By Yiou Zhang

Introduction

Over the last decade or so, the security environment around Japan has been changing, calling into question the continued peace and stability of the Asia-Pacific region. China's rapid economic growth and military modernization, along with its growing resource demands, have increased the potential for conflict over its long-standing territorial dispute with Japan. In addition, the existential threat from North Korea has posed an enormous security challenge for Japan, the US, and South Korea.

China's rise as a regional power has sparked Japan to expand its ties with countries of strategic interest. India has received special attention, with a bilateral pact signed in 2006 that added a security dimension to the long-standing friendly relationship. Economic ties also have been growing between Japan and India, as the second and third largest economies in Asia. Prime Minister Shinzo Abe has long had a personal interest in India and has built close ties to Prime Minister Narendra Modi through multiple rounds of summit meetings effused with warmth and congeniality, as well as a flurry of joint statements and signed agreements. Since 2014, the two countries have elevated their relationship to a "Special Strategic and Global Partnership," accompanied by an accelerated pace of bilateral cooperation and coordination. Glamorous as the phrase sounds, whether the partnership has serious contents of a security nature is a question that has yet to be thoroughly answered.

Japan and India have a long history of cultural exchange dating back to the sixth century when Buddhism made its way across the Asian continent to Japan. The two countries have viewed each other in favorable light throughout their long history. While Japan carries heavy historical baggage in the eyes of most Asian countries owing to World War II, that negative legacy is largely absent from relations between Japan and India. Many Japanese, in fact, still remember and honor Radhabinod Pal, the Indian judge at the Tokyo war crimes trials who was the dissenting vote in the judgment against Japan's wartime leaders.¹ After the war, Indian Prime Minister Jawaharlal Nehru is famous in Japan for donating an Indian elephant to the Ueno Zoo in Tokyo in 1949, which "cheered up a physically devastated and morally dispirited postwar Japan".² The two countries signed a peace treaty and established diplomatic relations in 1952, immediately after Japan recovered its sovereignty from the US Occupation.

Since then, Japan-India relations have had their ups and downs and eventually progressed steadily, but never to any level comparable to what exists today. The honeymoon period between Japan and India did not last long after 1952 due to the ideological divide that

prevailed during the Cold War. Bilateral relations were generally subdued until the end of the Cold War and India's economic reform in the early 1990s. However, India's failure to join the Comprehensive Nuclear Test Ban Treaty in 1996 and its testing of a nuclear bomb in 1998 pushed Japan-India relations to a new low. The rapprochement between the two countries did not come until the early 2000s when the United States led the way to improve relations with India. The bilateral relationship has since then boarded a fast track, starting when Prime Minister Manmohan Singh visited Japan in December 2006 and signed an agreement elevating ties to a "Global and Strategic Partnership". The latest addition of "special" to the prefix of the partnership was made in 2014 under Prime Minister Abe.

While existing literature mostly focuses on the evolution of Japan-India relations as a whole or a particular aspect in the bilateral ties, an overall examination of the strategic partnership under a set framework has been rare. This paper aims to fill in the gap by first proposing a general framework of evaluating strategic partnerships based on current discussions in the field of international relations and then examining the Japan-India partnership against this background to obtain an initial understanding of how the partnership fares in reality. The paper will also discuss the constraints facing the Japan-India partnership in both the short run and the long run and probe the prospect of the partnership amid recent political developments in Japan.

Defining Strategic Partnerships

The use of strategic partnerships to manage bilateral relations has become increasingly prevalent among countries in the Asia-Pacific since it first emerged in 1993 when China and Brazil reached agreement on establishing a "long-term and stable strategic partnership".³ The idea has since then proliferated in the region with China and India having more than 60 and 30 strategic partners, respectively.^{4,5} While a considerable amount of literature discussing the various strategic partnerships exists, a standard definition of the term "strategic partnership" has yet to be constructed. It is nevertheless possible to identify some of the common features of a strategic partnership that could act as a basic framework to evaluate the Japan-India partnership.

In general, scholars agree that while a strategic partnership transcends the normal bilateral ties, it still offers enough flexibility in commitment as compared to a formal alliance.⁶ This nature of the partnership is reflected through the following aspects:

- **Shared long-term national interests.** The two countries engaging in a strategic partnership have common interests and concerns in international affairs. They work together to address long-term opportunities and challenges, rather than specific short-term emergencies.⁷
- **Institutionalized cooperation mechanisms.** Both parties have gradually developed regular meeting and collaboration mechanisms across different levels in the government agencies, such as annual leadership summit and various ministerial level dialogues.⁸

- **Deepened economic relationship.** Both countries will further expand their economic ties, creating an intertwined network of interests and sustainable growth momentum.⁹
- **Emphasis on political, security and defense cooperation.** Countries will develop their security ties through “joint military exercises, having naval vessels make ports of call, and working on confidence building measures”.¹⁰ However, there is no binding defense commitment.¹¹
- **Multi-level/multifaceted exchange.** The relationship is not only restricted to top-level engagement, but also expands across different sectors and localities.¹² People-to-people exchange on education, culture and youth is a key element that contributes to the diversity of the engagement.

The Japan-India partnership, examined through these angles, has yet to emerge as a full-fledged strategic relationship. While both countries have been driven into this partnership by strong commitments based on a wide convergence of interests, the depth of cooperation varies substantially from sector to sector, with economic initiatives moving much faster and further when compared with defense and people-to-people exchanges. The following sections will utilize this five-element framework to examine the Japan-India partnership in detail.

Convergence of National Interests

Japan and India have witnessed an increasing convergence of their national interests as the bilateral relationship develops and deepens. In the Joint Statement of Japan and India Vision 2025 Special Strategic and Global Partnership, both sides acknowledged that the partnership “reflects a broad convergence of their long-term political, economic and strategic goals.” This convergence is mainly manifested through the synergies between India’s Act East Policy (AEP) and Japan’s Free and Open Indo-Pacific Strategy (FOIP), the shared desire to safeguard their regional influence and national interests amid China’s rise and the complementarities exhibited through their economies.

India’s AEP and Japan’s FOIP are highly aligned in terms of their geographical coverage and strategic goals. While India has long upheld the Look East Policy since the 1990s, it further expanded the policy’s scope and focus in 2014 when Narendra Modi came to power and rebranded the policy as “Act East”. Different from the Look East Policy, the AEP emphasizes closer ties with countries in the broader Asia-Pacific region rather than Southeast Asia alone, and gains political, strategic and cultural dimensions in addition to the original focus on economic partnership.¹³ Meanwhile, Japan’s idea of FOIP emerged from Prime Minister Shinzo Abe’s speech in 2007 to the Indian Parliament titled “Confluence of the Two Seas” in which Abe pointed out the importance of connecting the Pacific and Indian Oceans “as seas of freedom and of prosperity”.¹⁴ Under the FOIP, Japan desires to improve “connectivity” between Asia and

Africa and promote stability and prosperity of the region as a whole. The interests of both countries to foster closer connections among Asia-Pacific countries, in particular Southeast Asia, and to expand existing economic cooperation for greater prosperity make the two strategies nicely dovetail with each other.

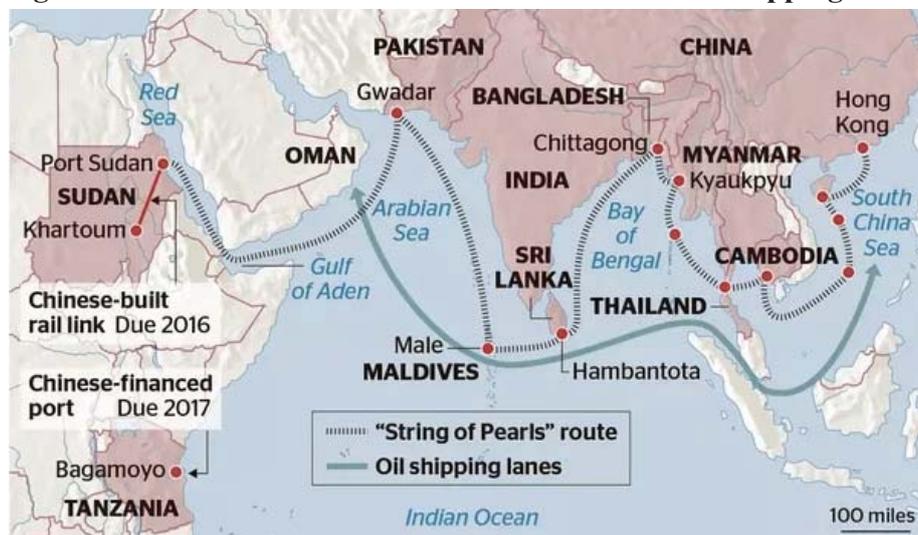
The other alignment of interest between Japan and India emerged amid China's rise as a regional power. Backed by its economy, China has been investing actively in Southeast Asia countries, with bilateral trade between China and ASEAN reaching a record high in 2017 of \$514.8 billion. This increasing economic influence is often perceived as having the potential to translate into future political clout, providing greater support to China's role as a regional leader — a status that Japan itself would like to have. How to maintain their bilateral ties and influence in Asia without their being eroded by China's expanding power reach has therefore become a strategic goal for both Japan and India.

China's growing capability is also reflected in the security aspect. Both Japan and India have witnessed increasing assertiveness of China on territorial issues over the past decade. According to statistics from the Japanese Coast Guard, since September 2012 when the Japanese government purchased the Diaoyu/Senkaku islands from private owners, the appearance of Chinese vessels in waters surrounding the disputed islands has significantly increased.¹⁵ Last year's Doklam standoff in the border area between China and India also made India worry about China's intention. In addition, China's continued investment in port facilities along the sea lanes from the Middle East to the South China Sea – the so-called “String of Pearls” strategy (Figure 1) – has also raised concerns of encirclement in India. With Japan and India both relying heavily on the maritime trade routes that pass through these regions, ensuring maritime security and the openness of the sea lines of communication (SLOC) is another long-term objective that both countries have in common to guard their national interests.

Finally, pursuing continued economic growth is still high on both countries' long-term agenda. The high degree of complementarity between Japan and India's economies set a sound foundation for a robust cooperation over the long run. Unlike Japan whose population is rapidly aging with people over 65 years old constituting 39% of the total population by 2050,¹⁶ India possesses an abundant young labor force which is projected to grow to over 1.08 billion people in the next 20 years. Japan has already launched initiatives to train Indian students for future employment in Japanese firms in India. Moreover, Japan is abundant in capital and technology know-how, especially in manufacturing and infrastructure such as the high-speed railway. India on the other hand is in need of upgrading its capability in these two areas. Indian Prime Minister Narendra Modi's “Make in India” aims to make India a global manufacturing hub. The Indian government also estimates that it will need \$1.5 trillion in infrastructure investments over the next ten years.¹⁷ These features of the two economies imply that there is huge potential for

economic gains over the long-term through deepening bilateral cooperation.

Figure 1: China's Infrastructure Investments and Oil Shipping Lanes



(Source: U.S. Naval Institute)

Well-Institutionalized Cooperation Mechanisms

Since the elevation of bilateral ties to a strategic partnership in 2006, Japan and India have established several high-level exchanges. At the summit level, the prime ministers of Japan and India annually meet and discuss progress in advancing the strategic partnership. The two leaders alternate visits to each other's country. At the cabinet level, there are annual strategic dialogues by the foreign and defense ministers, respectively. Other official meetings include the Two-Plus-Two Vice-Ministerial Dialogue, Dialogue of National Security Advisors, the Defense Policy Dialogue and other official meetings take place on a less regular schedule. In addition, there has been an annual India-Japan Business Leaders Forum since 2007 to discuss expanding bilateral economic exchanges.

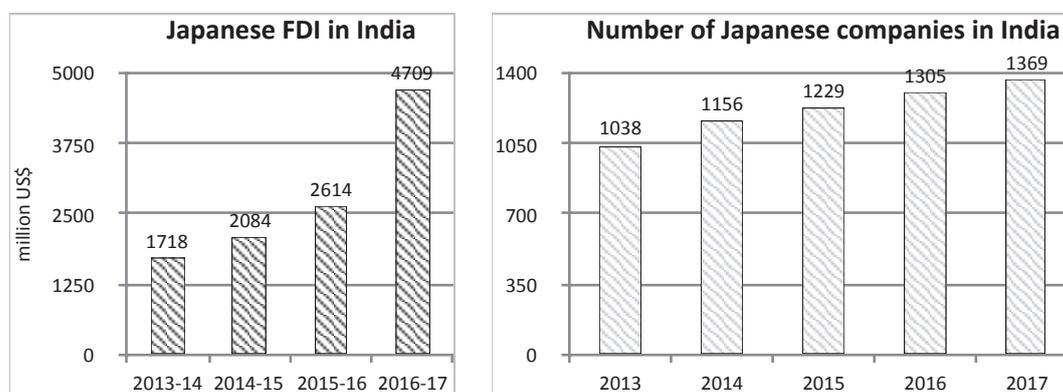
Both countries have also set up corresponding local offices of key cooperation agencies. New Delhi now hosts local offices of the Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), Japan External Trade Organization (JETRO), Japan Foundation, and the New Energy and Industrial Technology Development Organization (NEDO). These agencies are crucial in providing on-the-ground support for major development and investment projects that Japan is carrying out in India. Both governments have also set up "Japan Plus", a specialized team of Indian and Japanese representatives to facilitate and fast track Japanese investment proposals in India.

Deepening Economic Ties Highlighted by Strategic Investments

Prior to the rise of Chinese influence in the region, Japan's interest in India had solely been economical, given India's huge market potential and the complementarities of the two economies. Economic cooperation gradually expanded, and increasingly Japanese private investments in India have kept pace with public investment. India has long been a priority recipient of Japan's official development assistance (ODA), overshadowing the slow pace of bilateral trade. Even though both countries signed the Japan-India Comprehensive Economic Partnership Agreement (CEPA) in August 2011, bilateral trade has not grown. India's share of Japan's total trade amount is only around 1% while Japan's share of India's total trade is not performing any better, merely at 2.1% in 2016-17.¹⁸ This lag is mainly caused by the expansion of Chinese exports to India, a lack of mutual horizontal trade, and India's underdeveloped market for pharmaceutical products.¹⁹

While signing the Special, Strategic and Global Partnership in 2014, Abe also announced the goal of doubling Japan's direct investment (FDI) and the number of Japanese companies in India by 2019. Since then, Japan's FDI to India has more than doubled from \$1.78 billion in fiscal year 2013 to \$4.71 billion in fiscal 2016,²⁰ while the number of Japanese companies in India grew by 18.43% to 1,369.²¹ In terms of cumulative capital investment inflows into India, Japan is now India's third largest source of FDI.

Figure 2 & 3: Japanese FDI and Companies in India



(Source: Indian Embassy in Tokyo; JBIC)

In particular, development cooperation between Japan and India is where many of the strategic elements of the partnership are found. Japan started providing ODA to India as early as 1958, and India has been the largest recipient of Japan's ODA since 2003. Cumulative ODA commitment to India by fiscal 2015 reached 4.6 trillion yen (\$41.9 billion).²²

Japan's ODA to India has been playing a vital role in financing the multiple ambitious infrastructure projects laid out in bilateral partnership talks, including several industrial corridors and a high-speed railway between Ahmedabad and Mumbai. The Delhi – Mumbai Industrial Corridor (DMIC) is the flagship project under the Japan-India partnership. With an estimated total investment of \$100 billion, it is one of the largest infrastructure projects in the world. JICA has already committed \$4.5 billion to invest in projects along the DMIC, which is expected to triple industrial output and quadruple exports from the region in eight or nine years.²³ The Ahmedabad-Mumbai bullet train is the latest manifestation of Japan's commitment to developing India's infrastructure. The first high-speed rail in India is crucial to Japan, acting as a stepping-stone to the hugely untapped Indian high-speed rail market with 10,000 kilometers of construction planned.²⁴

These projects, requiring significant capital input and potentially long delivery time, highlight Japan's long-term strategic planning in expanding overseas markets to seek alternative sources of business and economic growth to compensate for Japan's slowing economy. Improving India's infrastructure has also been identified as a leading factor in attracting more Japanese business to invest in India, according to an annual survey by JBIC.²⁵ The potential to gain from a more prosperous, connected and industrialized India propels Japan's continued ODA commitment.

Japan's ODA to India also is based on geopolitical considerations, as reflected in Japan's involvement in projects in India's northeast region and the Andaman and Nicobar Islands. Located at the border between India and Southeast Asia, northeast India has long been a region of crucial importance to India. It is also a sensitive area, as China still has unsettled border disputes with India in the state of Arunachal Pradesh. Traditional international organizations such as the World Bank have been unwilling to get involved in investments in disputed areas.²⁶ Japan is among only a few countries that India allows to have an economic presence in the region.

JICA has been involved in multiple projects, including road connectivity, energy, water supply and sanitation and forest resources management. In May 2017, JICA signed an agreement to provide 671.70 billion yen (\$614.7 million) to improve the connectivity in India's northeast for regional socio-economic development. On the one hand, improved road connectivity will facilitate the transportation of military supplies to border areas for India.²⁷ On the other hand, a more connected northeast India also works in Japan's interest in tapping into the broader markets of Southeast Asia. Economic attaché Kenko Sone at the Japanese Embassy to India saw the region sitting at "a strategically and economically important juncture" between India, Southeast Asia and the Bay of Bengal and therefore "Japan has placed a particular importance on the cooperation in the northeastern region."²⁸

Japan’s investment in the Andaman and Nicobar Islands is another example that showcases the geopolitical calculation in Japan-India economic cooperation. Sitting at the entrance of the Malacca Straits, a major gateway of trade to and from Asia, the island chain hosts India’s first and only tri-service command—the Andaman and Nicobar Command (ANC). Japan is now engaged in developing a 15-megawatt diesel plant on South Andaman Island, which is perceived as a significant move since again it is India’s first time to “allow another country to develop infrastructure in these strategically important islands.”²⁹ With around 60% of Japan's total oil imports currently passing through the Malacca Straits, it is natural for Japan to invest in the Andaman and Nicobar Islands in attempt to secure shipping lanes in the Indian Ocean in the future.

Figure 4: Andaman and Nicobar Islands



(Source: Institute for National Strategic Studies)

None of Japan’s current investments in India’s northeast or the island chain have been made for security purpose, but the very fact that India has allowed Japan to have a presence in these regions opens up space for future potential. Satoru Nagao, a Japanese security expert, also suggested that developing connectivity and infrastructure projects in the Bay of Bengal region could help “translate the partnership into concrete security cooperation”.³⁰

Economic cooperation between Japan and India will soon expand beyond the geographical borders of each country. In May 2017, Japan and India jointly launched the Asia Africa Growth Corridor to promote development, connectivity and cooperation between Africa and Asia. The two countries are also expected to jointly tackle Sri Lanka’s Trincomalee port, the Dawei port along the Thai-Myanmar border, and Iran’s Chabahar port.³¹ These projects so far have been slow in starting.

Last but not least, another economic cooperation milestone between Japan and India is the signing of the Agreement for Cooperation in the Peaceful Uses of Nuclear Energy in 2016. It is the first time that Japan signed such a pact with a country that is not a signatory of the Nuclear Non-Proliferation Treaty. Prime Minister Modi hailed it as “a shining symbol of a new level of mutual confidence and strategic partnership in the cause of peaceful and secure world”.³² While reflecting the trust between Japan and India, this deal also benefits Japanese nuclear companies by opening up a brand new market with huge energy needs. Until now, the prospect of domestic sales has been diminished by the Fukushima nuclear plant accident in 2011.

Emerging Defense Ties

Cooperation between Japan and India on the security front began in 2008 with the signing of a joint declaration. Japan is only the third country that India maintains security ties, after the US and Australia. Cooperation occurs in such areas as information exchange, policy coordination, coast guard exchanges, monitoring safety of transport, and disaster management. In addition to meetings of defense ministers, high level military-to-military talks of the services, including navy officers, have been regularized.

The two countries have also engaged in regular joint exercises between their coast guards, and between Japanese maritime Self-Defense Force (SDF) and the Indian Navy. Japan and India conducted their first bilateral navy exercises – Japan-India Maritime Exercise (JIMEX) – in 2012. Japan also started to participate in the India-U.S. Malabar exercise in 2007 and became a permanent member in 2015. Japan’s participation in Malabar has often been perceived as a major progress achieved under the partnership.

In addition, Japan and India also demonstrated their commitment to defense cooperation through personnel appointments in their respective capitals. In 2015, two more defense attachés – one from the air force and one from the coast guard – were added to the Japanese Embassy in New Delhi, making India the fifth country in the world to which Japan sends its attachés from the three services and the Coast Guard. This, according to former Japanese Ambassador to India Takeshi Yagi, highlighted “how much importance Japan attaches to the defense and maritime cooperation between Japan and India.”³³ Meanwhile, India also stations a naval officer at the Indian Embassy in Tokyo, underlining the importance of maritime cooperation.³⁴

Security cooperation between Japan and India received a major push in 2015 when two important agreements were signed, namely the Agreement concerning the Transfer of the Defense Equipment and Technology and the Agreement concerning Security Measures for the Protection of Classified Military Information. The former opened the door for potential sales of Japanese defense equipment to India, while the latter could facilitate more robust intelligence

exchange between the Indian Armed Forces and Japan's SDF. These two agreements, according to the joint statement by Japan and India, "further strengthen the foundation of deep strategic ties."³⁵

The potential deals in the pipeline under the agreement on defense equipment and technology transfer are widely perceived as promising fields for monitoring. Under this agreement, Japan is now trying to sell India its ShinMaywa US-2, a large short-takeoff-and-landing (STOL) amphibious aircraft designed for air-sea rescue work. Japan first offered the sale in 2013, but negotiations bogged down. This deal, if successfully concluded, would mark another significant progress for Japan-India security cooperation.

The sale would become Japan's first military equipment deal since the 2014 lift of Japan's 50-year ban on defense exports. Japan, as a newcomer to military exports, has a defense industry that has been struggling to stand on its feet. It failed to win the bid to build Australia's new generation of conventional hunter-killer submarines in 2016, so this deal with India would be the first step for the domestic defense industry to expand overseas.³⁶

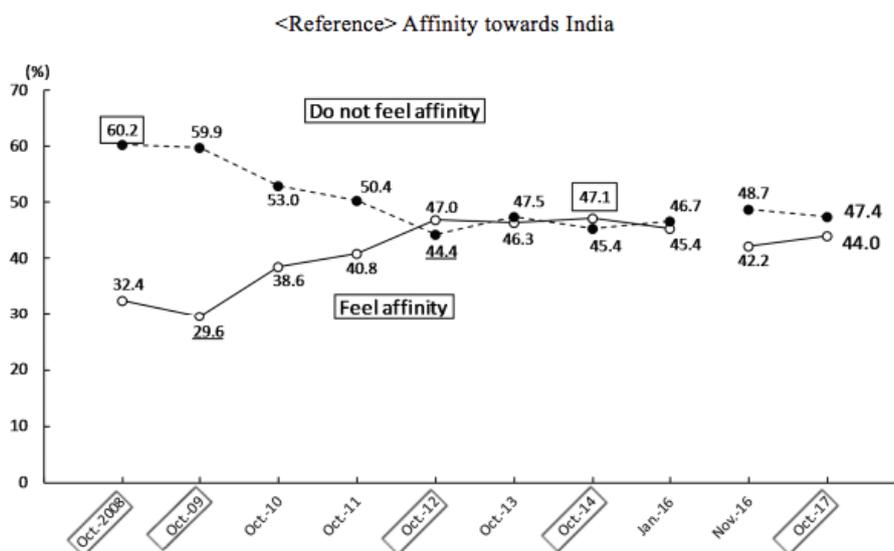
India is the world's largest importer of weapons, with 68% coming from Russia (2012-2016). This is followed by 14% from the US and 7.2% from Israel.³⁷ Japan's sale of the US-2 could be an opportunity to tap into India's huge weapons import market. The latest update on this deal is a recently signed (April 2018) MOU between India's Mahindra Defense and Japan's ShinMaywa Industries on setting up maintenance, repairs, and overhaul (MRO) services in India, as well as undertaking manufacturing and assembling of structural parts and components for the US-2. This might indicate that both governments are still working hard to push through the transaction.

The Missing Link on People-to-People Exchange

Although relations between Japan and India at the official level are warm and friendly, people-to-people exchanges have yet to take off. Bilateral visitor flows remain low compared to other major Asian countries, and the Japanese public's affinity level toward India has stalled around 47% (since 2012).³⁸ While both governments have started to install programs and mechanisms to promote grassroots interaction and cooperation, increased civil exchange activities and the subsequent positive impact on overall bilateral relations will take time to materialize. In the most recent Abe-Modi summit meeting in Gujarat in September 2017, in which 15 agreements were signed, both leaders agreed to strengthen people-to-people ties by promoting more Japanese language teaching in India, two-way tourism, and skills development. The past year (2017) was designated as the Year of Japan-India Friendly Exchanges to further enhance people-to-people exchanges between Japan and India.

At the Gujarat meeting in September 2017, Abe announced that Japan plans to launch Japanese language certificate courses at 100 higher educational institutions in India and to train 1,000 Japanese teachers over the next five years. The promotion of Japanese among Indian students and professionals will help foster closer industrial cooperation especially given that many of the manuals at Japanese manufacturing companies are still written in Japanese.³⁹ According to a survey by the Japan Foundation on Japanese language education overseas, India ranks 12th globally in terms of the number of people learning Japanese in 2015. However, despite the absolute large size of the learner population, India is not even among the top 60 countries and regions when ranked by learners per 100,000 population. Only two out of 100,000 Indians are learning Japanese as compared to 49 in Sri Lanka and 36 in Maldives. The number of institutions teaching Japanese also dropped by 9.8% from 2012 to 2015.⁴⁰ The survey observed that though Japanese learners in India have increased in secondary education in recent years due to the inclusion of Japanese language to exam subjects in 2006, overall growth of learner population has been fairly flat.

Figure 5: Japanese Public's Affinity Towards India



(Source: Ministry of Foreign Affairs)

Both governments have also carried out measures to promote travel and tourism between the two countries. The number of tourists from India to Japan was only 49,714 in 2016, falling far behind China or ASEAN countries. This is largely due to the long travel distance between Japan and India, the relatively low per capita income level of India, inconvenience of staying in Japan (lack of vegetarian restaurants and low English penetration) and visa requirements.⁴¹ To promote Indian visitors to Japan, the Japanese government set up a local

office of Japan National Tourism Organization (JNTO) in Delhi in March 2017, and in 2018 the government relaxed the visa requirements for Indians including the simplification of visa application documents, expansion of eligible applicants for multiple entries visa and the simplification of visa application procedure for single entry visa for Indian students. For its part, India has also granted Japanese visitors Visa-on-Arrival treatment since 2016. Japan is now the only country that receives this treatment at this stage. Whether these measures will boost the tourist flows remains to be seen.

In terms of professional training exchanges, Japan has promised to train 30,000 persons over next 10 years with Japanese style manufacturing skills and practices through the Japan-India Institutes for Manufacturing (JIM) set up in India and the Japanese Endowed Courses (JEC) in engineering colleges designated by Japanese companies. As of September 2017, four JIMs have been set up in India by Maruti Suzuki, Toyota Kirloskar Motor, Daikin Air Conditioning and India Yamaha Motor.⁴² Japan is also using the Project Indian Institutes of Technology (PIITs) and the Technical Intern Training Program (TITP) to invite Indian students and working population to receive training and work in Japan, though not on a long-term permanent basis.

As of June 2017, there were 30,048 Indians residing in Japan. Over one third of this population is living in Japan as engineers, specialists in humanities and international services, intra-company transferees and skilled labor. India is in general one of the top 10 countries with the largest populations in these categories. However, the gap appears to be in the areas of students and technical interns. The number of Indian students studying in Japan stood at 1,298 in mid-2017, constituting less than 0.5% of the total foreign student population in Japan. There were only 46 technical interns from India in Japan as compared to 79,959 from China and 104,802 from Vietnam.⁴³ Language and cultural differences seem to be the major barriers for Indians to study and work in Japan.⁴⁴

Despite all these efforts on both sides to promote people-to-people exchange, it should be noted that Japan's strict immigration policy remains a major obstacle for Japan and India's civil exchange to reach the level of that of India and the US. Although Japan rolled out a relaxed "green card" policy that would allow foreigners to obtain permanent residency after staying in Japan for only one year, the new policy would only apply to professionals deemed as "highly skilled". According to statistics from the Ministry of Justice, the number of Indian residents in Japan under this category was merely 263 as of June 2017, less than 1% of the total Indian population in Japan. While numerous Indian media have hailed the move as another career venue for Indian talents, how effective this policy will be in attracting Indian professionals to Japan remains unclear. Indian resident statistics going forward will be worth monitoring.

Constraints in Materializing and Deepening the Partnership

Under Prime Minister Abe, the Japan-India partnership has built momentum, thanks largely to ambitious projects promised on numerous fronts. But it is too soon to tell whether the envisioned potential between the two countries will be realized. In the near-term, challenges with on-the-ground implementation of infrastructure projects and unfamiliarity with the local business culture make it hard to secure a quick delivery of desired outcomes. Over the long-term, the partnership will still face the constraints of priority mismatches, divergence in perceptions of regional relations, and the looming presences of China and the U.S.

Delays in On-The-Ground Implementation

Ambitious as the various projects are, a rough review of the current progress under each project will yield a less promising picture. Given that most of Japan's investments are dedicated to infrastructure construction and upgrades, land acquisition has become a major obstacle to the timely commencement of projects. In fact, Japanese Ambassador to India Kenji Hiramatsu acknowledged in an interview with *The Hindu* that "land acquisition is the biggest problem."⁴⁵ Various media reports from India have documented the protests and legal difficulties of obtaining land for the development of the DMIC. The first phase of the DMIC, which was originally planned to be finished by 2012, is now delayed to 2019.⁴⁶

Red tape and India's complicated bureaucracy is another factor bogging down project implementation. Japan's offer to construct a power plant in the Andaman and Nicobar Islands was delayed due to excessive paperwork in India. Japanese officials have yet to hear back on proposals to help build ports and airstrips on the islands. Kenko Sone, the economics attaché at the Japanese Embassy in New Delhi, admitted that "at the actual project level, we're having difficulty figuring out the decision-making process" in the Indian government.⁴⁷ Things are moving slowly on the ground in India while Indian politics and funding issues often mean that the projects can only move forward in baby steps.⁴⁸

In addition, officials from the Ministry of Foreign Affairs also revealed that there are frustrations from Japanese businesses operating in India, and requests for India authorities to remove excessive red tape and improve the investment climate.⁴⁹ This brings forward another issue with India's policy complexity between the central and state levels. Even though the central government might have reached an agreement with Japan on improving business environment, the level of commitment might not be equally transmitted down to the state level, making actual business operations even more challenging.

Business Cultural Discrepancies

Despite the willingness to cooperate, Japan and India face many differences in working

culture when it comes to on-the-ground implementation. Japan is highly organized and imposes strict discipline onto business operations, while India as an emerging economy is much more dynamic and volatile. Japan's pursuit of perfection presents itself in issues ranging from as trivial as arriving to work on time to degree of delicacy in production. One recent case of a Japanese business failing to fix quality problems at its Indian factory is Daiichi Sankyo. The company was not able to change working habits at Ranbaxy Laboratories, its Indian factory. The plant's products were eventually banned by US Food and Drug Administration due to their poor quality. Even Suzuki Motors, often seen as the most successful Japanese business operating in India, is still having difficulties in running smooth operations at its Indian factory.⁵⁰

Japanese business also prefers thorough investigation and research, often taking a considerable amount of time before reaching a business decision. In contrast, India is all about immediate decision and quick action.⁵¹ Moreover, in Japanese culture, silence is gold, but in India people tend to think out loud.⁵² While some of these issues might seem minor, the fact that business culture is often ingrained and hard to modify could generate sustained conflicts that weaken the foundation of long-term business cooperation.

Priority Mismatch

Although Japan and India have a wide range of issues of common concerns, their different developmental stages and geographical regions they are in imply that there inevitably will be disparities in policy priorities. One prominent area is the focus on economic development versus regional security. While security is also a crucial aspect in India's policy making, its current utmost important goal is to grow the economy. Therefore, India will naturally look to further exploit the economic gains from the Japan-India partnership. This emphasis on economic growth also means that despite territorial conflicts, India is hesitant to antagonize its largest trading partner China, which translates to a more reserved and cautious attitude when it comes to initiatives with Japan that could have an explicit counter China element.

Another priority mismatch relates to geopolitics. While countries such as Seychelles and Maldives matter to India's foreign policy, given India's geographical location and the local Indian connection ties, these regions are not at the core of Japan's foreign policy focus. It is therefore challenging for Japan to justify any offering of help and support to India on these issues, despite India's willingness to seek Japan's cooperation.

Divergence in Perception of Regional Relations

Japan and India hold vastly different perspectives on foreign policy making and their relations with major players in the region. India has always viewed itself as an independent country capable of making its own decisions and creating its own influence. Its tradition of non-alignment and independent foreign policy dictate that India prefers not to be entangled in

multilateral cooperation frameworks that could impose constraints on India's ability to remain autonomous. In contrast, since the end of World War II, Japan has always perceived its foreign policy making in a much broader context, usually with US involvement, given the bilateral security alliance. This divergence in perception means that despite India's shared interests and concerns with Japan, the country might find it hard to agree to every proposal from Japan on how to secure those interests. This issue has already manifested itself in the nonchalance of India in participating in the Quad (Quadrilateral Security Conference) actively promoted by Japan. It includes Japan, India, Australia, and the US. India also does not necessarily perceive greater U.S.-Japan-India strategic ties as the sure means to mitigate the threat from China.⁵³

Influence from China and the U.S.

As the two largest players in the Indo-Pacific region, China and the US each influence the Japan-India partnership in their own ways, with the former mainly through India and the latter through the US-Japan security alliance. On multiple occasions, India has exhibited extreme caution in handling aspects of its relations with Japan so as not to antagonize China. As early as 2008, then Indian Prime Minister Manmohan Singh explicitly emphasized that "economic partnership and security cooperation between India and Japan are not at the cost of any third country, least of all China."⁵⁴ Japanese scholars recall times when India remained hesitant to agree to Japan's proposal potentially due to concerns on China. For example, India was reluctant to upgrade the existing Two-Plus-Two Dialogue between deputy ministers for foreign and defense to ministerial level.⁵⁵ India also appeared sensitive toward China related issues while negotiating with Japan the joint declaration on security cooperation.⁵⁶ This layer of subtlety might become an obstacle for the partnership to cultivate truly in-depth strategic engagement since both countries will need to be very selective in the cooperation activities they conduct.

Meanwhile, the U.S. still exerts significant influence on Japan's ability to act on its own. Historically, the US has played a key role in shaping bilateral ties between Japan and India. During the Cold War period, Japan and India had limited contact given Japan's alliance with the US and India's close ties with the Soviet Union. It was only after President Bill Clinton's visit to India that Japan-India relationship started to improve, rising from a temporary low point caused by India's 1998 nuclear test.

Despite the recent uncertainties generated by the unpredictable policies of the Trump administration as they impact of security and trade, Japan is well aware that the US, as its sole ally, remains an inseparable part of its foreign policy decision-making matrix. The most recent reflection of this influence can be seen in Japan's hesitation to invest in Iran's Chabahar port project. Japan initially planned to participate in the port together with India when, in May 2017, Ambassador to India Kenji Hiramatsu revealed that Japan had already expressed its interest in the project. Yet, little has been heard about it afterwards. The project was not even mentioned in

the joint statement after the Japan-India summit in September 2017. According to media reports, Japan became cautious due to new sanctions imposed by the US on Iran in July 2017.⁵⁷

Sustainability of the Japan-India Partnership

Much of the current rapport between India and Japan can be attributed to the unusual level of chemistry between Abe and Modi. Since Abe came to power in 2013, he has met Modi 11 times, more than the total number of Japan-India summits from 2005 to 2013. Modi has always admired Japan and viewed Japan as a model for India's economic and social development, while Abe's affinity with India stems from his grandfather Nobusuke Kishi, who was the first prime minister of Japan to visit India. Abe recalled his grandfather's engagement with India in one of his most important speeches that set the tone of Japan-India bilateral cooperation – Confluence of the Two Seas. However, with Abe and others in his government now mired in multiple scandals, it is worth examining how the Japan-India partnership will evolve if Abe should happen to lose in the upcoming party leadership election in the fall of 2018.

Most observers of Japan-India affairs seem to favor the view that Abe's leadership must be credited for the partnership having gained momentum over the past few years.⁵⁸ Both countries' shared long-term interests in foreign policy, national security and economic development have set a firm foundation for the partnership to further develop. The multiple dialogue mechanisms formed under the partnership also act as an institutionalized system to keep the conversation going. These factors, in particular the convergence of interests, imply that Japan's political attitude toward India is unlikely to experience a significant deviation even if Abe loses power. In fact, past Japanese prime ministers, regardless of their political affiliation, have all shown favorable attitude toward forging closer ties with India. Annual bilateral summits between the two countries have not been interrupted despite the change of six prime ministers in Japan during 2007 to 2012. Moreover, the two countries' relationship is not impeded by memories of World War II, which often function as a flash point for Japan in its relations with other Asia countries like China and South Korea. Therefore, sharp turns in the Japan-India partnership are unlikely in the near future.

Though challenges of on-the-ground implementation exist, there is still a strong willingness both at the government and the business level to cooperate with India. An annual survey by the JBIC on Japanese businesses shows that India has ranked at the top for eight consecutive years as the most promising countries over the long-term. In a survey, 73.3% of the Japanese businesses responding expressed intention to strengthen or expand their operations in India in the next three years. Survey respondents overwhelmingly indicated future growth potential of the local market as the top reason for the country's bright prospect. In the view of expert observers,⁵⁹ as long as India exhibits great potential for market and growth, investment

interest from Japan will sustain, though the timeline from concept to completion of projects will likely be slow.

Finally, in evaluating the future prospect of the Japan-India partnership, it is also worth examining past cases of success. The ability of Japanese players to establish themselves in India and to influence the Indian way of operations offers hope for future success. One prominent example is Suzuki Motors. Suzuki entered the Indian market as early as in the 1980s and the joint venture it built in India Maruti Suzuki is now in control of around 50% of the country's passenger car market.⁶⁰ Suzuki was successful in shaping the work culture at the joint venture as then Prime Minister Indira Gandhi praised Suzuki as having "transplanted Japan's work culture into India."⁶¹

Another case in point is the Delhi Metro. Unlike any transportation means in India, the Delhi Metro presents visitors with clean platforms and timely service. An evaluation report from JICA regarded the Delhi Metro as a benchmark project due to timely completion and well-managed cost. It also changes the lifestyle of Delhi and promotes women empowerment.⁶² These cases of success highlight that it is not entirely impossible for Japanese business and investment to actively shape and change the local culture, therefore achieving desirable results. Though the process might take time, as many scholars expressed, there is still huge unrealized potential between Japan and India.

Conclusion

The relationship between Japan and India has been elevated to a historical high with the unveiling of the Special, Strategic and Global Partnership in 2014. The increasing convergence of Japan and India's national interests on forging closer ties with Asian countries, in particular Southeast Asia, reinforcing their own security and influence within Asia amid China's rise and pursuing continued economic prosperity has positioned the two countries well on their cooperation agenda. These factors, focusing on the long-term development trajectory of both countries, set the tone for sustained conversation between Japan and India regardless of the vagaries of domestic politics. The two countries have also institutionalized dialogue and cooperation mechanisms that facilitate and monitor the progress made under the grand partnership.

Ambitious projects and unprecedented initiatives have been put on the table, ranging from huge infrastructure investments to defense equipment procurement. Many of these projects, while commercial in nature, carry a strategic element that either relates to geopolitical consideration or the long-term economic growth opportunity that is core to a country's national interests. It is through these joint commitments that the bilateral partnership manifests its special,

strategic and global features.

However, much of the rhetoric in the leadership talks has yet to bear concrete results. Project implementation has been delayed due to issues on the ground including land acquisitions, red tape and bureaucratic misalignments. Cultural mismatch and lack of reliable infrastructure also create obstacles to the smooth operations of Japanese business in India. People-to-people exchanges have yet to flourish given the economic disparity between the two countries and the fairly recent implementation of supportive policies. There are admittedly huge potentials under the partnership based on shared interests and the complementarity of the two economies, but these potentials are largely unfulfilled as of now.

While it is unlikely that the bilateral relationship will experience a sharp turn, the long-term prospect of the partnership will still be influenced by major powers in the Asia Pacific region including China and the US. How India and Japan react to the externalities created by these powers will become an important factor in the strategic equation. Meanwhile, policy priority mismatch and the perception gap of regional relations will also make the cooperation journey uneven from time to time. Whether the Japan-India partnership can truly deliver the promised outcomes is undoubtedly one area that is worth monitoring in the Indo-Pacific region going forward.

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- ⁸ See Nadkarni, Vidya and Tran Viet Thai.
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Students posing with their
professors in front of the
International House



Students dining at the
Gompachi restaurant



Students dining at a
local restaurant in
Tokyo



Students learning traditional
tea preparation methods at
Urasenkei Tea Ceremony
Institute



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1619 Massachusetts Avenue, NW
Washington, D.C. 20036
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