

# TASK FORCE

The Donald C. Hellmann Task Force Program



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Navigating Great Power Competition:  
Maximizing Japan's Position Between the  
U.S. and China

**2021**



# Navigating Great Power Competition: Maximizing Japan's Position Between the U.S. and China

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## Acronyms

**ADB** - Asian Development Bank  
**AI** - Artificial Intelligence  
**AIIB** - Asia Infrastructure Investment Bank  
**APEC** - Asia-Pacific Economic Cooperation  
**ASEAN** - Association of Southeast Asian Nations  
**ASEAN + 3** - Association of Southeast Asian Nations Plus Three  
**BDN** - Blue Dot Network  
**BIS** – United States Bureau of Industry and Security  
**BRI** - Belt and Road Initiative  
**CCP** - Chinese Communist Party  
**CDB** - China Development Bank  
**CFIUS** - Committee on Foreign Investment in the United States  
**CPTPP** - Comprehensive and Progressive Agreement for Trans-Pacific Partnership  
**DPRK** - Democratic People’s Republic of Korea  
**ECS** - East China Sea  
**EPA** – United States Environmental Protection Agency  
**ETC** - Eastern Theater Command  
**EV** - Electric Vehicle  
**FBI** – United States Federal Bureau of Investigation  
**FDI** - Foreign Direct Investment  
**FIL** - Foreign Investment Law  
**FMCT** - Fissile Material Cut-Off Treaty  
**FOIP** - Free and Open Indo-Pacific Strategy  
**FONOPs** - Freedom of Navigation Operations  
**FYP** - Five-Year Plan  
**GDP** - Gross Domestic Product  
**HNS** - Host Nation Support  
**HTA** - Health Technology Assessment  
**ICBM** - Intercontinental Ballistic Missile  
**ICT** - Internet Communication Technology  
**IP** - Intellectual Property  
**JASDF** - Japan Air Self Defense Force  
**JBIC** - Japan Bank for International Cooperation  
**JETRO** - Japan External Trade Organization  
**JGSDF** - Japan Ground Self-Defense Force  
**JSDF** - Japan Self-Defense Forces  
**MIS** – United Kingdom Military Intelligence Section 5  
**MOFA** - Ministry of Foreign Affairs of Japan  
**MOU** - Memorandum of Understanding  
**NISC** - National Center of Incident Readiness and Strategy for Cybersecurity  
**NSC** - National Security Council  
**PAFMM** - People’s Armed Forces Maritime Militia

**PLA** - People's Liberation Army  
**PLAN** - People's Liberation Army Navy  
**PQI** - Partnership for Quality Infrastructure  
**PRC** - People's Republic of China  
**R&D** - Research and Development  
**RCEP** - Regional Comprehensive Economic Partnership  
**RIMPAC** - Rim of the Pacific Exercise  
**RMB** - Chinese Renminbi  
**ROK** - Republic of Korea  
**SCS** - South China Sea  
**SLOC** - Sea Lines of Communication  
**SMA** - Special Measurements Agreement  
**SOEs** - State-Owned Enterprises  
**SSN** - Nuclear-powered Attack Submarine  
**TPP** - Trans-Pacific Partnership  
**TRA** - Taiwan Relations Act  
**UEL** - Unreliable Entity List  
**US** - United States  
**USJTA** - United States-Japan Trade Agreement  
**WTO** - World Trade Organization

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## Executive Summary

In the 21st-century world order, Japan finds itself trapped between two major powers, the United States and China. The United States is Japan's most important ally, providing crucial security for Japan while sharing a mutually beneficial economic relationship. China likewise represents a key economic partner and potential collaborator for Japan. However, China's increasing influence in the Indo-Pacific region presents several security and economic concerns for Japan. Furthermore, the United States' increasingly tumultuous relationship with China puts Japan in a precarious position where it must balance appeasing its long-term ally while also accommodating to China's rising presence in the region. The decline of the United States and the rise of China have thus forced Japan to rethink and reposition itself between the two powers. Japan must address how to best serve its national interests while adjusting to the shifting global order.

This Task Force report aims to explore key issue areas in Japan's relationship with the United States and China by accomplishing the following objectives:

- Describing the changing global power dynamics instigated by the rise of China
- Evaluating potential security concerns for Japan created by China's increasing presence in the region
- Examining possible economic opportunities and challenges for Japan
- Assessing possibilities for multilateral collaboration
- Comparing potential strategies for Japan moving forward to more effectively balance relations with both the U.S. and China

The report offers concrete recommendations which would allow Japan to best maximize its national interests in its relations with both the U.S. and China. The recommendations are consolidated into three main areas of focus:

**I) Defense and Security**

**II) Trade and Investment**

**III) Diplomacy and Multilateral Cooperation.**

Ultimately, this report suggests there is a middle way for Japan to balance its relationship between both the United States and China.

## Chapter 1:

# Major Challenges Facing Japan in its Relationship with the U.S. and China

Over the past decade, the rise of China along with the relative decline of the U.S has created instability in the U.S.-led liberal international order. The U.S. has had a lot of leverage as the hegemon in this international order, but it is now under pressure in terms of whether it can maintain its hegemonic power. Japan likewise faces challenges navigating the uncertain time of a major power shift. Having China as its largest trading partner and the U.S. as its most important ally, Japan finds itself in a precarious position and is thus forced to rethink and balance its relationship with the two global powers. The U.S., now under President Biden, is committed to strengthening the Japan-U.S. alliance and defending Japan as China expands its influence in Asia.<sup>1</sup> Now that China has become the economic and military leader in Asia, Japan has to face a variety of issues while defending its economic interests as well as its security. Therefore, Japan must seek a viable path towards regional stability and maximize its national interests in the time of China's rise.

The Western liberal order, which underscores multilateralism, democratic values, free and open economy, and security cooperation, was set up after World War II and spread widely after the end of the Cold War.<sup>2</sup> China and many other late-developing countries were integrated into this liberal world order. China's participation in multilateral trade agreements and institutions such as the World Trade Organization (WTO) was one of the major factors that helped accelerate China's economic growth, resulting in the replacement of Japan as the second-largest world economy in 2010. However, over the past decade, this liberal order has been weakened by rising economic insecurity, along with major domestic issues such as rising inequality, political polarization, and economic stagnation, which contributed to the rise of

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<sup>1</sup> Dou, Eva, and Simon Denyer. "Biden Vows to Defend U.S. Allies as China Asserts Power in Asia." *The Washington Post*. WP Company, November 12, 2020. [https://www.washingtonpost.com/world/asia\\_pacific/biden-china-japan-korea-allies/2020/11/12/6cf6e212-24af11eb-9c4a-0dc6242c4814\\_story.html](https://www.washingtonpost.com/world/asia_pacific/biden-china-japan-korea-allies/2020/11/12/6cf6e212-24af11eb-9c4a-0dc6242c4814_story.html).

<sup>2</sup> Ikenberry, G. John. "The End of Liberal International Order?" *OUP Academic*. Oxford University Press, January 1, 2018. <https://academic.oup.com/ia/article/94/1/7/4762691>.

nationalism and populism across the Western liberal world.<sup>3</sup> These trends undermined multilateral cooperation among countries, further exposing the weakness of the liberal democratic world order.<sup>4</sup>

Furthermore, the 2008 Global Financial Crisis caused the U.S. economic model to lose a lot of its credibility. This became a concern for Japan, whose economy and security are deeply integrated into and dependent upon this U.S.-led model. While Japan and the West stumbled during the financial crisis, China continued to rise and prove the resilience of its economy. More recently, the 2020 coronavirus pandemic has led the global economy to plunge into the worst recession since the end of World War II.<sup>5</sup> Although the rest of the world, including Japan and the U.S., saw negative gross domestic product (GDP) growth, China bounced back quickly and became the only major global economy that recorded growth in 2020.<sup>6</sup> This pattern thus implies that China's resilience to these global economic crises has upheld its status as a rising power, motivating China to assert more aggressive policy to advance its influence across the globe. Moreover, China will likely remain an authoritarian regime despite the West's past hopes that it would go through a democratic transition and become a key partner of the liberal order. Therefore, the rise of China with a unique mixed economy, in which the authoritarian Chinese Communist Party (CCP) plays a pivotal role, is creating a new reality Japan cannot overlook.

China's assertive behavior in Asia has created tension between China and Japan. Japan's quest for leadership in Asia has been met with many challenges, ranging from Japan's stagnant economy to security and territorial issues. China's President Xi Jinping launched strategic initiatives such as the Belt and Road Initiative (BRI) and new institutions such as the Asian Infrastructure Investment Bank (AIIB) that made Japanese leaders concerned about China's

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<sup>3</sup> Ibid.

<sup>4</sup> Best, Jacqueline. "How the 2008 Financial Crisis Helped Fuel Today's Right-Wing Populism." *The Conversation*, October 1, 2018. <https://theconversation.com/how-the-2008-financial-crisis-helped-fuel-todays-right-wing-populism-103979>.

<sup>5</sup> Crutsinger, Martin. "World Bank Sees Subdued Recovery in 2021 and Plenty of Risk." *AP NEWS*. Associated Press, January 5, 2021. <https://apnews.com/article/pandemics-economic-outlook-coronavirus-pandemic-financial-markets-financial-crisis-4805e346994fd74c05105b5f757179b4>.

<sup>6</sup> Sukri, Azhar. "Club of One: China's Economy Grew Faster than Expected in 2020." *Business and Economy News Al Jazeera*. *Al Jazeera*, January 18, 2021. <https://www.aljazeera.com/economy/2021/1/18/chinas-economy-grew-faster-than-expected-in-2020>.

increasing influence in the rapidly changing regional order.<sup>7</sup> Through the BRI, China aims to expand its economic and political leverage beyond Asia through massive investment in energy and transportation infrastructure development that extends to Africa and Europe, creating a new China-led international economic network. Also, China's aggressive effort to control the South China Sea (SCS) has become a significant issue as it potentially disrupts the free flow of trade and affects many countries beyond the Indo-Pacific region. Japan relies greatly on shipping lanes in the SCS for its maritime trade. Moreover, territorial issues over the Senkaku Islands in the East China Sea (ECS) have sparked several diplomatic incidents over the past decade. In response to these threats that China poses, Japan adopted the Free and Open Indo-Pacific (FOIP) strategy.<sup>8</sup> It is a joint effort by Japan and the U.S. to maintain open markets, open shipping lanes, and peace in the region.

While Japan and the U.S. seek to emphasize strategic security cooperation to counter China's growing influence in the region, the importance of China as a trading partner for Japan is evident. China, with the second-largest GDP in the world, together with its large population, offers an attractive market for Japanese businesses and investments. While Japan remains China's second-largest trading partner, China's rapid recovery from the pandemic has resulted in the replacement of the U.S. as the biggest buyer of Japanese exports in 2020. However, it also has implications for Japan's economic security. Japanese leaders have raised concerns about the risk of Japan's increasing reliance on its exports to China.<sup>9</sup> The 2020 pandemic, as well as unstable U.S.-China relations, highlights the increasing risks of Japanese firms' excessive reliance on China for their supply chains.<sup>10</sup> Nonetheless, the current state of Japan-China trade suggests growing interdependence in the bilateral economic relationship, which is closely related to the benefits of the economic growth of both countries. Consequently, though Japan's efforts to navigate its relationship with China while enacting security policy to counter China's rising influence in the Indo-Pacific is a challenge, the contemporary Japan-China economic relationship

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<sup>7</sup> Oba, Mie. "Japan's Quest for an Autonomous role in East Asian Regionalism." *In Japan's Foreign Policy in the Twenty-First Century: Continuity and Change*, edited by Lam Pend Er and Purnendra Jain, 247-263. Maryland: Lanham, 2020, 255.

<sup>8</sup> *Ibid.*, 255.

<sup>9</sup> Nikkei Asia. "China Passes US as Top Japanese Export Buyer, Topping 20%." *Nikkei Asia*, January 22, 2021.

<https://asia-nikkei-com.offcampus.lib.washington.edu/Economy/Trade/China-passes-US-as-top-Japanese-export-buyer-topping-20>.

<sup>10</sup> Dharish, David. "Japan's Experience in Reducing Its Supply Chain Insecurity." *Asia Power Watch*, December 12, 2020. <https://asiapowerwatch.com/japans-experience-in-reducing-its-supply-chain-insecurity/>.

underscores the complementarity of the two economies, presenting opportunities to strengthen their bilateral relations further.

Another important challenge for Japan is China's continuous efforts to advance its mercantilist policies that created tensions between China and democratic market-based countries. China's restricted market access, subsidized state-owned enterprises (SOEs), and Intellectual Property (IP) theft are some of the areas of concern Japan and the U.S. share.<sup>11</sup> It has been clear that China's unfair trade practices against the rules-based international system are now being used to advance its dominance in the global technology and innovation sphere. For example, China's rise as a tech giant has recently created friction between China and the U.S. over Huawei's 5G technology as well as cyber theft. While Japan also faces growing national security risks due to the lack of cyber defense systems to counter China's cyberattacks, widespread distrust of China's technology provides some opportunities for Japanese industries in areas such as information technology and telecom equipment to expand their market.

Furthermore, Japan's options for economic engagement with China are not limited to bilateral trade and investment. It can also collaborate through regional multilateral institutions and projects which include, but are not limited to, the BRI, AIIB, and the Regional Comprehensive Economic Partnership (RCEP). Although these new institutions led by China counter the Washington Consensus in terms of financing development and they have generated questions over their effectiveness in helping developing countries, development cooperation with China in the form of investment is an optimal option for Japan to revitalize its economy.<sup>12</sup> Japan's engagement with China in the multilateral context could therefore bring about mutually beneficial outcomes for Japan-China relations, both in the short and long term.

The U.S. and Japan have had quite a stable relationship for decades, mutually benefitting as security allies and economic partners.<sup>13</sup> The rise of China is creating worrisome situations in the Indo-Pacific region, which allows Japan and the U.S. to clarify the interests and values of its alliance and maintain regional stability and prosperity through strategies such as the Free and

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<sup>11</sup> Schoff, James L, and Asei Ito. "Avoiding Friendly Fire Amid Economic Tensions With China." Carnegie Endowment for International Peace, October 10, 2019.

<https://carnegieendowment.org/2019/10/10/avoiding-friendly-fire-amid-economic-tensions-with-china-pub-79999>.

<sup>12</sup> Jiang, Yang. "Competitive partners in development financing: China and Japan expanding overseas infrastructure investment." *The Pacific Review* 32, no. 5 (2019): 778-808.

<sup>13</sup> Cooper, William H. "US-Japan economic relations: significance, prospects, and policy options." Library of Congress, *Congressional Research Service*, 2014.

Open Indo-Pacific (FOIP) and the Quadrilateral Security Dialogue (the Quad).<sup>14</sup> The heavy presence of the U.S. military in the region has been playing a significant role in upholding the liberal international order, but the two countries will need to face China's growing influence and militaristic threat in the SCS, ECS, and Taiwan. Furthermore, Japan faces an imminent North Korean missile threat. While the U.S. floated a strategic idea of forming a trilateral alliance with the Republic of Korea (ROK) and Japan to unite against these common threats, wartime history complicates the possibility of trilateral cooperation.<sup>15</sup> Moreover, the responsibility of the U.S. military to provide security in every region across the globe has created additional burdens on the capabilities and effectiveness of the U.S. military and U.S. finances. Although the U.S. remains the world's largest military and economic power, its effort to maintain the U.S.-led international order contributed to the relative decline of the U.S. as a global hegemonic power. The U.S. thus puts pressure on Japan to contribute more to the Japan-U.S. security alliance in terms of increasing Japan's defense capabilities and the share of hosting costs. Nonetheless, it is in Japan's interests to find viable ways to ensure the country's safety and security without angering or worrying China and other neighboring countries.

The U.S. and Japan's economies are becoming increasingly interdependent today, but at the same time, former President Trump's approach to the foreign policy including the withdrawal from the Trans-Pacific Partnership (TPP) negotiations in 2017 has generated questions over the U.S.'s commitment to counteract China's growing influence in the Indo-Pacific region.<sup>16</sup> Although the U.S. and Japan ultimately signed the U.S.-Japan Trade Agreement (USJTA) in 2019,<sup>17</sup> giving the U.S. greater advantage for agricultural exports hurt by the former President Trump's trade war with China, his "America First" approach nonetheless put China in a stronger position by creating a weaker U.S. hegemonic order in the region.

The U.S. under President Biden will likely approach foreign policy differently; however, tensions between China and the U.S. will continue to rise as President Biden plans to keep the

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<sup>14</sup> Bureau of East Asian and Pacific Affairs. "U.S. Relations With Japan." *U.S. Department of State*, January 21, 2020. <https://www.state.gov/u-s-relations-with-japan/>.

<sup>15</sup> Power, John. "US Wants Japan, South Korea to Tag Team China. History's in the Way." *South China Morning Post*, January 12, 2019. <https://www.scmp.com/week-asia/article/2181758/us-wants-japan-and-south-korea-tag-team-china-history-way>.

<sup>16</sup> Narine, Shaun. "US domestic politics and America's withdrawal from the trans-pacific partnership: implications for Southeast Asia." *Contemporary Southeast Asia* 40, no. 1 (2018): 50-76.

<sup>17</sup> The Office of the United States Trade Representative. "Fact Sheet on U.S.-Japan Trade Agreement." *United States Trade Representative*, September 2019. <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2019/september/fact-sheet-us-japan-trade-agreement>.

U.S. tough on China. Under Biden, the U.S. intends to pivot its approach to a more coordinated model, involving its allies to align with the U.S. on key issues including reinforcing U.S. hegemonic order in the Indo-Pacific region, responding to human rights issues in Xinjiang and Hong Kong, and winning the U.S.-China Technology War.<sup>18</sup> This implies Japan will be expected to align with the U.S. on controversial issues including sovereignty issues to counter China's increasing assertiveness, potentially putting Japan in an even tougher situation between the global powers. On the other hand, the U.S. is currently facing many challenges domestically, ranging from economic and health crises to the political divide, all of which contribute to generating uncertainty in the United States' commitment to foreign policy. Meanwhile, Japan could use other means of cooperation such as trade and investments to further strengthen Japan-U.S. relations to mitigate tensions. Despite some frictions, Japan-U.S. trade has been the foundation for Japan's economic growth. It is thus in Japan's interests to cooperate with the U.S. in important sectors such as auto and agricultural industries to maintain and reinforce a positive bilateral relationship with the U.S.

While China's rise continues to create instability in the liberal international order, there are opportunities for Japan to work with the two global powers. For example, as the international community continues to face global health and economic crises, as well as climate change, human rights, and nuclear non-proliferation issues, Japan, the U.S., and China can play an important role in addressing these global problems the world is facing now. Working together on such crucial problems is not only necessary but could help create stability in the changing international order. In addition, considering the current diplomatic climate with its neighboring countries, the significance of the Japanese leaders to make sincere and consistent efforts to address and face its wartime aggression also needs careful consideration. In the time of the United States' decline and China's rise, it is imperative that Japan's challenges and concerns are addressed so that Japan can best position itself in-between the global powers.

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<sup>18</sup> Akita, Hiroyuki. "Biden to Test Allies with More Coordinated Approach to China." *Nikkei Asia*, February 6, 2021. <https://asia-nikkei-com.offcampus.lib.washington.edu/Spotlight/Comment/Biden-to-test-allies-with-more-coordinated-approach-to-China>.

## Chapter 2:

# Japan's Security Policies with the United States

China, Japan's primary military threat, is on the rise. Conversely, the U.S., Japan's chief security provider, is in decline. To deter and counter China, contemporary Japanese strategy emphasizes the vital importance of the Japan-U.S. Security Alliance and the imperative to strengthen it. However, doubts concerning American commitment to the agreement loom large within the minds of Japanese leaders. Additionally, financial, legal, and political constraints inhibit the government from fully militarizing the Japan Self-Defense Forces (JSDF) in the short term. Consequently, there is some uncertainty within the Japanese government on how to maximize its security stance. The changing power dynamic between the U.S. and China has significant security implications for Japan.

### Japan's Security Concerns

The U.S. has relinquished some of its control over the international order, and its power and influence are in relative decline. Its debts have exceeded 100% of GDP in the last decade and have increased astronomically because of COVID-19. Likewise, the coronavirus has exacerbated already high individual and household debts throughout the nation. Between its security commitments around the globe and its ongoing military activity in the Middle East, the U.S. has spread itself very thin. It is beset by a myriad of domestic troubles that have worsened in recent years, particularly during the year 2020. Some American observers lament that the United States' credibility as a virtuous democracy has been tarnished; that the U.S. has "abdicated its leadership role in the world and lost its moral authority."<sup>19</sup> In light of the decline of American power and influence in the world—and the Indo-Pacific more specifically—some Japanese leaders worry about U.S. commitment reduction to their longstanding security agreement, and even the eventual abandonment of it. President Trump's indifference towards legitimate security threats,

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<sup>19</sup> Ben Rhodes, "The Democratic Renewal: What It Will Take to Fix US Foreign Policy," *Foreign Affairs*, August 11, 2020, <https://www.foreignaffairs.com/articles/united-states/2020-08-11/democratic-renewal>

and his open skepticism of the value of the Japan-U.S. Security Alliance only heightened Japanese anxiety.<sup>20</sup>

This anxiety is compounded by the rise of China. China is aggressively modernizing its military and is quickly closing the gap between the People's Liberation Army (PLA) and its western rivals.<sup>21</sup> China is boldly staking claims over Japanese territory, posing a real threat to Japanese national security. Chinese navy vessels encroaching on the Senkaku Islands have twice locked fire-control radar on Japanese crafts, once on a destroyer and once on a helicopter. To counter China's increasing incursions into Japanese airspace, the JSDF multiplied their jet scrambles from 96 takeoffs in 2010 to 842 in 2016. These scrambles fell to 162 during the first quarter of 2019, but that is still far beyond the 2010 total.<sup>22</sup> Kono Taro, Japan's former defense minister, has claimed that Chinese combat vessels began flying over the Sea of Japan in 2008 and that such flights have become more frequent since 2012.<sup>23</sup> Given the United States' decline and an increasingly severe security situation in East Asia, some Japanese leaders question if the U.S. is still willing and able to honor its defense commitments to Japan.

## Japan's Geostrategic Importance

Concerns over American commitment reduction are legitimate and well-founded, but the Japanese government does not need to excessively worry itself. If the benefits of the alliance truly were insufficient, the U.S. would have already withdrawn; with nothing to gain, it would not have formed a security alliance with Japan in the first place. During the Cold War, the U.S. had major interests in deterring the Soviet Union and containing the spread of communism in Asia. Today, the U.S. still has significant strategic interests in maintaining its military presence in Japan. Understanding these interests can help the Japanese government make informed security decisions going forward.

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<sup>20</sup> Emma Chanlett-Avery et al., "U.S.-Japan Relations (IF10199)," *The Congressional Research Service*, April 29, 2020, p. 2 <https://crsreports.congress.gov/product/pdf/IF/IF10199>

<sup>21</sup> Office of the Secretary of Defense, "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019," May 2, 2019, p. 40 [https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019\\_CHINA\\_MILITARY\\_POWER\\_REPORT.pdf](https://media.defense.gov/2019/May/02/2002127082/-1/-1/1/2019_CHINA_MILITARY_POWER_REPORT.pdf)

<sup>22</sup> Emma Chanlett-Avery et al., "The U.S.-Japan Alliance (RL33740)," *The Congressional Research Service*, June 13, 2019, p. 13 <https://crsreports.congress.gov/product/details?prodcode=RL33740>

<sup>23</sup> Taro Kono, "The 26<sup>th</sup> Annual US-Japan Security Seminar: The US-Japan Alliance at 60," *Center for Strategic & International Studies*, January 16, 2020, <https://www.csis.org/analysis/26th-annual-us-japan-security-seminar-us-japan-alliance-60>

Resource-poor Japan depends heavily on the waterways in the South China Sea (SCS) for precious fuel imports and commercial exports.<sup>24</sup> Like Japan, the U.S. needs to keep these sea lines of communication (SLOC) free and open to get their goods to and from China and Japan, two of their largest trade partners. Keeping these SLOCs clear also facilitates free physical access to the emerging markets in Southeast Asia, where the most promising economic opportunities are. This has been confirmed in a recently declassified national security memorandum originally written in 2017. This document—the *U.S. Strategic Framework for the Indo-Pacific*—maintains that “U.S. security and prosperity depend on free and open access to the Indo-Pacific region, which will remain an engine for the U.S., regional, and economic growth.”<sup>25</sup> Accordingly, it lists “preserv[ing] U.S. economic, diplomatic, and military access to the most populous region of the world and one-third of the global economy” as a top interest.<sup>26</sup> The Biden administration has already echoed this stance. Kurt Campbell—the new Indo-Pacific coordinator for Biden’s National Security Council (NSC)—contends that the region is “central to American prosperity and growth.”<sup>27</sup> Japan is the gateway to the Indo-Pacific. Its geostrategic location gives the U.S. exactly what it wants: ready access to the region. Japan’s position is far too important for American leaders to lose.

American interests in the Indo-Pacific extend beyond participation in promising markets; the U.S. has its own safety in mind. The U.S. has a serious stake in deterring a belligerent North Korea and thwarting its nuclear program. Pyongyang’s provocative test launches over Japan fueled fears in Washington that North Korean intercontinental ballistic missiles (ICBM) could strike the continental U.S. with a nuclear payload.<sup>28</sup> Correspondingly, the NSC identified North Korea’s nuclear program as a “grave threat to the U.S. homeland.”<sup>29</sup> In light of this fear, American leaders strive for a world where “North Korea no longer poses a threat to the U.S. homeland or [their] allies; the Korean Peninsula is free of nuclear, chemical, cyber, and

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<sup>24</sup> Nori Katagiri, “Shinzo Abe’s Indo-Pacific Strategy: Japan’s recent achievement and future direction,” *Asian Security*, May 16, 2019, p. 12 and Eiichi Katahara, “Tokyo’s Defense and Security Policy: Continuity and Change,” *Japan’s Foreign Policy in the Twenty-first Century: Continuity and Change*, March 9, 2020, p. 141

<sup>25</sup> United States National Security Council, “U.S. Strategic Framework for the Indo-Pacific,” p. 1, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2021/01/IPS-Final-Declass.pdf>

<sup>26</sup> *Ibid.*

<sup>27</sup> Kurt M. Campbell and Rush Doshi, “How America Can Shore Up Asian Order,” *Foreign Affairs*, January 12, 2021, <https://www.foreignaffairs.com/articles/united-states/2021-01-12/how-america-can-shore-asian-order>

<sup>28</sup> Office of the Secretary of Defense, “Indo-Pacific Strategy Report: Preparedness, Partnerships, and Promoting a Networked Region,” June 1, 2019, p. 12, <https://media.defense.gov/2019/Jul/01/2002152311/-1/-1/1/DEPARTMENT-OF-DEFENSE-INDO-PACIFIC-STRATEGY-REPORT-2019.PDF>

<sup>29</sup> U.S. Strategic Framework for the Indo-Pacific, p. 1

biological weapons.”<sup>30</sup> This is a tall order. It will take years or even decades to realize. Again, Japan’s geostrategic position is highly advantageous to the United States. Japan’s proximity to the Korean peninsula gives the American military a better view of North Korean activity and allows for an immediate counterstrike in the event of an attack, nuclear or otherwise.

Additionally, Tokyo’s policy on North Korea has been very closely aligned with Washington’s for over a decade,<sup>31</sup> making Japan an invaluable partner. With their North Korean agenda considered, it is unlikely that the U.S. will reduce or otherwise weaken its presence in Japan anytime soon.

Washington’s growing rivalry with Beijing also necessitates a strong presence in Japan. The U.S. views China as a revisionist power with short-term ambitions for Indo-Pacific hegemony, and long-term ambitions for global hegemony.<sup>32</sup> The rapid military modernization and maritime aggression that China has undertaken to fulfill these ambitions compromise the United States’ aforementioned need for access to a free and open Indo-Pacific.<sup>33</sup> The 2017 *U.S. National Security Strategy* asserts that Beijing is trying to shake things up for its gain, at Washington’s expense.<sup>34</sup> American defense officials have specified that China’s actions around the Senkaku Islands undermine their interests in that they “endanger the free flow of trade, threaten the sovereignty of other nations, and undermine regional stability.”<sup>35</sup> Consequently, Jake Sullivan, President Biden’s National Security Advisor, recently reaffirmed that the U.S. is committed to its treaty obligations to protect the Senkaku Islands in a phone call with Japanese national security adviser Kitamura Shigeru.<sup>36</sup> As with North Korea, the American presence in Japan serves as a deterrent to China.<sup>37</sup> Maintaining a fighting force nearby disincentivizes Chinese maritime interference in the SCS, the East China Sea (ECS), and the Taiwan Strait, and

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<sup>30</sup> Ibid., 3.

<sup>31</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 16, and Emma Chanlett-Avery et al., “Japan-US Relations: Issues for Congress (RL33436),” *The Congressional Research Service*, October 1, 2019, p.12, <https://crsreports.congress.gov/product/pdf/RL/RL33436>

<sup>32</sup> Indo-Pacific Strategy Report, p. 8

<sup>33</sup> Susan Thornton, “Averting Conflict in the South China Sea: Steps to Restore Rules and Restraint,” *The Brookings Institution*, November 9, 2020, p. 46, <https://www.brookings.edu/wp-content/uploads/2020/11/Future-U.S.-policy-toward-China-v8.pdf>

<sup>34</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 6

<sup>35</sup> Indo-Pacific Strategy Report, p. 8

<sup>36</sup> Masaya Kato and Shohei Kanaya, “Team Biden assures Japan that Senkakus fall under security treaty,” *Nikkei Asia*, January 22, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Politics/International-relations/Team-Biden-assures-Japan-that-Senkakus-fall-under-security-treaty>

<sup>37</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 37

allows for swift deployment to these areas should fighting break out. The U.S. wants to preserve the liberal international order that it has created and commanded, which necessitates its continued commitment to the Japan-U.S. Security Alliance. Facing a very serious challenger in Beijing, Washington wants to defend its “diplomatic, economic, and military preeminence” both in Asia and the world.<sup>38</sup> Reducing its commitments to Japan or otherwise scaling down operations there is inconsistent with an American vision for sustained preeminence. It is also worth noting that the U.S. and Japan have interpreted the Chinese challenge along very similar lines and have accordingly adopted similar security and political strategies in response.<sup>39</sup> This makes Japan a useful partner to the U.S., one that it cannot afford to lose.

### **American Plans for an Integrated Indo-Pacific**

Because it furthers American national interests, the U.S. will not walk away from the Japan-U.S. Security Alliance. That is not to say, however, that Washington does not expect more from Tokyo. During his administration, President Trump abrasively accused Japan of freeriding off the U.S. security umbrella. His brash comments, non-committal attitude, and indifference towards major security threats such as North Korea rattled some Japanese leaders. While they disagree with his phrasing and delivery, the underlying base of Trump’s hyperbole—that Japan needs to contribute more—resonates with leaders of the Biden administration.<sup>40</sup> Currently, U.S. defense spending surpasses that of its allies, as well as China. Japan’s defense spending accounts for a relatively small percentage of its GDP and has remained stagnant over the past several years. Understanding what the U.S. wants can help Japanese leaders make decisions that both strengthen the alliance and grant more independence from it.

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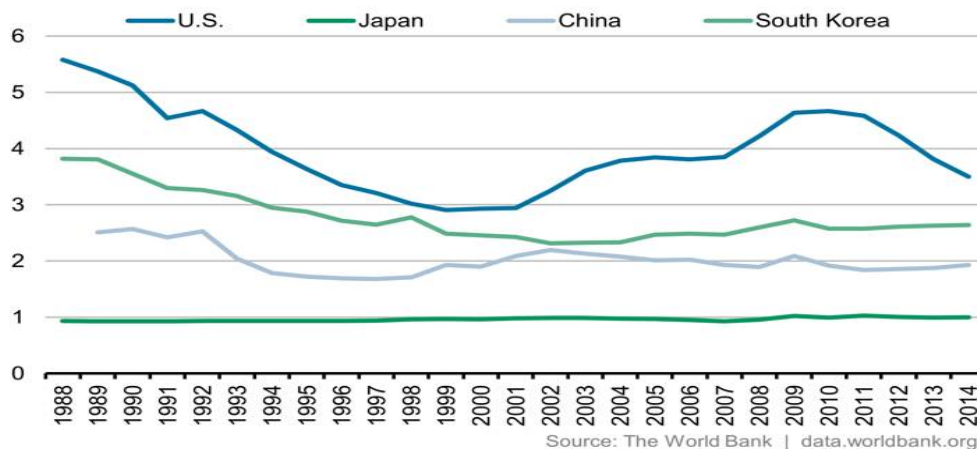
<sup>38</sup> U.S. Strategic Framework for the Indo-Pacific, p. 3, and Indo-Pacific Strategy Report, p. 16

<sup>39</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 6

<sup>40</sup> “New US defense chief reaffirms commitment to Senkaku islands defense,” *Nikkei Asia*, January 24, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Politics/International-relations/Biden-s-Asia-policy/New-US-defense-chief-reaffirms-commitment-to-Senkaku-islands-defense>

### Big Spender

The U.S. spends more on defense than allies or China. Military spending as % of GDP



President Trump’s bravado was concerned primarily with host nation support (HNS)—money. The former U.S. National Security Advisor, John Bolton, wrote that Trump demanded a 400% increase from \$2 billion to \$8 billion annually.<sup>41</sup> Given Japan’s financial constraints, American leaders know that such an ask is unrealistic. Japan’s Defense Budget in 2019 was a little above ¥5 trillion,<sup>42</sup> so an increase to \$8 billion in HNS would require a defense budget of close to ¥6 trillion. That budgetary increase only reflects HNS, it does not take into account costs associated with arms purchases, military exercises, infrastructure upgrades, etc. Japan has the highest public debt in the world, equivalent to about 250% of GDP. Japan’s social safety net is becoming more and more expensive because of the demographic crisis, which the Ministry of Defense calls a “severe fiscal situation.”<sup>43</sup> Some observers contend that this situation makes significant increases in defense spending impossible.<sup>44</sup> Estimates suggest that Japan already shoulders approximately 75% of the costs of hosting American military personnel.<sup>45</sup> During the latest Special Measurements Agreement (SMA) negotiations with South Korea, Trump asked for \$5 billion annually, over five times more than the previous agreement. The negotiations did not

<sup>41</sup> Emma Chanlett-Avery, “Japanese Prime Minister Abe’s Resignation and the US-Japan Alliance (IF1164),” *The Congressional Research Service*, September 24, 2020, p. 2, <https://crsreports.congress.gov/product/pdf/IF/IF11644>

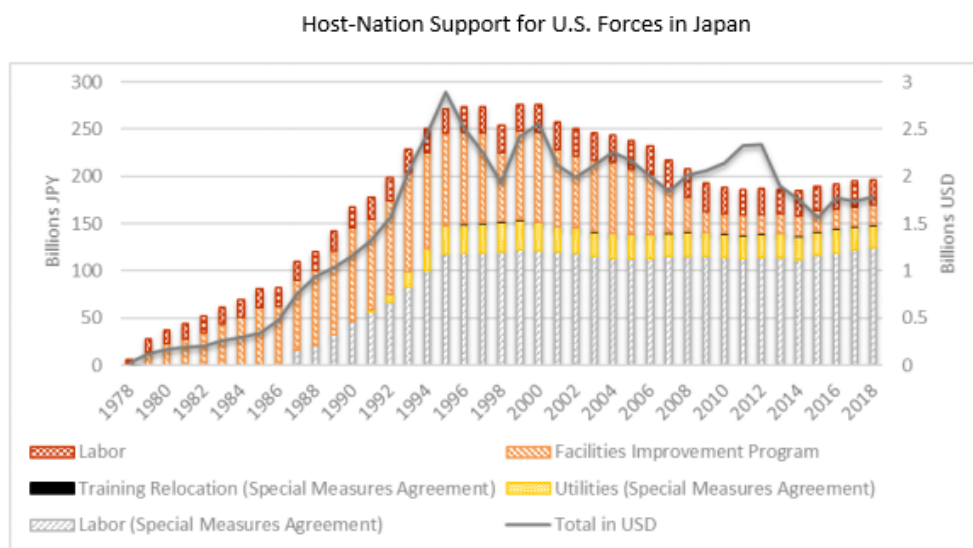
<sup>42</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance (RL33740)*, p. 10

<sup>43</sup> Japan Ministry of Defense, “National Defense Program Guidelines for FY 2019 and beyond,” December 18, 2018, pp. 2, 18, [https://warp.da.ndl.go.jp/info:ndljp/pid/11591426/www.mod.go.jp/j/approach/agenda/guideline/2019/pdf/20181218\\_e.pdf](https://warp.da.ndl.go.jp/info:ndljp/pid/11591426/www.mod.go.jp/j/approach/agenda/guideline/2019/pdf/20181218_e.pdf)

<sup>44</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance (RL33740)*, p. 10

<sup>45</sup> Richard L. Armitage and Joseph S. Nye, “More Important Than Ever: Renewing the US-Japan Alliance for the 21<sup>st</sup> Century,” *Center for Strategic & International Studies*, October 2018, p. 3, [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/181011\\_MorethanEver.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/181011_MorethanEver.pdf)

end well.<sup>46</sup> Because of the United States' financial constraints, Biden will likely seek an increase in HNS from Japan during SMA negotiations, but only a modest increase. From an American perspective, "it is the effectiveness of Japan's contribution to the alliance that matters, rather than raw budget numbers."<sup>47</sup>



**Source:** Japanese Ministry of Defense, [https://www.mod.go.jp/approach/zaibeigun/us\\_keihi/suii\\_table\\_23-31.html](https://www.mod.go.jp/approach/zaibeigun/us_keihi/suii_table_23-31.html); Federal Reserve Bank of St. Louis, Federal Reserve Economic Data, "Japan / U.S. Foreign Exchange Rate, Japanese Yen to One U.S. Dollar, Annual, Not Seasonally Adjusted," <https://fred.stlouisfed.org>.

**Notes:** This graph uses data for budgeted expenditures for host-nation support for USFJ, not contracts. The costs shown, expressed in unadjusted billions of Japanese yen (left-side axis), are those the Japanese government reports as "Cost-sharing for the stationing of USFJ." Not all costs listed above are considered by the Japanese government to be part of the U.S.-Japan Special Measures Agreement (SMA), and not all SMA costs are listed above because some are categorized under other U.S.-Japan agreements. Training relocation expenditures began in 1996 and are less than JPY 1 billion per year, significantly smaller than other expense categories. The line "Total in USD" is calculated based on the average unadjusted exchange rate between JPY and USD for each given year show, expressed in billions of U.S. Dollars (right-side axis).

To balance China and achieve its vision for a free and open Indo-Pacific, the U.S. wants an integrated network of security partners to act as a unified front against China; the U.S. wants deeper cooperation among its allies. Without such a front, the U.S. will be less able to prevent North Korean belligerence or discourage Chinese aggression.<sup>48</sup> For Japan, effective contributions to the alliance advance relations and enhance interoperability—the ability of militaries and their equipment to operate in conjunction—with the U.S. and its other security partners. One of those partners is the Republic of Korea (ROK). The 2018 *Asian Reassurance Initiative Act*—which, as the name suggests, was designed to address growing concerns over American commitment

<sup>46</sup> Yuki Tatsumi, "The Tough Road Ahead for US-Japan Host Nation Support Negotiations," *The Diplomat*, January 23, 2020, <https://thediplomat.com/2020/01/the-tough-road-ahead-for-us-japan-host-nation-support-negotiations/>

<sup>47</sup> Armitage and Nye, *More Important than Ever*, p. 4

<sup>48</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance (RL33740)*

reduction in Asia—calls for the U.S. to strengthen trilateral cooperation with Japan and South Korea.<sup>49</sup> The NSC cited “drawing South Korea and Japan closer together” as an actionable means of confronting Pyongyang.<sup>50</sup> Strengthening security ties with Seoul would benefit Tokyo since they have much in common: both are Asian, democratic allies of the U.S. that are threatened by North Korea and suspicious of China.<sup>51</sup> Japanese voices concur that the “unpredictability of the new North Korean regime and the rapid military buildup of China do not reduce but rather increase the objective necessity of Japan-ROK security cooperation.”<sup>52</sup> Japan-ROK relations are complicated and mending them will require time and considerable effort. However, it is in Japan’s national security interests to do so. Japanese leaders may strengthen bilateral security ties with South Korea by stressing the practical need for such a relationship and by favoring “pragmatism over populism.”<sup>53</sup> Even if they fail, proactive steps to make this happen will be well received in Washington—and all the better if they succeed.

### **The Quadrilateral Security Dialogue**

One of the United States’ primary objectives in the Indo-Pacific is to “create a quadrilateral security framework with India, Japan, Australia, and the United States as the central hubs.”<sup>54</sup> Such a framework exists; it is called the Quadrilateral Security Dialogue, or “the Quad.” Each of its members is a prominent maritime democracy with serious concerns over China. Since Washington wants to fortify the Quad, Tokyo’s efforts to enhance bilateral security ties with India and Australia would have the dual effect of strengthening the Japan-U.S. Security Alliance. Efforts within the Quad prioritize coordination and integration between the four countries, such as military exercises. In 2015, Japan became a permanent participant in the now-trilateral Malabar navy exercise. Once limited to just India and the U.S., Malabar is an annual exercise designed to increase naval cooperation and interoperability.<sup>55</sup> Australia once participated in the Malabar exercises but withdrew in 2007 over the fear of Chinese retaliation. However, tensions

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<sup>49</sup> Michael F. Martin et al., “The Asia Reassurance Initiative Act (ARIA) of 2018,” *The Congressional Research Service*, April 4, 2019, p. 1, <https://crsreports.congress.gov/product/pdf/IF/IF11148>

<sup>50</sup> U.S. Strategic Framework for the Indo-Pacific, p. 9

<sup>51</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 16

<sup>52</sup> Hiroyasu Akutsu, “A Case for a Common Japan-ROK Strategic Vision,” *The Association of Japanese Institutes of Strategic Studies*, September 26, 2012, [http://www2.jiia.or.jp/en\\_commentary/201209/26-1.html](http://www2.jiia.or.jp/en_commentary/201209/26-1.html)

<sup>53</sup> *Ibid.*

<sup>54</sup> U.S. Strategic Framework for the Indo-Pacific, p. 4

<sup>55</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), pp. 18-19

with China have conversely prompted Australia to rejoin the exercise in 2020.<sup>56</sup> Japanese leaders may consider encouraging permanent Australian membership. This would signal to all members of the Quad—particularly the U.S.—that Japan is a team player and takes regional security seriously. Active engagement with the Quad enables the JSDF to associate with their Indian and Australian counterparts, and it also presents more opportunities for military exercises with American forces.<sup>57</sup>

Within the Quad, Japan would benefit from continued and increased bilateral engagement with Australia and India. Japan has participated in a biennial maritime exercise with India called JIMEX since 2012. Continued engagement would solidify security relations with India—which is seen as the “weak link” by Quad critics<sup>58</sup>—and pull them closer into the American security orbit, which is exactly what it wants.<sup>59</sup> The same applies to bilateral ties with Australia, but there is more work to be done there. Japan enjoys close relations with Australia, which is their closest security partner after the United States. Australia has embraced a Japanese security partnership despite protest from China,<sup>60</sup> but plans for bilateral training exercises have stalled because of Australian concerns over Japan’s death penalty laws, which have been abolished in Australia.<sup>61</sup> Japan cannot let this impede greater integration with Australia. Japanese leaders can assure their Australian counterparts that, within the context of a military exercise, there is nothing that allied personnel would do in Japanese territory that warrants the death penalty. The U.S., Japan, Australia, India, and South Korea all participate in the biennial Rim of the Pacific Exercise (RIMPAC), the largest of its kind. 25,000 personnel and 52 naval crafts from 26 different countries participated in RIMPAC 2018. This included 1 ship from Japan, 5 from Australia, 1 from India, and 3 from South Korea.<sup>62</sup> Aircraft from these countries also frequent the exercise. Because of COVID-19, RIMPAC 2020 was considerably scaled-down. India was among the

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<sup>56</sup> Emma Chanlett-Avery et al., “The “Quad”: Security Cooperation Among the United States, Japan, India, and Australia (IF11678),” *The Congressional Research Service*, November 2, 2020, p. 2, <https://crsreports.congress.gov/product/pdf/IF/IF11678>

<sup>57</sup> Ibid.

<sup>58</sup> Ibid.

<sup>59</sup> U.S. Strategic Framework for the Indo-Pacific, p. 3

<sup>60</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), pp. 17-18

<sup>61</sup> “Risk that Aussies could face death penalty in Japan is holding up defense pact, report says,” *The Japan Times*, December 17, 2019, <https://www.japantimes.co.jp/news/2019/12/17/national/death-penalty-japan-australia-pact/>

<sup>62</sup> Ben Werner, “47-Ship RIMPAC Exercise Kicks Off Tomorrow,” *USNI News*, June 26, 2018, <https://news.usni.org/2018/06/26/rim-of-the-pacific-2018-participation>

many regular participants that were absent.<sup>63</sup> Japanese leaders can encourage India to attend once more in 2022.

Active engagement with other American allies strengthens the Japan-U.S. Security Alliance by furthering U.S. goals for an integrated, interoperable Indo-Pacific security network. However, it also enhances Japan's military autonomy by providing an avenue for proactivity and contribution outside of the American umbrella. It gives Japan a backup plan in the off chance that the U.S. withdraws from Asia, which was a motivating factor, to begin with.<sup>64</sup> Japanese leaders can note, however, that bi- and multilateral arrangements with their other allies are no substitute for the Japan-U.S. Security Alliance. The American armed forces are far larger, more advanced, and more heavily armed than either military. Australia's military is only about 80,000 strong. The U.S. stations over 50,000 military personnel in Japan alone.<sup>65</sup> While India maintains a military comparable in size to the U.S., it is poor and plagued by domestic problems. Both India and Australia are far away from the action in the ECS, where combat is most likely to happen. There are no guarantees that Australian or Indian officials would be willing or able to station soldiers in Japan the same way the U.S. does. Prioritizing alternative security agreements over the Japan-U.S. Security Alliance is inconsistent with Japan's *National Defense Program Guidelines*. These guidelines assert that to deter and counter the critical security threats posed by the PLA, "it [is] vitally important to adapt to warfare that combines capabilities in new domains—space, cyberspace, and [the] electromagnetic spectrum—and traditional domains—land, sea, and air."<sup>66</sup> The U.S. is unparalleled in all of these domains, so its resources and expertise are indispensable to Japan. While highly beneficial, security arrangements with other U.S. allies—particularly India and Australia—are only supplementary to the Japan-U.S. Security Alliance; they are complements.

## **A Sixth Eye in Asia**

Becoming a cooperative, integrated member of the Indo-Pacific security network as the U.S. wishes goes beyond military exercises. The gathering, protection, and sharing of information are also paramount. The U.S. has named "maintain[ing] an intelligence advantage over China, and

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<sup>63</sup> Megan Eckstein, "Scaled-Back, At-Sea RIMPAC 2020 Exercise Kicks Off Near Hawaii," *USNI News*, August 17, 2020, <https://news.usni.org/2020/08/17/scaled-back-at-sea-rimpac-2020-exercise-kicks-off-near-hawaii>

<sup>64</sup> Chanlett-Avery et al., *The "Quad" (IF11678)*, p. 1

<sup>65</sup> Chanlett-Avery et al., *Japan-U.S. Relations: Issues for Congress (RL33436)*, p. 36

<sup>66</sup> Japan Ministry of Defense, *National Defense Program Guidelines*, p. 10

inoculat[ing] the United States, its allies, and partners against Chinese intelligence activities” as a key objective.<sup>67</sup> To achieve this goal, the U.S. seeks to “equip U.S. allies and partners to cooperate with the United States in operating against China and countering China’s clandestine activities in their countries,” and plans to “help allies and partners develop high standards in counterintelligence, counter proliferation, cyber security, industrial security, and management of classified information.”<sup>68</sup> American hopes for enhanced intelligence capabilities among its allies align closely with contemporary Japanese strategy. Former defense minister Kono Taro has expressed great interest in joining the Five Eyes—an intelligence-sharing alliance between Australia, Canada, New Zealand, the UK, and the United States.<sup>69</sup> Attaining official status as the Sixth Eye would be mutually beneficial to Japan and the other Eyes, given their shared concerns over China and Japan’s close proximity to this area. Kono does not think that Japan needs to do anything to be added to the Five Eyes,<sup>70</sup> but he is mistaken. Experts contend that Japan is too leaky; its security clearance system—as outlined under its 2013 state secrecy law—is insufficient to protect sensitive information.<sup>71</sup> Under the law, most information is still easily accessible. These experts see this as a serious handicap on both internal and external intelligence sharing.<sup>72</sup> To attain Sixth Eye status, Japan must prove that it is not a risk—that it can protect sensitive information. Convincing the Five Eyes that Japan can keep secrets will require “implementing a tougher legal framework with stricter protections and a robust counter-intelligence setup.”<sup>73</sup> It will also require bolstering Japan’s cybersecurity infrastructure, which experts contend is relatively weak and vulnerable to attack.<sup>74</sup> This contention is evidenced by the Ministry of Defense’s orders for Japanese defense contractors to adopt American cybersecurity standards.<sup>75</sup>

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<sup>67</sup> U.S. Strategic Framework for the Indo-Pacific, p. 8

<sup>68</sup> Ibid, p. 8

<sup>69</sup> Daishi Abe and Rieko Miki, “Japan wants de facto ‘Six Eyes’ intelligence status: defense chief,” *Nikkei Asia*, August 14, 2020, <https://asia.nikkei.com/Editor-s-Picks/Interview/Japan-wants-de-facto-Six-Eyes-intelligence-status-defense-chief>

<sup>70</sup> Ibid.

<sup>71</sup> Alan Weedon, “Why Japan wants to join the Five Eyes intelligence network,” *ABC News*, September 18, 2020, <https://www.abc.net.au/news/2020-09-19/five-eyes-intelligence-japan-bid-yoshihide-suga-shinzo-abe/12665248>

<sup>72</sup> Adam P. Liff and Andrew S. Erikson, “From management crisis to crisis management? Japan’s post-2012 institutional reforms and Sino-Japanese crisis (In)stability,” *Journal of Strategic Studies*, March 10, 2017, p. 615

<sup>73</sup> Jagannath Panda, “Debating Japan: Japan Is Ready to Become a Formal Member of Five Eyes,” December 8, 2020, pp. 3-4, *Center for Strategic & International Studies*, <https://www.csis.org/analysis/resolved-japan-ready-become-formal-member-five-eyes>

<sup>74</sup> Katagiri, “Shinzo Abe’s Indo-Pacific Strategy,” p. 6

<sup>75</sup> Masaya Kato, “Japan’s defense contractors to use US cybersecurity standards,” *Nikkei Asia*, March 14, 2019, <https://asia-nikkei-com.offcampus.lib.washington.edu/Politics/Japan-s-defense-contractors-to-use-US-cybersecurity-standards>

Improving Japan’s counterintelligence and information management standards—including its cybersecurity setup—is exactly what Washington wants. Such improvements would be welcomed by the U.S. and Australia, even if Sixth Eye status is not granted. Even if the Five Eyes are not convinced, Japan will still have raised its intelligence standards, which is a success in and of itself.

## The Taiwan Question

Japanese leaders should be aware that there is an inherent risk involved with a continued commitment to the Japan-U.S. Security Alliance: the U.S. may expect Japan to come to its aid in the event of an armed conflict. This expectation is compounded by Japan’s recent relaxation of restraints on collective defense, and its posture as a proactive contributor to Indo-Pacific stability. American defense officials have expressed concerns over China’s plans for Taiwan, noting that the PLA is “likely preparing for a contingency to unify Taiwan with the mainland by force, while simultaneously deterring, delaying, or denying any third-party intervention on Taiwan’s behalf.”<sup>76</sup> There is some uncertainty regarding the U.S. response to such a contingency. In 2011, a former defense official testified before Congress that “the preservation of stability in the Taiwan Strait is fundamental to our interests in promoting peace and prosperity in the Asia-Pacific writ large.”<sup>77</sup> The U.S. Department of Defense has stated that it wants a free and secure Taiwan that can “engage the mainland on its own terms,” and that the U.S. will provide the necessary military hardware for Taiwan’s defensive needs.<sup>78</sup> The provision of such “defense articles” is required by the Taiwan Relations Act (TRA).<sup>79</sup> The TRA does not stipulate that the U.S. must defend Taiwan, only that it must be able to, which is where the uncertainty stems from. Former U.S. National Security Advisor Robert O’Brien commented in October 2020 that there is “a lot of ambiguity there about what the United States would do in response to an attack by China on Taiwan.”<sup>80</sup> In the event of a Chinese attack—which some Taiwanese leaders fear is becoming more likely<sup>81</sup>—the U.S. may or may not go to Taiwan’s defense. Should the

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<sup>76</sup> Military and Security Developments Involving the People’s Republic of China 2019, p. 70

<sup>77</sup> Susan V. Lawrence and Wayne M. Morrison, “Taiwan: Issues for Congress (R44996),” *The Congressional Research Service*, October 30, 2017, p. 24, <https://crsreports.congress.gov/product/pdf/R/R44996>

<sup>78</sup> Indo-Pacific Strategy Report, p. 31

<sup>79</sup> Lawrence and Morrison, Taiwan: Issues for Congress (R44996), p. 9

<sup>80</sup> Susan V. Lawrence, “Taiwan: Political and Security Issues (IF10275),” *The Congressional Research Service*, January 4, 2021, p. 2, <https://crsreports.congress.gov/product/pdf/IF/IF10275>

<sup>81</sup> Lawrence and Morrison, Taiwan: Issues for Congress (R44996), p. 43

U.S. elect to defend Taiwan, they may request Japanese support. Japanese leaders should prepare for such a possibility.

### **Unrestrained Partnership**

The U.S. wants Japan to “become a regionally integrated, technologically advanced pillar of the Indo-Pacific security architecture.”<sup>82</sup> To that end, the U.S. will likely push Japan to further loosen legal and political restraints on military expansion and independence. American experts argue that “the alliance would benefit from a relationship without overarching restrictions on military cooperation” and that it would be more powerful and effective with the full, mutual support of both parties.<sup>83</sup> Such experts note that “alliance forces continue to struggle with interoperability as a result of their separate command structure, a challenge born of Japan’s unique legal constraints on the use of force.”<sup>84</sup> They argue that legally allowing the joint command and co-basing of allied forces would enhance their interoperability and streamline resource efficiency by eliminating duplicate capabilities and facilities.<sup>85</sup> Abe Shinzo made significant progress in the legal arena. His reinterpretation of Article 9 allows for a collective defense that was welcomed in Washington as “long-overdue.”<sup>86</sup> It is worth noting that political and legal changes can have the dual effect of strengthening the Japan-U.S. Security Alliance and enhancing Japan’s autonomy, as was the case with Abe’s establishment of Japan’s NSC.<sup>87</sup>

On a related note, Washington may solicit Tokyo to purchase more American military technology or to conduct more of its own research and development on such technology. Doing so would be consistent with its interest in “assist[ing] in the modernization of Japan’s Self Defense Forces.”<sup>88</sup> The planned purchase of the American-made Aegis Ashore ballistic missile defense system aligned with American calls for a more technologically advanced Japan. The Japanese government chose Aegis Ashore over a Terminal High-Altitude Area Defense system

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<sup>82</sup> U.S. Strategic Framework for the Indo-Pacific, p. 4

<sup>83</sup> Robin Sakoda, “Japan Chair Platform: Japan and Collective Self Defense: An American Perspective,” *Center for Strategic & International Studies*, November 13, 2013, <https://www.csis.org/analysis/japan-chair-platform-japan-and-collective-self-defense-american-perspective>

<sup>84</sup> Chanlett-Avery et al., *The U.S.-Japan Alliance* (RL33740), p. 1

<sup>85</sup> Armitage and Nye, *More Important Than Ever*, pp. 7-8

<sup>86</sup> Richard L. Armitage and Joseph S. Nye, “The U.S.-Japan Alliance in 2020: An Equal Alliance with a Global Agenda,” *Center for Strategic & International Studies*, December 7, 2020, p. 1 [https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/201204\\_Armitage\\_Nye\\_US\\_Japan\\_Alliance\\_1.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/201204_Armitage_Nye_US_Japan_Alliance_1.pdf)

<sup>87</sup> Adam P. Liff, “Japan’s National Security Council: Policy Coordination and Political Power,” *Japanese Studies*, pp. 259-260, 263

<sup>88</sup> U.S. Strategic Framework for the Indo-Pacific, p. 4

because of its wider range and lower cost,<sup>89</sup> but canceled the transaction in June 2020 citing a safety flaw.<sup>90</sup> American officials were surprised by the cancellation, as it would have allowed Aegis-equipped vessels docked in Japan to spread out, and many had lauded it as a powerful defense against North Korean ICBMs. It is also unclear whether or not the Japanese government has a viable alternative to Aegis Ashore.<sup>91</sup> It is important to recognize that the U.S. is not entirely convinced that Japan's concerns are warranted or entirely genuine and that it stands by the utility of Aegis Ashore.<sup>92</sup> While arms purchases constitute a significant source of revenue for the U.S., it also recognizes Japan's objective need for technologically advanced defensive capabilities, which the U.S. is highly skilled at producing. With that considered, Japanese leaders can expect calls to make more military purchases, develop their own capabilities, or a mix of the two.

## Conclusion

American power and influence are declining. COVID-19 has devastated the U.S. and complicated domestic issues have come to the fore in recent years. Between its security commitments and military engagements around the world, the U.S. is stretched thin. With so much on its plate, the Biden administration will likely focus more on domestic matters over foreign affairs.<sup>93</sup> However, it is unlikely that the U.S. will renege on its promises. Japan is the gateway to the Indo-Pacific, where American leaders have forecast the most promising economic opportunities. Japan's geostrategic position in the region is too important to American interests to sacrifice.

However, the U.S. will expect more from Japan. It wants a "strong and confident Japan."<sup>94</sup> This means more engagement—increased efforts to create goodwill with the United States' other Indo-Pacific security allies and improve interoperability with them. It may also

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<sup>89</sup> Mari Yamaguchi, "Japan to Scrap Costly Land-Based US Missile Defense System," *The Diplomat*, June 16, 2020, <https://thediplomat.com/2020/06/japan-to-scrap-costly-land-based-us-missile-defense-system/>

<sup>90</sup> Rieko Miki, "The price of peace: Why Japan scrapped a \$4.2bn US missile system," *Nikkei Asia*, August 5, 2020, <https://asia-nikkei-com.offcampus.lib.washington.edu/Spotlight/The-Big-Story/The-price-of-peace-Why-Japan-scrapped-a-4.2bn-US-missile-system>

<sup>91</sup> Chanlett-Avery, *Abe's Resignation* (IF1164), p. 2

<sup>92</sup> Michael Unbehauen and Christian Decker, "Japan Cancels Aegis Ashore: Reasons, Consequences, and International Implications," *Journal of Indo-Pacific Affairs*, November 24, 2020, pp. 103-105, 112-113, <https://media.defense.gov/2020/Nov/23/2002540361/-1/-1/1/JIPA%20WINTER%202020%20FOR%20WEB.PDF>

<sup>93</sup> Alex Fang and CK Tan, "Crisis at home leaves little time for Asia in first 100 days," *Nikkei Asia*, January 19, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Spotlight/Asia-Insight/Crises-at-home-leave-Biden-little-time-for-Asia-in-first-100-days>

<sup>94</sup> Armitage and Nye, *More Important Than Ever*, p. 1

mean increased military purchases and legal reform. Doing as the U.S. wishes—cementing security ties with other allies and improving its security infrastructure—is consistent with Japan’s current strategy and long-term designs for autonomy. In the short term, Japan has no worthy alternative to the Japan-U.S. Security Alliance. Japan’s other allies are not likely to provide the kind of protection that the U.S. does, and rapid militarization is not possible in the near future. Japan would benefit from meeting American expectations for more engagement with Australia, India, and South Korea. This would further the United States’ vision for a unified Indo-Pacific security network. Strengthening the alliance and enhancing autonomy are not necessarily mutually exclusive processes. Japan can do both.

## Chapter 3:

# Japan-China Security Relations

Japan's relationship with China is complex and volatile due to territorial disputes, intense historical animosity, and competition in forming alliances with other countries in the Indo-Pacific region. Japan's relations with China are further complicated by the strained U.S.-China relationship. The expansion of the Chinese military and China's expanding influence in the region poses a direct threat to Japan's security and defense. However, despite the security concerns associated with China's rise, it is not necessarily Japan's rival. In the past, there have been many areas of agreement and opportunities for cooperation on issues involving regional security. Regarding the Japan-China relationship in the military and diplomatic domains, Japan must look for opportunities to fortify its national defense and strengthen ties with regional partners. The Japanese government should continue to pursue measures that appropriately assert Japan's national interests while at the same time avoids further conflict with China.

### **Disputes Over the Senkaku Islands with China**

Japan is involved in several territorial disputes with its neighboring countries. Among those, one of the most intense is arguably the Senkaku Islands dispute with China. The Senkaku Islands (Diaoyutai Islands in Chinese) are located northeast of Taiwan and south of Okinawa, in the East China Sea. The islands are covered by both Japan and China's overlapping exclusive economic zones. They offer several valuable resources including rich fishing and potentially crude oil reserves. However, more importantly, the islands are located on the shipping lanes and trading routes that connect the Pacific Ocean to the Taiwan Strait and the East China Sea.<sup>95</sup> From a strategic standpoint, the nation that has sovereignty over the Senkaku Islands will obtain a huge advantage on its military's enforceable scope in the Northeastern Asia region, and control the Pacific entrance into Asia.

Due to the Senkaku Islands' strategic importance, both Japan and China claim them as their territory and the sovereignty issue has intensified greatly after the 2000s. Considering the

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<sup>95</sup> Machida Satoshi, "Realist Concerns or Economic Interdependence? Japanese Citizens' Policy Preferences Toward China in the Issue of the Senkaku Islands." *East Asia* (2020) 37: 223-241. Accessed January 23 2021.

importance of the islands and China's military threat to Japan, Japan shouldn't relinquish its claim to sovereignty. Giving up Japan's claim could potentially allow the Chinese forces to reach and control the entrance of the Pacific Ocean into the southern seas of Japan and the Asian lands. To secure its national defense and expand the scope of the Japanese military's mobility in the region, Japan must continue to exercise its control over the Senkaku Islands. Conflicts between both countries, such as a Chinese fishing boat ramming into a Japanese coast guard vessel in 2010 and the continuous sending of coast guard vessels to patrol around the islands, have shifted the primary focus heavily to the military rights of the islands. Thus, it is arguably impossible that either side would voluntarily renege its claim on the Islands.<sup>96</sup>

The Islands are currently under the coverage of both China's "East China Sea Air Defense Identification Zone" and the Japan-U.S. "Treaty of Mutual Cooperation and Security (Extended Deterrence)," and thus have the potential to cause further diplomatic and military conflicts if both countries try to further strengthen their control over the Senkaku Islands. For China, the fishery and energy resources in the area are motives enough to seize control of the Senkaku Islands, but there is something more essential to China's interests: a regional strategy to counter U.S.-Japanese military cooperation and China's historical claim of Taiwan. In order to reduce the United States' presence in Northeastern Asia, China needs to be able to easily blockade Taiwan and the waterways from the Pacific Ocean into the East China Sea.

The Senkaku Islands were previously considered as part of Taiwan which was ceded by China to Japan after the first Japan-China War in 1895.<sup>97</sup> In 1945, Japan returned its sovereignty over Taiwan to China. Since the People's Republic of China (PRC) asserts that Taiwan is an inseparable part of Chinese territory, China will never withdraw its claim of sovereignty over the Senkaku Islands. Through the years, China has increased its militaristic interactions with the Senkaku Islands, including authorizing the People's Armed Forces Maritime Militia (PAFMM) to launch large incursions in waters near the Senkakus in 2016, strengthening the Eastern Theater Command's (ETC) operational control on long-distance sea training, preparing for aerial combat, and directing a People's Liberation Army Navy (PLAN) Shang-class nuclear-powered attack

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<sup>96</sup> Kiyoshi Takenaka, "Japan Buys Disputed Islands, China Sends Patrol Ships." *Reuters*. September 11, 2012. <https://www.reuters.com/article/us-japan-china-idUSBRE88A0GY20120911>. Accessed on February 4, 2021

<sup>97</sup> Sato, Koichi. "The Senkaku Islands Dispute: Four Reasons for the Chinese Offensive-A Japanese View." *Journal of Contemporary East Asia Studies* 8, no. 1 (2019): 50-82. Accessed on February 4, 2021

submarine (SSN) to sail underwater in the vicinity of the Senkaku Islands in 2018.<sup>98</sup> These frequent militaristic practices have shown that the value and importance of the Senkaku Islands have greatly increased for China and that it is willing to carry out more militaristic practices than ever before to claim its sovereignty on the Senkaku Islands. That is, China is not planning to easily compromise on leaving the islands to Japan.

Despite the possibility of causing further deterioration of its diplomatic ties with China, the Japanese government is opting to fortify its national defense on the Senkaku Islands from potential invasions. Japan cooperated with U.S. forces to deploy Osprey and F35 fighter jets and planned to turn one helicopter carrier into an aircraft carrier available for F35s. In addition, Japan adjusted its defense posture across all SDF services to address China's territorial ambitions, the Japan Air Self Defense Force (JASDF) has enhanced its Air Defense Missiles and dispatched its tactical fighter squadron to various Japanese regions in 2016, and Japan Ground Self-Defense Force (JGSDF) deployed 160-800 soldiers on Ishigaki, Miyako, and Amami islands near Okinawa. Furthermore, several Japanese military institutions have upgraded their existing corps and units while simultaneously creating new ones to cope with the Senkaku Islands issue, such as the Marine unit Amphibious Rapid Deployment Brigade.<sup>99</sup> In fact, Japan's previous actions of strengthening its aerial and marine border security reflect its awareness that China will keep asserting its military might and there is no room for Japan to back down.

While both countries assertively claim their sovereignty over the Senkaku Islands, allowing this unresolved political issue to continuously deteriorate their relations does not serve either nations' interest best. However, this tacit mutual understanding does not mean that China is willing to compromise its national strategy and militaristic goals in regards to the Senkaku Islands. This status quo requires Japan to strengthen its national defense and emergency-response abilities while simultaneously finding a balance on such territorial disputes with China.

### **South China Sea Conflict**

Although Japan has not been directly involved in conflicts in the South China Sea (SCS), its diplomacy, economy, and especially its scope of national defense have been deeply influenced

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<sup>98</sup> "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019." *United States of America, Department of Defense*. 2019. Accessed on February 4, 2021.

<sup>99</sup> Katagiri, Nori. "Shinzo Abe's Indo-Pacific Strategy: Japan's recent achievement and future direction." *Asian Security* (2019). Accessed January 23, 2021. doi.org/10.1080/14799855.2019.1607304

by the conflict. The situation of the SCS would directly threaten Japan's "Free and Open Indo-Pacific" (FOIP) strategy if China fully claims the region and blockades Japan and its ASEAN allies. Thus, it is in Japan's national interest to exert its influence on issues surrounding the SCS.

China's recent construction of military facilities, such as anti-ship cruise missiles and long-range surface-to-air missiles on outposts on the Spratly Islands in 2018, and other common practices such as coercing other claimant states (most notably Vietnam on energy exploitation) and pressuring other regional and extra-regional states not to interfere clearly demonstrates its goal of fully occupying the South China Sea (SCS).<sup>100</sup> As President Xi Jinping claimed in his speech during the 90th anniversary of the People's Liberation Army (PLA), "China will not cede an inch of territory."<sup>101</sup> Many recent Chinese practices have undoubtedly encouraged nationalist attitudes in dealing with foreign affairs. China furthermore strengthened its maritime force by having the PLA Navy conduct significant training events, which included more than 75 aircraft in Hainan Island located in the SCS in 2018. In addition to enhancing its military abilities, China also seeks to form tighter relations with key players in the South China Sea. For example, the Peace and Friendship 2018 naval exercise with Malaysia and Thailand reflects China's efforts to improve ties with ASEAN states and calm tensions in the South China Sea. Despite having conflicts with several nations in the SCS, China's fortification of its national defense, as well as bonding with regional allies, will allow for it to establish full control in the region.

In regards to economics, Japan's oil and trading ships follow the trade route through the Strait of Malacca, passing through the South China Sea and the Indian Ocean to go to the Middle East. The same holds for China, as in 2018, approximately 78 percent of China's oil imports and 16 percent of natural gas imports transited the South China Sea and Strait of Malacca.<sup>102</sup> Thus, the SCS is crucial for both Japan and China not only for economic and trade benefits but also for securing energy resources. China's claim over the islands in the SCS would hinder the current ability of both Japan and ASEAN states to easily accessing and entering waterways. Such economic disadvantages and privileges could also be used by China to force Japan to concede on

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<sup>100</sup> Parameswaran, Prashanth. "Will a China-ASEAN South China Sea Code of Conduct Really Matter?" *The Diplomat*. August 5, 2017. Accessed February 7, 2021. <https://thediplomat.com/2017/08/will-a-china-asean-south-china-sea-code-of-conduct-really-matter/>

<sup>101</sup> Ibid.

<sup>102</sup> Cordesman, Anthony H., Arleigh A. Burke, and Max Molot. "China and the U.S.: Cooperation, Competition And/or Conflict An Experimental Assessment Report." *Center for Strategic and International Studies (CSIS)*, 2019. 344-67. Accessed February 11, 2021. doi:10.2307/resrep22586.31.

diplomacy or other disputes, such as the Quadrilateral Security Dialogue (The Quad) or the Senkaku Dispute.

While China is rapidly becoming the prevailing, leading force in the SCS through military expansion and mercantilist Belt and Road Initiative (BRI) cooperation with military and regional ties, the same approach could also be used by Japan but with a greater emphasis on diplomacy and foreign relations. Aware that China is still the major trading partner in the SCS, ASEAN states cannot completely alienate China. However, Japan could offer ASEAN nations an alternative to the Chinese order by selling its FOIP framework.

In order to build up a defensive Indo-Pacific framework, Japan inevitably needs support from not only its established allies but also from key countries such as India, Australia, and ASEAN nations. The form of such should not only be limited to regional cooperation, such as the ASEAN-6 but also requires bilateral cooperation due to “minimal intra-regional trade and lack of political focus on regional integration.”<sup>103</sup> Taking into account the dilemmas of some ASEAN states, such as disputes over Freedom of Navigation (FONOPs) and military affairs in the SCS, it is still possible for Japan to cooperate with several states that face severe impacts from China, such as Vietnam and the Philippines. For example, Prime Minister Yoshihide Suga recently approved a defense export agreement with Vietnam and provided the Philippines with coast guard vessels and radar systems. These interactions signal that Japan is engaging in a wider, stronger diplomatic approach to counter China’s expansion in the South China Sea.<sup>104</sup> Furthermore, Japan’s involvement in the SCS is trusted by the ASEAN states involved in the SCS. In a 2020 survey conducted by the *Iseas-Yusof Ishak Institute’s ASEAN Studies Centre* of more than 1300 ASEAN professionals, 61.2% of the respondents claimed they “believe Japan will do the right thing” regarding the SCS conflict and regional peacekeeping.<sup>105</sup>

Adding Japan’s close ties with the U.S. and European nations, aiming to establish a Japanese-led regional framework to counter China’s occupation of the SCS is, in theory, feasible

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<sup>103</sup> Karim, Mohd Aminul. “South Asian Regional Integration – Challenges and Prospects.” *Japanese Journal of Political Science* 15, no. 2 (2014): 299–316. doi:10.1017/S1468109914000085. Accessed January 23, 2021.

<sup>104</sup> Radio Free Asia. 2021. “Japan Latest Nation to Contest Beijing’s South China Sea Claims.” *VOA*, January 23. Accessed February 7, 2021. <https://www.voanews.com/east-asia-pacific/japan-latest-nation-contest-beijings-south-china-sea-claims>

<sup>105</sup> Filipino Post. 2020. “Southeast Asians Confident Japan Will ‘Do the Right Thing.’” Accessed January 23, 2021. <https://search-ebsohost-com.offcampus.lib.washington.edu/login.aspx?direct=true&db=n5h&AN=141370760&site=ehost-live>. Accessed January 23, 2021.

due to common national security interests, and a relatively peaceful approach that also avoids creating further militaristic outbreaks between the nations.<sup>106</sup> Just as Japan further strengthened its trilateral relationship with the Philippines through the U.S.-Philippines military exercise in 2017, Japan's international ties and cooperation with the western world and ASEAN nations could enable it to secure and perform well its character of proactive peacekeeping.<sup>107</sup> That is, perceiving such outcomes as shifting Japan's strategy from regional balancing into proactive peacekeeping under the enlarged scope of the SDF or either expanding its diplomatic cooperation network to counter China. It is in Japan's best interest to continually strengthen its national defense and tighten its relationship with international allies to stimulate its economy and reclaim a stronger position in Asia.

### **The North Korea Issue**

The Democratic People's Republic of Korea (DPRK) poses a military threat to every member of Northeast Asia and the United States. In the *Japan-DPRK Pyongyang Declaration (2002-2003)*, the DPRK stated it would cooperate with Japan to comply with international law and would not engage in actions that would threaten the security of Japan to promote peace in Northeastern Asia.<sup>108</sup> Unfortunately, in 2017, this declaration was broken when the DPRK fired ballistic missiles across Hokkaido.<sup>109</sup> As shown, the volatility of the DPRK, along with the recently revived friendship between the People's Republic of China and the DPRK, will continue to create additional security challenges for Japan.

The UN Security Council has continuously imposed sanctions on the DPRK since the Resolution 1718 of 2006, including banning natural gas imports and freezing the amount of crude oil during the 2010s.<sup>110</sup> Given the status quo of recent years, China's stance on the DPRK issue has been amicable as it advocated for loosening sanctions on the DPRK in exchange for

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<sup>106</sup> Nikkei Asia. 2020. "Japan's Suga opposes actions that boost South China Sea tension." Accessed February 7, 2021. <https://asia.nikkei.com/Politics/International-relations/South-China-Sea/Japan-s-Suga-opposes-actions-that-boost-South-China-Sea-tension>

<sup>107</sup> Cook, Malcolm & Suryadinata, Leo & Izzuddin, Mustafa & Hiep, Le Hong. "Japan Seeks Stronger Strategic Ties in Southern Asia." Perspective, ISEAS Yusof Ishak Institute (2017). Accessed January 24, 2021. [https://www.think-asia.org/bitstream/handle/11540/6741/ISEASPerspective2017\\_5.pdf?sequence=1](https://www.think-asia.org/bitstream/handle/11540/6741/ISEASPerspective2017_5.pdf?sequence=1)

<sup>108</sup> "Japan-DPRK Pyongyang Declaration," *Ministry of Foreign Affairs of Japan*. Accessed January 24 2021. [https://www.mofa.go.jp/region/asia-paci/n\\_korea/pmv0209/pyongyang.html](https://www.mofa.go.jp/region/asia-paci/n_korea/pmv0209/pyongyang.html)

<sup>109</sup> "North Korea Fires Second Ballistic Missile Over Japan." *BBC News*. September 15, 2018. Accessed January 23, 2021. <https://www.bbc.com/news/world-asia-41275614>

<sup>110</sup> "UN Security Council Resolutions on North Korea," *Arms Control Association*. Accessed January 24 2021. <https://www.armscontrol.org/factsheets/UN-Security-Council-Resolutions-on-North-Korea>

Pyongyang's stable status and progress on nuclear non-proliferation.<sup>111</sup> During the Covid-19 pandemic, the DPRK has been especially harmed by UN sanctions as it was forced to close its borders to China. Chinese imports to the DPRK plummeted 88%.<sup>112</sup> Thus, the lifting of external sanctions is especially an urgent issue for the DPRK.

In December of 2019, both Japan and China agreed to cooperate to denuclearize North Korea amid growing tensions between Washington and Pyongyang. This opportunity serves as a potential nexus to promote regional peace in Asia and shows the desire to increase mutual trust. However, there are still multiple concerns for Japan, as the PRC and DPRK remain close allies because China considers the DPRK as a key strategic buffer zone for China's national defense and disputes between China and Japan in the East China Sea.<sup>113114</sup>

Prime Minister Abe's reinterpretation of the Constitution to expand the legal scope of SDF's operation aims to tackle Japan's concerns regarding the growing close relations between the DPRK and China.<sup>115</sup> The expansion of SDF's mobility scope and strengthening of national defense is effective and necessary approaches that serve Japan's interests in proactive peacekeeping, maintaining national security, and increased participation in regional cooperation on collective security issues.

## The Taiwan Issue

Taiwan's sovereignty has always been a primary security issue between the U.S.-China and the Northeastern Asia region because it directly influences the control of the Pacific entrance into Asia. The People's Republic of China has been an assertive claimant of the island of Taiwan since 1949 when the PRC won the civil war with the Guo-Min-Dang Nationalist Party. Although Japan is currently not a direct and major participant in the Taiwan issue, the issue does involve

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<sup>111</sup> Gordon, R.Michael. "Covert Chinese Trade With North Korea Moves Into the Open." *The Wall Street Journal*. December 9, 2020. Accessed February 8, 2021. <https://www.wsj.com/articles/covert-chinese-trade-with-north-korea-moves-into-the-open-11607345372>

<sup>112</sup> Albert, Eleanor. "The China–North Korea Relationship." *Council on Foreign Relations*. June 25, 2019. Accessed February 8, 2021. <https://www.cfr.org/background/china-north-korea-relationship>

<sup>113</sup> Jiang, Tianjiao. "Three Spikes and You Are Out? China-DPRK Relations after the Cold War and the US." *Open Forum*. June 26, 2020. Accessed February 8, 2021. <http://www.theasanforum.org/three-spikes-and-you-are-out-china-dprk-relations-after-the-cold-war-and-the-us/>

<sup>114</sup>"China, Japan Defense Ministers Agree to Work on N. Korea." *Kyodo News*. December 18, 2019. Accessed February 8, 2021. <https://english.kyodonews.net/news/2019/12/ca8753b68d79-china-japan-defense-ministers-meet-to-boost-security-cooperation.html>.

<sup>115</sup>"Sieg, Linda. "Mission Unaccomplished - Abe's Drive to Revise Pacifist Constitution." *Reuters. The Japan Times*. November 19, 2019. Accessed February 8, 2021. <https://www.japantimes.co.jp/news/2019/11/19/national/politics-diplomacy/shinzo-abe-revise-constitution/>

the U.S., which indirectly influences the U.S.-Japan extended deterrence strategy as well as U.S.-Japan military cooperation. Thus, Japan is actually a key recipient of the outcomes of the Taiwan issue and cannot exclude itself from the Taiwan issue.

The re-election of President Tsai Ying Wen of the Democratic Progressive Party, whose policies prefer rectification of Taiwan's stance rather than seeking peaceful concessions, has heightened China's attention and awareness of the Taiwan issue. It seems to China that the previous strategies such as building Taiwan's economic dependence on China and the "One Country, Two Systems" are no longer applicable to the current Taiwanese government. Eight Chinese bomber planes and four fighter jets entered the southwestern corner of Taiwan's air defense identification zone in January 2021 to deter and demonstrate China's assertive determination to resolve the Taiwan issue.<sup>116</sup> Furthermore, it is also a test of U.S. President Joe Biden's level of support in helping Taiwan achieve its sovereignty. In the United States' first public remarks on Taiwan since U.S. President Biden came into power, the U.S. State Department reaffirmed its "rock-solid commitment" to helping it defend itself.<sup>117</sup>

As China becomes more proactive on the Taiwan issue, the U.S. is also becoming more assertive in its stance of supporting the defense of the Taiwan Strait. This could potentially repeat the situation in the Korean War in which the U.S. sent fleets to the Taiwan Strait to prevent and counter China's military expansion over the Pacific region. Japan normally does not need to be involved with China-Taiwan daily interactions. However, if the Chinese and U.S. military come into conflict in the Taiwan Strait, the U.S.-Japan extended deterrence strategy will require Japan to send marine and aerial forces to counter China's expansion. If the Taiwan dispute is settled in favor of China then, the scope of the U.S.-Japanese extended deterrence would likely rapidly shrink and Japan could be militarily isolated from its western and ASEAN allies in Northeastern Asia issues

### **The Quadrilateral Security Dialogue vs. China**

The Quad, a minilateral cooperation consisting of the United States, Japan, Australia, and India, aims at increasing non-military cooperation through infrastructure investment and development,

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<sup>116</sup> Blanchard, Ben. "Taiwan reports large incursion by Chinese air force." *Reuters*. January 23, 2021. Accessed February 9, 2021. <https://www.reuters.com/article/us-taiwan-china-security-idUSKBN29S0BK>

<sup>117</sup> *BBC News*. "Taiwan reports 'large incursion' by Chinese warplanes for second day." January 25, 2021. Accessed February 9, 2021. <https://www.bbc.com/news/world-asia-55788359>

to counter China's BRI activities in the Indo-Pacific Region. The minilateral cooperation of the four nations includes military and non-military relations in order to produce temporary, but expeditious collective practices from informal channels when multilateral institutions (e.g. NATO) are not functioning well.<sup>118</sup> Such cooperation serves specific interests between nations when any sensitive or regional incidents occur, such as the U.S.-Japan-India trilateral cooperation that focuses on narrow interests such as maritime security and infrastructure development. The Partnership for Quality Infrastructure (PQI) has strengthened the Asian Development Bank (ADB) led by Japan as it provides the Quad's members common ground to counter China's BRI through fostering connectivity and development of infrastructure with a concern for transparency, genuine need, and sustainable debt burden.<sup>119</sup> Furthermore, the major concern that China will utilize the BRI to deploy its military forces in cooperating regions could be countered if the Quad seeks to bind nations that further share similar national values and interests instead of merely development.

In China's view, the "Anti-China Trend" becomes a global and comprehensive strategy, especially for U.S.-led efforts.<sup>120</sup> In addition, the establishment of the Quad becomes a regional politic that embraces the FOIP strategy to reduce China's presence in the Asian and Pacific world. Japan especially has successfully expanded its leadership role in the Asia-Pacific region to challenge China's diplomatic and military strategies in the region. That is, the rally of regional defenses and allies between China's BRI framework and the Quad has become pivotal in determining the next main leader of Asia. As a result, the status quo has become a great opportunity for Japan to continue and expand its FOIP strategy and enhance its influence in Asia by strengthening national defense and tightening relations with international allies to counter China's expansion.

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<sup>118</sup> Paik, Wooyeal & Park, Jae Jeok. "The Quad's Search for Non-Military Roles and China's Strategic Response: Minilateralism, Infrastructure Investment, and Regional Balancing." *Journal of Contemporary China*, 2021, VOL. , 37. Accessed January 27, 2021. doi-org.offcampus.lib.washington.edu/10.1080/10670564.2020.1766908

<sup>119</sup> Paik, Wooyeal & Park, Jae Jeok. "The Quad's Search for Non-Military Roles and China's Strategic Response: Minilateralism, Infrastructure Investment, and Regional Balancing" *Journal of Contemporary China*, 2021, VOL. 30, NO. 127, 36-52.

<sup>120</sup> 人民日報海外版編著. "中美貿易摩擦 怎麼看 怎麼辦: 中美貿易戰, '地緣政治又來了'." Beijing: 東方出版社 (2018). Accessed January 27, 2021. ISBN : 9787520705783

## Military Spending of Japan and China

Since the end of the Cold War, Japan's military status has reached a stable phase of having no proactive offensive and nuclear weapons. In contrast, since the end of World War II, China has been expanding the scale of its military to challenge the world order built by the U.S. In the late 2000s, China's military spending reached approximately \$60 billion and exceeded Japan's.<sup>121</sup> The rise of China's military power has directly challenged Japan's leadership role in Asia and thus forced Japan to reconsider its foreign strategies in regards to China. As long as complicated Japan-China disputes are not resolved, it is inevitable that Japan will have to interact with China while simultaneously facing military and diplomacy tensions.

Japan has been increasing its defense military budgets for nine straight years and recently recorded a historic high of \$51.6 billion budget to support the long-distance missiles regarding the intensified Japan-China relations.<sup>122</sup> The status quo does not suggest that the two countries are going to start wars or invade disputed territories of each other but does reflect that the military and national defense concerns of both countries have deepened severely.

## Stances of Future Prime Ministers

As the torch of Previous Prime Minister Abe has been passed to Prime Minister Suga, the latter will arguably become the most influential figure for future Japan-China relations and the difference of his stances will potentially influence the status quo of the relationship. Prime Minister Abe has been "exceptional for his strong presence in international scenes," while on the other hand, Prime Minister Suga rarely was on the front stage interacting with world leaders.<sup>123</sup> Hence, one of Prime Minister Suga's future challenges would be to mark his own presence and voice in foreign affairs.

The future Prime Minister's political inclination is also of key importance for the future of Japan's relations with China. According to past attitudes, Chinese leaders were more willing to build friendly relations with Japan when the Prime Minister adopted the ideology that Japan has a responsibility to compensate for wartime damages to China. On the other hand, when the

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<sup>121</sup> "Military Strength Compared." chart, *Warhistory*, March 28, 2013.

<sup>122</sup> Fan, Anqi. "Japan's record-high defense budget won't pose actual threat to China: experts." *Global Times*, December 22, 2020. Accessed January 25, 2021. <https://www.globaltimes.cn/content/1210686.shtml>

<sup>123</sup> Crabtree, Charles & Tsutsui, Kiyoteru. "Five ways in which Japan's new Prime Minister Suga is different from Abe." *The Hill*, September 20, 2020. Accessed January 28, 2021. <https://thehill.com/opinion/international/516984-five-ways-in-which-japans-new-prime-minister-suga-is-different-from-abe>

previous Prime Ministers adopted a more right-wing or nationalistic ideology or even engaged in controversial practices such as visiting Yasukuni Shrine, the Chinese government usually heavily condemned Japan and maintained sensitive relations. In the 2016 Global Attitude Survey, only 10% of Chinese thought that Japan had “apologized sufficiently for their military actions during the 1930s and 40s,” while 53% of Japanese agreed.<sup>124</sup> In addition, approximately 77% of Chinese believe Japan had not apologized sufficiently compared to a quarter of the Japanese respondents.<sup>125</sup>

Currently, Prime Minister Suga could potentially have an advantage in this regard because many experts and scholars would attribute his stance and style as less politically inclined, but realistic and sensible. That is, although different from Prime Minister Abe’s charismatic approach, Prime Minister Suga’s pragmatism could greatly support him in adopting policies and stances that essentially strengthen Japan’s ties and cooperations with allies with similar interests.

## Conclusion

As China’s rise in the past two decades has inevitably led to Japan’s decline as a leader in Asia, Japan faces various military, diplomatic and economic challenges in which Japan itself cannot depend on the U.S.-Japan alliance exclusively. In order to break the stagnation of Japan in multiple fields, Japan’s assertiveness of fortifying national security and strengthening its character as an international peacekeeper enables Japan to expand its diplomatic ties with more ASEAN and Pacific states and seek out stable cooperation with China.

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<sup>124</sup>“% of Japanese saying Japan has \_\_ for its military actions during the 1930s and 1940s.” chart, *Spring 2016 Global Attitude Survey*, Q.84 (September 12, 2016). Accessed January 28, 2021.

<sup>125</sup>“Japan has apologized sufficiently for its military actions during the 1930s and 1940s.” chart, *Spring 2016 Global Attitude Survey*, Q.84 (September 12, 2016). Accessed January 28, 2021.

## Chapter 4:

# Japan-China Economic Relations

The development of the Chinese economy and growing investments show China has become a leading player internationally and regionally. China is ranked as Japan's top trading partner, comprising 19.4% of yearly exports and 23.8% of yearly imports.<sup>126</sup> With a population of 1.398 billion and a GDP of \$14.343 trillion, China is a major market for Japanese businesses and investors. Current Japan-China economic relations remain strong, however, there are many potential opportunities and concerns. As China and Japan are economically interdependent, tight Japan-China economic relations are crucial to the Japanese economy and Japan should continue to maintain a “win-win” collaboration with China for major economic benefits.

### Japan's Current Trade Balance with China

Bilateral trade between China and Japan is a key cornerstone of their economic relations. The total trade volume between China and Japan in 2019 was \$340.7 billion, of which Japan's imports were \$169.2 billion and exports were \$171.5 billion.<sup>127</sup> This bilateral trade is highly complementary, with China exporting raw materials and goods to Japan and Japan exporting industrial products and materials to China. Japan's top exports to China in 2018 included machinery (\$36.5 billion), electrical machinery (\$32 billion), chemicals (\$24 billion), and transport equipment (\$14.4 billion).<sup>128</sup> Japanese firms in China produce consumer products and export consumer goods to Japan and procure capital goods and important components from Japan, a major part of China's imports from Japan. This complementary nature of bilateral trade has thus become one of the key features in the relationship. It is important to note that this relationship is different from U.S.-China economic relations. In the U.S., its trade deficit with

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<sup>126</sup> “Japan (JPN) Exports, Imports, and Trade Partners.” n.d. Accessed January 16, 2021. <https://oec.world/en/profile/country/jpn>.

<sup>127</sup> “日中经济合作.” 2021. Embassy of Japan in China. January 13, 2021. [https://www.cn.emb-japan.go.jp/itpr\\_zh/economy.html](https://www.cn.emb-japan.go.jp/itpr_zh/economy.html).

<sup>128</sup> Johnston, Matthew. 2019. “China's Top Trading Partners.” Investopedia. August 9, 2019. <https://www.investopedia.com/articles/investing/092815/chinas-top-trading-partners.asp>.

China accounts for 47% of the total deficit (\$376 billion) and many Americans have lost their jobs as the U.S. mainly imports final products from China, resulting in major trade conflicts.<sup>129</sup> On the other hand, Japan does not have this degree of economic conflict with China. Furthermore, as China and Japan are respectively the second and third-largest economies in the world, this bilateral relationship showcases their interdependence.

Currently, Japan has an increasing trade deficit with China, \$34.31 billion in 2019.<sup>130</sup> With China's industrial upgrading, labor-intensive manufacturing products have gradually substituted raw material and energy as one of the Japanese main imports from China while the percentage of manufacturing goods as part of Japanese exports to China has decreased to 12% in 2015.<sup>131</sup> This has led to a hollowing-out effect (unemployment) on Japan's economy, particularly in the manufacturing sectors. Additionally, as Japanese companies are increasingly collaborating with Chinese local manufacturers, they have begun to procure more from local Chinese firms instead of importing from Japan. Based on the Japan External Trade Organization (JETRO) survey in 2016, 68% of Japanese firms located in China purchased raw material and industrial components in China as compared to 58% in 2015.<sup>132</sup> Even though the trade deficit data may be alarming, it is important to note that China is still Japan's largest export market. Japan, which is still grappling with resurgent pandemic outbreaks, can reap economic benefits from the rebounded Chinese economy. In comparison to Japan's 4% decrease in overall global exports in 2020, Japan's exports to China have risen by 3.8%.<sup>133</sup> China's increase in demand facilitated a net trade increase in Japan's economic growth during the 2020 July-September quarter by 3%.<sup>134</sup> However, resurgent pandemic outbreaks and lockdowns will affect overseas demand, but China's continued economic growth will provide Japan some alleviation for the decline in export demands.<sup>135</sup> As such, it is in Japan's best interest to continue to focus on areas of possible growth in bilateral trade with China.

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<sup>129</sup> Kapustina, Larisa, Ľudmila Lipková, Yakov Silin, and Andrei Drevaev. 2020. "US-China Trade War: Causes and Outcomes." SHS Web of Conferences 73 (January): 01012. <https://doi.org/10.1051/shsconf/20207301012>.

<sup>130</sup> Shi, Yinglun. 2020. "Japan Logs Goods Trade Deficit for 2nd Straight Year in 2019." Xinhua. January 23, 2020. [http://www.xinhuanet.com/english/2020-01/23/c\\_138729249.htm](http://www.xinhuanet.com/english/2020-01/23/c_138729249.htm).

<sup>131</sup> Chiang, Min-Hua. 2019. "Contemporary China-Japan Relations: The Politically Driven Economic Linkage." *East Asia* 36 (4): 271–90. <https://doi.org/10.1007/s12140-019-09321-x>.

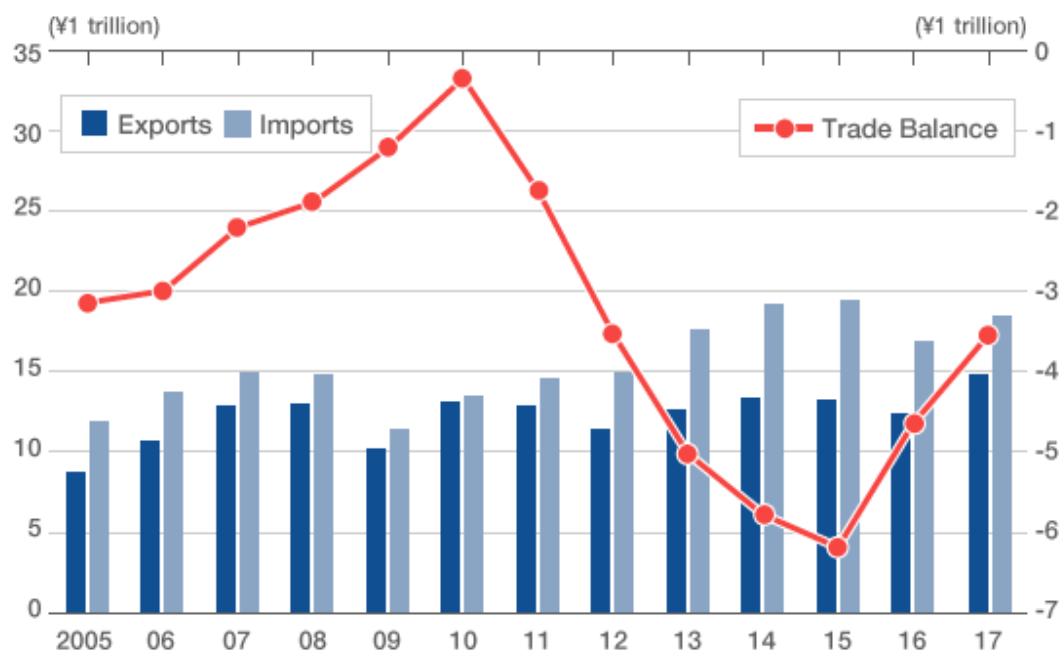
<sup>132</sup> *Ibid.*

<sup>133</sup> "Japan Exports Slip despite Uptick in Trade with China." 2020. *AP NEWS*. December 16, 2020. <https://apnews.com/article/japan-global-trade-china-coronavirus-pandemic-a54a372aa64c795f23806d6323112282>.

<sup>134</sup> *Ibid.*

<sup>135</sup> *Ibid.*

## Japan's Trade with China



Compiled by Nippon.com based on statistics from the Ministry of Finance.

nippon.com

### Bilateral Investments

China's growing economy is fertile ground for Japanese FDI and the growth in bilateral trade is largely facilitated by Japanese investments. In 2018, Japanese FDI in China totaled approximately \$124 billion with around 23,000 Japanese firms operating in China.<sup>136</sup> Japanese multinational companies in China are mainly in manufacturing sectors and FDI is concentrated in transport equipment, electric equipment, and other manufacturing.<sup>137</sup> Additionally, Japan has the most investments in China amongst the large economies, 7.3% of the total cumulative FDI flows, greater than the United States' 5.8%.<sup>138</sup> As Japanese firms can utilize China's comparative advantage in low-cost factors of production and its large market demand, Japan places a significant emphasis on the Chinese market, especially for manufacturing industries. However,

<sup>136</sup> West, John. 2020. "The China-Japan Economic Relationship Is Getting Stronger." *BRINK – News and Insights on Global Risk*. January 20, 2020. <https://www.brinknews.com/the-china-japan-economic-relationship-is-getting-stronger/>.

<sup>137</sup> Latorre, María C, and Nobuhiro Hosoe. 2016. "The Role of Japanese FDI in China." *Journal of Policy Modeling* 38 (2016): 226–41. <http://dx.doi.org/10.1016/j.jpolmod.2016.02.003>.

<sup>138</sup> Ibid.

Japan's outward FDI may cause concern domestically. Coupled with the coronavirus pandemic, outward investments may lead to the shutdown of domestic plants, causing detrimental impacts on the manufacturing sector. In 2020, 16,717 out of 79,522 unemployed Japanese people were from the manufacturing sector.<sup>139</sup> While there are some negative implications, outward investments are beneficial to the overall Japanese economy. Japanese investments in China allow Japanese firms to use China as a production base to avoid higher Japanese costs and improve their global competitiveness, thus contributing to Japanese export-oriented economic growth.<sup>140</sup>

On the other hand, Japan has continued to attract substantial investments from China. Chinese cumulative direct investments in Japan totaled \$3.73 billion in 2019.<sup>141</sup> These investments are in areas such as manufacturing, financial services, cross-border e-commerce, mobile payments, and the Internet.<sup>142</sup> The Japanese market is highly valued by Chinese companies for its favorable environment in research and development (R&D). Many Chinese firms, such as Huawei, Baidu, ZTE, and Suning, have developed partnerships with Japanese operators and manufacturers. Additionally, Chinese firms such as Huawei have set up R&D centers in Japan while Tencent and Alibaba have added payment outlets there. In 2020, the Chinese company Xiaomi (the world's fourth-largest smartphone manufacturer) announced plans to double its number of engineers at its R&D center in Japan.<sup>143</sup> As Huawei holds only 5% of the Japanese smartphone market share, there is room for other major Chinese technology players in the Japanese market, further making Japan an attractive location for technology investments.<sup>144</sup> Even though Japan's current investments in China are much higher compared to China's current investments in Japan, Japan should be optimistic as Chinese investments have a potential for greater growth. The current trends in Chinese investments imply that Japan is not only a lucrative destination but also an important partner for ventures in areas, especially for R&D. Japan can

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<sup>139</sup> "Japan Records Nearly 80,000 Pandemic-Linked Job Losses." 2020. The Japan Times. December 28, 2020. <https://www.japantimes.co.jp/news/2020/12/28/business/japan-pandemic-job-losses/>.

<sup>140</sup> Xing, Yuqing. 2004. Japanese FDI in China: Trend, Structure, and the Role of Exchange Rates. <https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.199.4208&rep=rep1&type=pdf>.

<sup>141</sup> "双边关系 — 中华人民共和国外交部." 2020. Ministry of Foreign Affairs of the People's Republic of China. May 2020. [https://www.fmprc.gov.cn/web/gjhdq\\_676201/gj\\_676203/yz\\_676205/1206\\_676836/sbgx\\_676840/](https://www.fmprc.gov.cn/web/gjhdq_676201/gj_676203/yz_676205/1206_676836/sbgx_676840/).

<sup>142</sup> Liu, Yeting, and Mu Yang. 2020. "中日贸易平稳发展 投资总额稳步增长--国际--人民网." People.cn. September 10, 2020. <http://world.people.com.cn/n1/2020/0910/c1002-31857231.html>.

<sup>143</sup> Shimuzu, Kosuke. 2020. "Xiaomi to Double Japan R&D Staff as Huawei Stumbles." Nikkei Asia. December 10, 2020. <https://asia-nikkei-com.offcampus.lib.washington.edu/Business/China-tech/Xiaomi-to-double-Japan-R-D-staff-as-Huawei-stumbles>.

<sup>144</sup> Ibid.

leverage its advantages, particularly in R&D to continue to attract Chinese firms. However, Japan must be cautious about issues such as Intellectual Property (IP) theft and other espionage that could occur in growing Chinese investments. Thus, it is in Japan's best interests to establish a strong equivalent to the Committee on Foreign Investment in the United States (CFIUS) to oversee foreign investments in Japanese firms from a national security perspective.

## **Major Opportunities and Concerns for Japan with China**

It is important for Japan to understand current Chinese economic trends and policies. In October 2020, China finalized the blueprint for the 14th Five-Year Plan (FYP), setting economic and social policies from 2021–2025. This plan emphasizes sustainable economic growth by improving quality and efficiency. It also features a “dual circulation”: “a domestic cycle” as the main focus for China's next phase economy, targeting internal consumption and production, which is complemented by an “international cycle” that targets foreign trade and investment.<sup>145</sup> Due to the growing technology war with the U.S., China will place a strong emphasis on technology and innovation to be self-reliant in science and technology.<sup>146</sup> Based on the Chinese economic blueprint, it is in Japan's best interests to understand the crucial areas of opportunities and tackle the relevant concerns.

### *Innovation and Technology*

Innovation and technology will be a key focus for China's next five years. China will place a significant emphasis on the digital economy, digital finance, cybersecurity, and autonomous vehicles.<sup>147</sup> FYP aims to support the transformation of China's economy from a focus on producing low-technology goods to specialized high-end goods, transitioning China to “tech self-sufficiency.” The plan states it will focus on IP rights protection, talent attraction, technology infrastructure, and create interdisciplinary and cross-regional innovation centers. Key industries mentioned include artificial intelligence (AI), quantum information, semiconductors, integrated

<sup>145</sup> Tiezzi, Shannon. 2020. “China's Fifth Plenum: What You Need to Know.” October 29, 2020. <https://thediplomat.com/2020/10/chinas-fifth-plenum-what-you-need-to-know-2/>.

<sup>146</sup> Ibid.

<sup>147</sup> Yi, Bin, Weichi Huang, and Keling Wan. 2020. “把握‘十四五’规划带来的政策红利.” Huaxi Securities Co., Ltd. [https://pdf.dfcfw.com/pdf/H3\\_AP202011011425445743\\_1.pdf?1604421965000.pdf](https://pdf.dfcfw.com/pdf/H3_AP202011011425445743_1.pdf?1604421965000.pdf).

circuits, health science, neuroscience, biological engineering, and aerospace technologies.<sup>148</sup> Additionally, FYP will also aim to support key strategic plans, such as the “New Generation AI Development Plan” (China’s strategic plan in making the AI sector its national priority and to establish a native AI industry worth \$150 billion in the next few years, aiming to become a leading AI player by 2030<sup>149</sup>) and the “China Standard 2035 Plan” (China’s plan to become a major leader in defining global standards for next-generation technologies). Furthermore, FYP will establish Shenzhen as a pilot city for innovation priorities, focusing on foreign partnerships and overseas research centers.<sup>150</sup>

As seen from the FYP, technology and innovation are potential areas of opportunity for Japan, especially Japanese technology firms. Instead of viewing China’s rise in the technology sector as a threat, Japan can take a step ahead of others and use China’s desire for higher-end technology as a market opportunity. Japan can use this opportunity to collaborate with China on technology and innovation to create globally competitive solutions that increase productivity and reap potential profits for both nations. Since China has one-third of the world’s unicorns (a private company with a value of over USD 1 billion), by incubating dynamic business models especially catered to the digital economy, Japan can capitalize on these resources to improve its digital economy through partnerships and venture capital investments. For example, Japan could consider targeting key industries specified in China’s plans for further cooperation and investments, allowing Japan to gain a significant share of profits. Japan can also focus on Shenzhen’s status as a pilot innovation center to fully maximize the benefits of an innovation collaboration with China. Increased engagement with China could provide opportunities to quickly commercialize technologies, particularly in budding areas such as AI, by increasing Japanese access to China’s rapidly increasing massive user base and immense digital ecosystem.<sup>151</sup> However, Japan should remain cautious about transferring sophisticated

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<sup>148</sup> Wong, Dorcas. 2020. “What to Expect in China’s 14th Five Year Plan After the Fifth Plenum?” *China Briefing News*. November 12, 2020. <https://www.china-briefing.com/news/what-to-expect-in-chinas-14th-five-year-plan-decoding-the-fifth-plenum-communique/>.

<sup>149</sup> “AI Policy - China.” n.d. *Future of Life Institute*. Accessed January 30, 2021. <https://futureoflife.org/ai-policy-china/>.

<sup>150</sup> Sutter, Karen M, and Michael D Sutherland. 2021. “China’s 14th Five-Year Plan: A First Look.” *Congressional Research Service*, January, 2.

<sup>151</sup> Woetzel, Jonathan, Jeongmin Seong, Nick Leung, Joe Ngai, James Manyika, Anu Madgavkar, Susan Lund, and Andrey Mironenko. 2019. “China and the World.” *McKinsey Global Institute*. [https://www.mckinsey.com/~/\\_/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside](https://www.mckinsey.com/~/_/media/mckinsey/featured%20insights/china/china%20and%20the%20world%20inside)

technology to China. From January 2020, China's new Foreign Investment Law (FIL) says it will prevent Chinese entities from forcing technology transfers from foreign companies.<sup>152</sup> It is important for Japan to be cautious in taking advantage of these opportunities.

Indeed, technology and innovation are major areas of concern for Japan because of security reasons. The worries are focused on issues such as cybersecurity, IP, and information technology.<sup>153</sup> There are concerns that there is a possibility of leaking advanced technologies and information to China and that China would use them for military purposes. In fact, Japan's National Security Council has established a unit to analyze the impact of economic matters, for example, advanced technologies, on national security.<sup>154</sup> Japan's concerns are warranted. As China is an important market for Japan, offering a vibrant environment for technology and innovation investments, it is in Japan's best interests to consider market entry and potential partnerships in non-sensitive work. This will not only allow Japan to reap the benefits of China's growing markets but also address security concerns by refraining from working with or transferring technology to China in sensitive areas.

### *Advanced Manufacturing*

Japan should realize that manufacturing is an important sector for China as it aims to transition towards more high-end, clean technology. By 2035, China plans to spend about \$1.4 trillion on digital infrastructure development in seven areas: 5G, industrial network, modern transport, data processing centers, AI, high voltage networks, and electric car charging stations.<sup>155</sup> Additionally, *Made in China 2025* is China's plan to reduce reliance on foreign technologies and target the

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%20the%20dynamics%20of%20a%20changing%20relationship/mgi-china-and-the-world-full-report-june-2019-vf.ashx.

<sup>152</sup> Cheng, Evelyn. 2019. "EU Chamber Says China's New Foreign Investment Law Is 'Surprisingly Accommodating.'" *CNBC*. October 21, 2019. <https://www.cnbc.com/2019/10/21/eu-chamber-chinas-foreign-investment-law-is-surprisingly-accommodating.html>.

<sup>153</sup> Nakagawa, Kaori Kaneko, Izumi. 2020. "Wary of Security Issues, Japan's Government Moves to Shut China out of Its Drone Supply Chain." *Reuters*, October 30, 2020. <https://www.reuters.com/article/japan-china-technology-idINKBN27F0CQ>.

<sup>154</sup> *Ibid.*

<sup>155</sup> Paszak, Paweł. 2020. "Preparations for the Adoption of the 2021-2025 Five-Year Plan." *Warsaw Institute* (blog). October 6, 2020. <https://warsawinstitute.org/preparations-adoption-2021-2025-five-year-plan/>.

development of advanced manufacturing and high-technology industries.<sup>156</sup> China aims to integrate big data, cloud computing, and other emerging technologies into global manufacturing supply chains.<sup>157</sup>

Advanced manufacturing is thus an area of opportunity for Japan. Japanese firms can gain tremendous benefits from investing in improved manufacturing productivity in China, with expected growth in key specified sectors. Fanuc, a Japanese automation company, has seen its sales in China more than double to ¥215.9 billion (\$2.03 billion) over one year.<sup>158</sup> Similarly, in technology and innovation, Japan could profit by engaging with China particularly in non-sensitive works instead of limiting its engagements. As China still needs to bolster its internal development in areas such as technology and renewable energy with foreign capital and expertise, Japan can benefit from the subsequent opening up of the Chinese market especially in specified areas.<sup>159</sup> According to Japanese semiconductor maker Rohm, its revenue in 2018 increased 12.8% as compared to the previous year during increased demand for environmentally friendly electric appliances.<sup>160</sup> Since China is a major market for green electric appliances and electric cars, Japan can consider using its strengths in this area to lead the market and benefit from the unveiling opportunities in the low-carbon industry.

While manufacturing offers opportunities, it is also a concern for Japan. A possible concern is that China's state-led model and ambitions in supply chains could threaten entire industries under a rival geopolitical power's control.<sup>161</sup> For example, China's control in the cobalt industry would be a significant risk to Japan, affecting industries that rely on battery supplies. Should China obtain such control, this is a major security problem as Japan would be in a disadvantaged position. Moreover, China is prioritizing political control over economic incentives, and will inevitably distort the global market. Incentives such as subsidies may

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<sup>156</sup> Ramadori, Claudio. 2020. "Made in China 2025 - Everything You Need to Know." *New Horizons*. June 7, 2020. <https://nhglobalpartners.com/made-in-china-2025/>.

<sup>157</sup> McBride, James, and Andrew Chatzky. 2019. "Is 'Made in China 2025' a Threat to Global Trade?" *Council on Foreign Relations*. May 13, 2019. <https://www.cfr.org/background/made-china-2025-threat-global-trade>.

<sup>158</sup> Okutsu, Akane. 2018. "Japanese Manufacturers Turn Back to China." *Nikkei Asia*. June 12, 2018. <https://asia.nikkei.com/Business/Business-trends/Japanese-manufacturers-turn-back-to-China>.

<sup>159</sup> Weller, Torsten. 2020. "Analysis: China's 14th Five Year Plan." *Focus - China Britain Business Council*. December 3, 2020. <https://focus.cbbc.org/analysis-chinas-14th-five-year-plan/>.

<sup>160</sup> Ibid.

<sup>161</sup> McBride, James, and Andrew Chatzky. 2019. "Is 'Made in China 2025' a Threat to Global Trade?" *Council on Foreign Relations*. May 13, 2019. <https://www.cfr.org/background/made-china-2025-threat-global-trade>.

contribute to market distortion, overproduction, and the dumping of cheap products overseas, as seen with solar panels.<sup>162</sup> Government support results in an unfair price advantage by substantially decreasing Chinese firms' costs. Hence, this will inevitably affect Japan's competitiveness and Japanese firms may lose their market share. It is in Japan's best interests to identify possible areas of weaknesses in supply chains and manufacturing and possible areas of strengths that will help them profit in their relations with China.

### *Healthcare, Education, and Tourism*

The growing Chinese middle class offers a large market for Japanese companies, which face demographic stagnation back in Japan; indeed, China's middle class could reach 550 million in three years, more than 1.5 times the current U.S. population.<sup>163</sup> Japan could especially capitalize on sectors, such as healthcare and education. Moreover, Japan can attract more revenue from China's large consumer base through its tourism industry.

As Chinese consumers now focus more on healthcare and education, Japan can expect a substantial increase in revenue from these sectors. China's healthcare market is projected to be worth \$2.3 trillion by 2030 and the momentum for higher healthcare spending is inevitable.<sup>164</sup> The rising Chinese middle class and improved health insurance to cover all Chinese citizens would increase the demand for quality equipment and supplies at an accelerating pace. Moreover, the Chinese government has taken measures to open the healthcare market to foreign healthcare providers, allowing the operation of foreign-owned hospitals and facilities in seven provinces or engagement of 70% equity ownership in joint venture agreements in other areas. Since Chinese consumers view foreign healthcare products as more reliable than domestic products, this preference is beneficial to Japanese companies with high-end healthcare technologies. On the other hand, the Chinese education market is projected to have continued

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<sup>162</sup> Ibid.

<sup>163</sup> Cheng, Evelyn. 2019. "China's Giant Middle Class Is Still Growing and Companies from Walmart to Start-Ups Are Trying to Cash In." *CNBC*. September 30, 2019. <https://www.cnbc.com/2019/09/30/chinas-giant-middle-class-is-still-growing-and-companies-want-in.html>.

<sup>164</sup> Koty, Alexander. 2020. "Investment Opportunities in China's Healthcare Sector After COVID-19." *China Briefing News*. March 25, 2020. <https://www.china-briefing.com/news/investment-opportunities-chinas-healthcare-sector-after-covid-19/>.

growth of \$288 billion.<sup>165</sup> Market segments such as non-academic training are open to joint ventures and wholly foreign-owned enterprises (only allowed in Shanghai Free Trade Zone). Since the removal from the Negative List in 2015 (foreign investments are either limited or banned for industries on this list), foreign investments in the education sector have become easier.<sup>166</sup> However, there are potential concerns due to a lack of regulations in market segments such as online education. Despite the growing market, it is best for Japan to wait for clearer industry standards before entering the market. With rising Chinese demand, Japanese companies with specialties in healthcare and education can target the Chinese market and export goods and services that cater to the needs of Chinese consumers.

Since a growing number of Chinese consumers travel overseas and spend a lot of money there, Japan can use this to its advantage. Tourism has been an important source of revenue for Japan, with Chinese tourists spending more than ¥808 billion (\$7.61 billion) in the Japanese economy in 2015 and accounting for 23% of the nearly ¥3.5 trillion (\$32.96 billion) spent by foreign tourists.<sup>167</sup> The revenue earned from tourism is broadly spread in the Japanese economy as different groups of people play a role in different parts of the tourism sector.<sup>168</sup> To further reap benefits, Japan can continue to facilitate ease of travel, such as using Singapore-Hong Kong's air travel bubble as a guide to allow eligible travelers to travel without restrictions and long quarantines. Furthermore, Japan can also market its travel industry as an attractive outlet that caters to the Chinese consumers' appetites. Japan can capitalize on China's Wanghong economy (emerging Chinese digital economy based on influencer marketing on social media) by engaging with Chinese celebrities for promotions on social media that is popular with Generation Z, for example, like Douyin/TikTok. Once the pandemic is over, the tourism industry may see a boost since people will want to travel overseas, and seizing the opportunities in this sector will positively aid Japan's post-pandemic recovery.

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<sup>165</sup> Piat, Hugo. 2018. "Online Education in China and Investment Opportunities for Foreign Firms." *China Briefing News*. December 26, 2018. <https://www.china-briefing.com/news/chinas-education-market-foreign-investment/>.

<sup>166</sup> Ibid.

<sup>167</sup> Barai, Munim. 2017. "Economic Interdependence of Japan and China: An Understanding." In *Towards A Common Future: Understanding Growth, Sustainability in the Asia-Pacific Region*, 171–98. [https://doi.org/10.1007/978-981-10-5592-8\\_10](https://doi.org/10.1007/978-981-10-5592-8_10).

<sup>168</sup> Ibid.

## Japan-China Economic Relations in a Multilateral Context

China and Japan are both major players in the Asia-Pacific region, participating actively in numerous regional multilateral institutions. These include the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations Plus Three (ASEAN+3), and the ASEAN Regional Forum. China and Japan are also members of the recent Regional Comprehensive Economic Partnership (RCEP), one of the largest trade agreements in the world. With China and Japan participating in these regional organizations, they serve as an excellent platform for continued economic cooperation, providing more avenues for a mutually beneficial relationship.

### *Competition between Japan and China in the Region*

With the economic development of China, China's influence in the Asia-Pacific is becoming greater. There is a rising concern about the emergence of a "Greater China Economic Empire" that could further challenge Japan's regional influence. After the withdrawal of the U.S. from the Trans-Pacific Partnership (TPP) by the Trump Administration, Japan's economic counterbalance against China by using a U.S.-led multilateral partnership is no longer applicable.<sup>169</sup> Japan is cautious of China's ambitions in shaping the regional free trade agreement frameworks via RCEP and it will play a more active role in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) to balance China's increasing ambitions in institutionalized economic integration.

Additionally, China's Asia Infrastructure Investment Bank (AIIB) is in constant competition with the Japan-led Asian Development Bank (ADB). China is a member of the ADB while Japan is not a member of the AIIB. At the same time, Japan's increased funding for Partnership of Quality Infrastructure (PQI) to \$200 billion is seen as a distinct contrast to China's Belt and Road Initiative (BRI).<sup>170</sup> Japan's PQI has an emphasis on quality instead of quantity,

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<sup>169</sup> Chiang, Min-Hua. 2019. "Contemporary China-Japan Relations: The Politically Driven Economic Linkage." *East Asia* 36 (4): 271–90. <https://doi.org/10.1007/s12140-019-09321-x>.

<sup>170</sup> Duggan, Amelia. 2018. "Japan, China and the Contest for Influence in Contemporary Asia." *Asia Pacific Foundation of Canada*. November 6, 2018. <https://www.asiapacific.ca/blog/japan-china-and-contest-influence-contemporary-asia>.

environmental commitments, and financial sustainability. This emphasis is seen as a direct comparison to the BRI, which is seen as a debt trap (since 2013, overall debt to China has significantly increased, exceeding 20% of GDP in some countries, and eight BRI countries are at risk of debt crises<sup>171</sup>) lacking transparency (opaque bidding processes and required use of Chinese firms). Despite this competition, Japan's Free and Open Indo-Pacific (FOIP) initiative would not force countries participating in the initiative to restrict their participation in the BRI.<sup>172</sup> Japan has recently expressed interest in joining the AIIB and participating in the BRI. By engaging in these projects, Japan might be able to work with the stakeholders in these regional projects, potentially maintaining its status in the region. Furthermore, Japan's participation in these projects will also help to establish the necessary understanding and communication between China and Japan. Instead of focusing on regional hegemony or competition, China and Japan would not only have a common goal towards infrastructure development in less developed countries but also have the opportunity to establish further trust between themselves.

### *Japan as an Important Balancer in the Region*

While the RCEP may be a geopolitical win for China, Japan can play an important role as a balancer. The RCEP is the first China-led multilateral trade deal and is the first trade agreement between China, Japan, and South Korea. Covering about 30% of the world's GDP, the RCEP membership will comprise some of the largest and more developed economies in the world together with lesser-developed economies, totaling 15 countries.<sup>173</sup> As the RCEP strengthens Asia's economic interdependence, more integration may move Asia closer to China's economic circle. China may use its economic weight to influence the establishment of regulations and standards in the bloc while supply chain efficiencies because of RCEP may further increase China's resilience to trade tensions and decoupling by making the region more attractive to foreign investments.<sup>174</sup> Additionally, China views the RCEP as a stepping-stone and has expressed willingness to engage with the CPTPP, a sign that China wants to fill the power

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<sup>171</sup> McBride, James, and Andrew Chatzky. 2020. "China's Massive Belt and Road Initiative." *Council on Foreign Relations*. January 28, 2020. <https://www.cfr.org/backgrounders/chinas-massive-belt-and-road-initiative>.

<sup>172</sup> Arase, David. 2019. "Japan's Strategic Balancing Act in Southeast Asia." *Yusof Ishak Institute Perspective*, no. 2019 (November): 7.

<sup>173</sup> "Key Statistics and Trends in Trade Policy 2020: The Regional Comprehensive Economic Partnership." 2021. United Nations Conference on Trade and Development, January, 1.

<sup>174</sup> Ward, Robert. 2020. "RCEP Trade Deal: A Geopolitical Win for China." *IJSS*. November 25, 2020. <https://www.ijss.org/blogs/analysis/2020/11/rcep-trade-deal>.

vacuum left by the U.S.<sup>175</sup> Though China is unable to join the CPTPP soon due to serious hurdles such as the ban on non-commercial assistance to state-owned enterprises (SOEs), China may use Vietnam as its guide, which was admitted to the CPTPP despite having a similar huge state sector and ask for similar grace periods to have enough time to restructure its SOEs to meet CPTPP standards.<sup>176</sup> Under China's inexorable influence, Japan can prioritize using its balancer role strategically to counteract China's clout.

Japan, with its major role in the CPTPP and numerous economic partnerships with ASEAN countries and Australia, will have to serve as a crucial balance to China. As India's absence may tilt the intra-RCEP trade towards China's favor, Japan must be cautious about China in the RCEP especially since China's heavy investments and relations with ASEAN countries like Cambodia are already turning these countries into satellites of China. Considering that Japan is at the center of the region's trade agreements, Japan can use this to moderate China's influence in RCEP by forming strategic alliances, for example with allies such as Australia. Due to the United States' inability to rejoin the CPTPP in a short period, Japan can focus on strengthening current coalitions, particularly with countries both in the CPTTP and the RCEP.

### **Going Forward: Economic Interdependence and Cooperation with China**

Japan-China economic relations are characterized by economic interdependence. The relationship continues to be largely mutually beneficial, with the potential for greater benefits and strategic partnerships. For Japan, China's huge market is irreplaceable. Though Japan is expanding its economic engagements with Southeast Asian countries, it is difficult to achieve the complexity level in trade and production networks that Japan has established with China for decades. Most of Japan's trade and investment in Southeast Asia is broadly incorporated into supply chain networks in China. Japan's declining population also means that access to the Chinese market and large consumer base is extremely vital to its export-led development

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<sup>175</sup> Lin, Alex Yu-Ting, and Saori Katada. 2021. "China Won't Rush to Join CPTPP. Neither Should the US." *The Diplomat*. January 14, 2021. <https://thediplomat.com/2021/01/china-wont-rush-to-join-cptpp-neither-should-the-us/>.

<sup>176</sup> Chen, Frank. 2021. "China Knocking on CPTPP Trade Pact's Door." *Asia Times*. January 18, 2021. <https://asiatimes.com/2021/01/china-knocking-on-cptpp-trade-pacts-door/>.

model.<sup>177</sup> Moreover, their economic relations remain very complementary. As China's economic development stage emphasizes efficiency-driven competitiveness, Japan can use its experience in transforming into an innovation-driven economy as leverage in their relations. For China, the level of industrial interaction with Japan is irreplaceable as Japan is a very advanced nation and has now reached the clean industrial technologies development stage.<sup>178</sup> Since China and Japan are still largely economically interdependent, it is in Japan's best interests to identify areas for greater cooperation, for example, technology and advanced manufacturing. The partnership will not only allow greater economic interaction but will also integrate the two economies more. It is also important to note that deepened collaborations between the two economies will potentially serve as a form of deterrence for security-related issues.

As economics and politics are intertwined, Japan's economic interactions with China will inevitably be affected by political situations. Any geopolitical rifts create obstacles for deeper bilateral economic interactions.<sup>179</sup> China is strict in securing its national interests and sovereignty rights. Thus, Japan needs to be cautious when dealing with Taiwan and Hong Kong issues and its interactions with the U.S. over these issues. As U.S.-China relations become more intense, the Unreliable Entity List (UEL) regime (a list for foreign enterprises, organizations, or individuals that engage in activities that endanger Chinese national sovereignty, legitimate rights and rights of Chinese enterprises, organizations, or individuals<sup>180</sup>) enforced by the Ministry of Commerce may become a problem for Japan. Japanese firms in China are worried about potential blacklists on UEL and this is a major potential concern especially for Japanese businesses and investments in areas that China deems to be important to national security. Moreover, territorial disputes will inevitably contribute to trade tensions. In 2010, China limited rare earth exports to Japan for two months amidst a conflict over the Senkaku/Diaoyu Islands. Although Japan has achieved some success in decreasing its reliance on rare earth imports from 91.3% in 2008 to 58% in 2018<sup>181</sup>,

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<sup>177</sup> Barai, Munim. 2017. "Economic Interdependence of Japan and China: An Understanding." In *Towards A Common Future: Understanding Growth, Sustainability in the Asia-Pacific Region*, 171–98. [https://doi.org/10.1007/978-981-10-5592-8\\_10](https://doi.org/10.1007/978-981-10-5592-8_10).

<sup>178</sup> Ibid.

<sup>179</sup> Arase, David. 2020. "The COVID-19 Pandemic Complicates Japan-China Relations: Will This Benefit ASEAN?" ISEAS - *Yusof Ishak Institute*, no. 2020 (August): 5.

<sup>180</sup> Wut, Tracy, Zhi Bao, Jon Cowley, and Vivian Wu. 2020. "China Issues the Regulations on Unreliable Entity List – Sanctions & Export Controls Update." September 22, 2020. <https://sanctionsnews.bakermckenzie.com/china-issues-the-regulations-on-unreliable-entity-list/>.

<sup>181</sup> "Does China Pose a Threat to Global Rare Earth Supply Chains?" 2020. *ChinaPower Project* (blog). July 17, 2020. <http://chinapower.csis.org/china-rare-earths/>.

China's use of rare earth minerals as a weapon in political conflicts could happen again in the future, especially since Xi Jinping's visit to a rare earth facility in Jiangxi province served as a warning to the U.S. Safeguarding national interests, sovereignty and security are extremely important to China and for China, any economic ties would only be formed and continued based on respecting these factors. Japan, who views China as an important economic partner, should consider respecting China's boundaries in these sensitive areas while at the same time protecting Japan's national interests.

On the other hand, China is increasingly incorporating economic and financial tools into its foreign policy to achieve its strategic goals. From the BRI to Made in China 2025, China's economic strategy uses "trade, investments, technology, internationalizing of currency and even weaponization of resource supply chains toward geopolitical ends."<sup>182</sup> These Chinese ambitions should be an increasing concern for Japan. Japan's main goals include securing new advanced technologies in areas such as 5G and AI; reinforcing restrictions on foreign investment by China in strategic industries; safeguarding IP and deterring cyber intrusions and forced transfers of technology; becoming self-sufficient in strategic metals and mineral resource supply, and enhancing developmental aid in the Indo-Pacific strategically.<sup>183</sup> With these goals, Japan can better safeguard its economic strategic interests while maintaining some degree of economic balance with China. Although China is a trade partner that has economic interdependence with Japan, Japan needs to be very vigilant about protecting its economic interests, especially in critical areas.

## Conclusion

Japan-China economic relations are complicated, and they will be influenced by factors other than economics, such as politics and security. While offering numerous opportunities, their bilateral relations feature both competition and non-exclusivity, leaving room for each other in the region. China and Japan are economically interdependent. However, this interdependence

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<sup>182</sup> Basu, Titli. 2020. "Securing Japan from Chinese 'Predatory Economics.'" *The Japan Times*. July 20, 2020. <https://www.japantimes.co.jp/opinion/2020/07/20/commentary/japan-commentary/securing-japan-chinese-predatory-economics/>.

<sup>183</sup> Ibid.

should not be taken for granted as it can be both strong and fragile depending on the circumstances. In addition to its strong economy, China has geographic proximity with Japan and this can be a strategic factor for economic ties if played well by both parties. Japan should aim to utilize this to maximize benefits and realize national interests by collaborating with China on economic opportunities. On the other hand, cooperation with China will only realize the full potential if both parties can trust each other. In this case, trust needs to be fostered and potential ways of establishing trust are for Japan to minimize triggering China on sensitive issues and determine further partnerships in multilateral projects. All in all, Japan-China economic relations have tremendous potential and Japan should be optimistic about maintaining good relations with China.

## Chapter 5:

# Japan's Economic Struggles in Case Studies

While Japan's close geographic proximity to the lucrative Chinese market has positive implications for the Japanese economy, Japan faces many critical challenges in its economic relationship with China. In the past half-century, China has greatly honed the development of its technology and cyberspace as part of its economic strategy. Thus far, it has become extremely difficult for Japan to continue economic cooperation with China as there is concern about the possibility of losing economic power to China or China taking advantage of Japan. The most pressing areas that Japan needs to prioritize, include its supply chains and manufacturing, the BRI, 5G network, cybersecurity, and intellectual property (IP) theft. With abundant possibilities for economic cooperation, Japan's preparation in these areas will be critical to building a successful economic relationship with China.

### Supply Chains and Manufacturing

Once at the top of global manufacturing for electronic goods, Japan's status has been replaced by China. Currently, Midea Group, Gree Electric Appliances Inc., and Haier are the world's top three electronics manufacturers. Those Chinese manufacturers grew rapidly, benefitting from heavy investments and joint ventures with Japan.<sup>184</sup> In the past two decades, Chinese firms have sought integration with prominent Japanese manufacturers. In 2012, Haier bought Panasonic's Sanyo Electronics' washing machine and refrigerator businesses, and in 2016 Midea bought Toshiba's household appliances.<sup>185</sup> Now, not only do many of the Japanese technologies belong to China but also with the intensified competition, the overall number of the Japanese manufacturing plants across the globe declined by 50% between 1998 and 2017.<sup>186</sup>

Competition with Chinese products has caused problems in a number of key Japanese industries. Even the Japanese automobile industry experienced losses due to the rising dominance of Chinese Electric Vehicle (EV) manufacturers. In 2019, Japan's EV market

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<sup>184</sup> Yasuhiro Kanai. "中国家電メーカーの躍進と日本の家電メーカーの今後の課題," *Policy Research Institute*, Ministry of Finance, Japan. September 16, 2020.

<sup>185</sup> Kanai. 1

<sup>186</sup> METI/経済産業省. "2020年版ものづくり白書," 2020. 135

accounted for less than 1% of global sales while China's market accounted for roughly a half.<sup>187</sup> China's prominent EV maker BYD is already the second-largest following the United States' Tesla. In the last five years, China's increased production of lithium-ion batteries has successfully undermined Japan's market share.<sup>188</sup> The news about Tesla using predominantly CATLs (China) batteries at its factory in China constitutes a great challenge to the Japanese rival supplier, Panasonic.<sup>189</sup> Being unable to compete against China's raw material refining and cell capacity, Japan's EV industry needs groundbreaking technological innovation to reverse this market trend.<sup>190</sup>

Besides the loss of competitiveness, the heavy reliance on Chinese supply chains poses critical risks for Japanese manufacturers. The short-term risks became obvious during the COVID-19 pandemic as China's production lines stopped.<sup>191</sup> Japanese manufacturers' continuous operations in China may furthermore create more serious long-term damage to themselves. Technology transfers have allowed China to further progress in value-added products and to target self-sufficiency in the Made in China 2025 plan. If the Chinese market reaches a saturation point with enough domestic high-tech suppliers, Japanese companies' products may no longer be competitive in China.<sup>192</sup> This would likely lead to significant job and technology losses for Japanese companies.

## Challenges in Manufacturing

In order to tackle the critical issues in manufacturing discussed above, namely the loss of competitiveness and heavy reliance on the Chinese supply chains, four obstacles deserve Japan's attention. The first is the diversification of manufacturing supply chains. Past attempts to help

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<sup>187</sup> The International Energy Agency. "Global Electric Car Sales by Key Markets, 2010-2020 – Charts – Data & Statistics," *IEA*, December 2, 2020.

<sup>188</sup> David Coffin and Jeff Horowitz. "The Supply Chain for Electric Vehicle Batteries," December, 2018. 12.

<sup>189</sup> Shunsuke Tabeta. "Possibility of Teslas 100% Made in China Grows More Realistic." *Nikkei Asia*, October 21, 2020. <http://asia.nikkei.com/Spotlight/Electric-cars-in-China/Possibility-of-Teslas-100-made-in-China-grows-more-realistic>.

<sup>190</sup> Ben Kilbey. "China Continues to Dominate Global EV Supply Chain," *S&P Global*, September 16, 2020. <https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/091620-china-continues-to-dominate-global-ev-supply-chain-bnef>.

<sup>191</sup> Naomi Tajitsu, Makiko Yamazaki, Ritsuko Shimizu. "Japan Wants Manufacturing Back from China, but Breaking up Supply Chains Is Hard to Do," *Reuters*, June 8, 2020. <https://www.reuters.com/article/us-health-coronavirus-japan-production-a-idUSKBN23F2ZO>.

<sup>192</sup> Koji Hirai. "脱中国を進めなければ日本企業は致命傷を負う理由 智財化戦争と軍民一体の中国産業界," *JBpress*. August 28, 2020. <https://jbpress.ismedia.jp/articles/-/61874>.

manufacturers relocate out of China, such as the government's \$2.3 billion economic package in 2020, were not fruitful.<sup>193</sup> According to an expert's analysis, only 5% of the total Japanese companies in China applied for the subsidies, and the subsidies were not necessarily used for their intended purpose, but rather for restructuring existing businesses in China.<sup>194</sup> It does not make economic sense for Japanese manufacturing affiliates to leave China when they sell over 70% of their productions in the Chinese market.<sup>195</sup> Thus, simple subsidies do not work effectively in solving Japan's supply chain problems, and Japan needs a more creative solution.

The second obstacle is talent acquisition. Japan's manufacturing workforce has declined, and the knowledge of retiring workers has not been successfully transferred to younger workers. Japan saw a 10% decrease in the number of people employed in manufacturing in the past twenty years and over 40% of manufacturers expressed concern about the transfer of technology information to new employees which is necessary for their growth.<sup>196</sup> Furthermore, Japan's sharply declining birth rate has created a shortage of young talent to join the workforce in the high-tech manufacturing domain. Thus, Japan needs additional ways to recruit a steady inflow of younger skilled workers.

The third obstacle is the digitalization of manufacturing. One prominent study projected that the automation of manufacturing will provide a growth opportunity of about \$270 billion and a new market size of over \$1 trillion by 2030.<sup>197</sup> To exploit these opportunities, it is necessary that Japan quickly develop a sophisticated digitalization infrastructure. The current pace of the Japanese government's support is not sufficient to keep up with developments by Chinese firms in this area. Both Japan and China spend 2-3% of GDP on research and development (R&D) every year, amounting to \$173 million and \$426 billion respectively.<sup>198</sup> Japanese manufacturers predict that the importance of Communication Technology (ICT) and

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<sup>193</sup> Tajitsu and others.

<sup>194</sup> Kiyoyuki Seguchi. “コロナでも日本企業が中国から撤退しない理由 ~ 政府の国内回帰支援補助金も中国ビジネス拡大に積極活用 ~.” キヤノングローバル戦略研究所, December 18, 2020.

[https://cigs.canon/article/20201221\\_5534.html](https://cigs.canon/article/20201221_5534.html)

<sup>195</sup> Tajitsu and others.

<sup>196</sup> METI/経済産業省. “2020年版ものづくり白書,” 2020. 130, 138.

<sup>197</sup> Keidanren, the University of Tokyo, and the GPIF for the Promotion of Investment in Problem-Solving Innovation. “Toward the Evolution of ESG Investment, Realization of Society 5.0, and Achievement of SDGs,” March 26, 2020. 40.

<sup>198</sup> Center for Strategic and International Studies. “Is China Leading in Global Innovation?,” *ChinaPower Project*. May 28, 2019. <http://chinapower.csis.org/china-innovation-global-leader/>.

digital technology will triple in the next five years.<sup>199</sup> The size of the Japanese government's investment is unlikely to satisfy the needs of Japan's struggling manufacturers.

Finally, cutting costs enough to allow for globally competitive prices is another challenge. Difficulties in lowering costs of production have resulted in the decline of Japanese manufacturers' market share. Japanese companies have failed to meet the pricing needs of local customers and subsequently have lost to Chinese competitors who offer similar products at a lower price point. For example, on Alibaba's platform in Myanmar, Midea (China) sells rice cookers for \$15, Panasonic (Japan) for \$26, and Hitachi (Japan) for \$72.<sup>200</sup> If Japan wants to be competitive in emerging markets, it must drastically reduce its costs to cater to lower-income consumers.

In sum, manufacturing accounts for 20% of Japan's GDP, yet declining competitiveness in the global market and dependence on Chinese supply chains, indicate further difficulties for Japan's manufacturing.<sup>201</sup> The Chinese market is very competitive, and companies must differentiate themselves in areas such as pricing and quality to earn profits.<sup>202</sup> China's dominance at all supply chain levels, from raw material extraction to assembly lines, only assures China's greater lead in global manufacturing unless Japanese firms can make new technological breakthroughs. Reliance on Chinese supply chains could also worsen Japanese manufacturers' situation. Policies that can holistically tackle these issues will benefit Japan in the long-term.

## **Economies of the Belt & Road Initiative**

China's Belt and Road Initiative (BRI) presents some concerns for Japan's economic interests in the Indo-Pacific region. Economists are concerned that China's debt capacity might have reached its limit and that the BRI projects will put many other countries into heavy debt.<sup>203</sup> The Chinese economy has grown astonishingly due to excessive debt and overinvestment. The government's suppression of domestic consumption and overinvestment in manufacturing and other industries have created unsustainable supply-demand imbalances. Therefore, China strategically seeks to

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<sup>199</sup> METI/経済産業省. “2020年版ものづくり白書,” 2020. 143

<sup>200</sup> Kanai. 8.

<sup>201</sup> METI/経済産業省. “2020年版ものづくり白書,” 2020. 136.

<sup>202</sup> Seguchi.

<sup>203</sup> Mathew C. Klein and Michael Pettis. “Trade Wars Are Class Wars,” *Yale University Press*, 2020. 124, 125.

generate demand for Chinese companies and workers to rebalance its account through the BRI projects. Allegedly, many investments in China have failed to meet the requirements that “support future consumption and production capable of justifying the cost of the investment.”<sup>204</sup> Although former Prime Minister Abe and President Xi agreed to collaborate on infrastructure and the BRI in 2018, none of the joint project proposals have successfully convinced the Japanese government about its financial feasibility and productivity.<sup>205</sup> Because the projects impose burdening debts on the participating countries, the expansion of China’s growth models might destabilize the markets Japanese companies strategically try to expand into, which would not be a desirable outcome for Japan. Therefore, the nature of the BRI as a demand and debt generator can create unfavorable market conditions in the Indo-Pacific region for Japanese firms, making expansion more difficult.

This apprehension is coupled with the weakening of the U.S.-dominant economic order in which Japan has thrived. The BRI may be used to spread the use of Chinese renminbi (RMB) digital currency to participating countries, which might challenge the acclaimed status of the yen in the current global regime. China’s experimentation with central bank digital currencies (CBDC) has been a major concern for Japan.<sup>206</sup> The Chinese government has long eyed the possibilities of cyberspace, acting promptly to adopt a digital currency system. China’s RMB internationalization is progressing while the Japanese government was not successful in internationalizing the yen a decade ago due to its economic stagnation.<sup>207</sup> As of 2019, the U.S. dollar-dominated cross-border transactions, followed by the Euro and Japanese yen (16.8%), and the use of RMB only accounted for 4.3%.<sup>208</sup> Nonetheless, stronger economic ties between China and BRI countries could propel RMB to become the currency of choice for many BRI economies. The relatively strong yen, along with the U.S. dollar, has allowed Japan to sustain its very high government debt and attract significant foreign investment and trade. However, the rising use of RMB could hamper those privileges for Japan and challenge Japan’s role as a

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<sup>204</sup> Klein and Pettis. 128.

<sup>205</sup> Trissia Wijaya. “Is This a True Thaw in Sino-Japanese Relations?,” *The Diplomat*, February 16, 2019. <https://thediplomat.com/2019/02/is-this-a-true-thaw-in-sino-japanese-relations/>.

<sup>206</sup> Yoshifumi Takemoto, Tetsushi Kajimoto. “Japan Lawmakers Push Government for G7 Talks on Digital Yen.” *Reuters*, February 7, 2020. <https://www.reuters.com/article/us-japan-economy-digital-idUKKBN2010EK>.

<sup>207</sup> Center for Strategic and International Studies. “Will China’s Push to Internationalize the Renminbi Succeed?” *ChinaPower Project*, April 1, 2020. <http://chinapower2017.staging.wpengine.com/china-renminbi-rmb-internationalization/>.

<sup>208</sup> BIS. “Turnover of OTC foreign exchange instruments, BIS Statistics Explorer: Table D11.1.” Accessed February 10, 2021. <https://stats.bis.org/statx/srs/table/d11.1>.

“promoter of rules” in the Indo-Pacific region.<sup>209</sup>

### Countering the Belt & Road Initiative

While China seeks to gain influence through massive investments in the BRI, Japan is left to use multilateral economic approaches. There are two things that Japan may want to prioritize to advance its economic interests, taking into account the threats of the BRI and possible collaboration opportunities with China. Firstly, it is increasingly important for Japan to utilize multilateral institutions such as the Association of Southeast Asian Nations (ASEAN) and the Blue Dot Network (BDN), a 2019 initiative by Japan, the U.S., and Australia, which provides an assessment of infrastructure projects worldwide, to mobilize private capital and monitor projects’ financial sustainability.<sup>210</sup> The Japanese government might reconsider working with China if it does not support sustainable financing according to those rules. Despite China’s generous financing, it is important to note that in the long-term, China’s growth will likely slow down and the BRI projects’ future debt levels could climb at a faster pace.<sup>211</sup> Providing financially feasible and sustainable support to the nations in the Indo-Pacific region is a pragmatic way for Japan to effectively deal with China’s BRI.

Yet another challenge is Japan’s approaches to cooperation. As Japan called for cooperation in the frameworks of Partnership for Quality Infrastructure (PQI), BDN, and the Vientiane Declaration with allies, some foreign markets do not prefer the Japan-led Asian Development Bank and Washington Consensus approach. China has been pressuring countries such as Pakistan and Laos to follow the Chinese development path through the BRI. With Japan and China strongly pursuing their own strategies, there can be more market losses than benefits for Japan.<sup>212</sup> As discussed earlier, the internationalization of RMB would be a major milestone for China to further shake the current economic order and reduce Japan’s existing power over the region. Nonetheless, an escalation of the major-power rivalry between Japan and China could be harmful to the region and suppress economic opportunities that would bring mutual benefits to

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<sup>209</sup> Shinzo Abe. “‘Japan Is Back’, Policy Speech by Prime Minister Shinzo Abe at the Center for Strategic and International Studies (CSIS),” *MOFA*. February 22, 2013.  
[https://www.mofa.go.jp/announce/pm/abe/us\\_20130222en.html](https://www.mofa.go.jp/announce/pm/abe/us_20130222en.html).

<sup>210</sup> Hiroyuki Suzuki. “Japan’s Leadership Role in a Multipolar Indo-Pacific,” October 23, 2020.  
<https://www.csis.org/analysis/japans-leadership-role-multipolar-indo-pacific>.

<sup>211</sup> Klein. 126.

<sup>212</sup> Hong Zhao. “China–Japan Compete for Infrastructure Investment in Southeast Asia: Geopolitical Rivalry or Healthy Competition?” *Journal of Contemporary China* 28, no. 118 (July 4, 2019): 574.

Japan otherwise.<sup>213</sup> It is advisable that Japan avoid this outcome when confronting China in the region.

The Japanese and Chinese governments demonstrate strong interests and assertions over their leadership in the region through infrastructure projects and financial-aid. Yet, all these projects require considerable commitment and holistic long-term risk management systems. If China overextends itself in projects with other nations, this could put the Japanese and neighboring economies at risk. Thus, it is important that Japan promptly act to protect its economic interests such as by promoting liberal and cooperative values in the region.

## 5G Networks

Tokyo's plan to showcase its fully digitalized city with 5G networks at the 2020 Tokyo Olympics is unlikely to become a reality. Chinese companies Huawei and ZTE dominated the global telecommunication equipment market and sold their devices to Japan for building 5G networks until the U.S. banned their equipment exports in 2019. However, Huawei's export ban across the globe opened up a potential pathway for Japan to become a leading provider of 5G networks.<sup>214</sup> The U.S. Bureau of Industry and Security (BIS) put Huawei on their Entity List in 2019 to restrict business with the company. This restriction further applied to Japanese firms under the United States' Extraterritorial Control.<sup>215</sup> This hurt Huawei's businesses across the globe. In the meantime, NTT and Rakuten decided to partner with NEC (Japan) to provide 5G services and now offer the world's first fully virtualized, containerized, cloud-native 5G core network.<sup>216</sup> This development makes it unnecessary to build physical hardware stations across Japan. Prime Minister Suga strongly encouraged the Japanese carriers to reduce the price of 5G services in Japan, and Rakuten successfully launched their service at less than half of the previous 5G service prices.<sup>217</sup> Japan's 5G network market share is still small; however, recent moves by Japanese carriers give a positive prospect for their potential success.

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<sup>213</sup> Zhao. 574.

<sup>214</sup> Reidy, Gearoid, and Ayaka Maki. "U.S. Crackdown on Huawei Hands Japan a 5G Lifeline." *The Japan Times*, December 11, 2020. <https://www.japantimes.co.jp/news/2020/12/11/business/us-huawei-japan-5g/>.

<sup>215</sup> Keizou Yokoyama. "米国のファーウェイ潰しは日本のチャンス 半導体規制の歴史と背景、今後の展開を詳解する," JBpress, July 15, 2020. <https://jbpress.ismedia.jp/articles/-/61288>.

<sup>216</sup> Kazuaki Nagata. "Rakuten Rolls out Ultrafast 5G Service with Bold Price Plan." *The Japan Times*, September 30, 2020. <https://www.japantimes.co.jp/news/2020/09/30/business/corporate-business/rakuten-5g-price/>.

<sup>217</sup> Nagata.

## Vulnerabilities in the Cellular Networks

As Japanese 5G providers race other competitors to attain global patent rights in the absence of Huawei, the next 5G network leaders need to overcome some challenges that Huawei could not. The expectation for an alternative global model to Huawei requires competitive prices and sophisticated and trusted supply chain risk management systems. The exclusion of Huawei from global supply chains burdened some Japanese firms that used to rely on Huawei's cost-effective products.<sup>218</sup> The U.S. government threatened to halt its contracts with Japanese firms if they continued to work with Huawei. Not wanting to lose \$1.5 trillion in contracts with the U.S., many Japanese communication companies such as Softbank had to find alternative supplies to achieve competitive market prices.<sup>219</sup> This shift in suppliers required extra costs for these companies. Several large Japanese carriers heavily invested in the 5G network systems that required physical hardware construction across the country in the early years of 5G network implementation.<sup>220</sup> Because of this, these early adopters such as KDDI need a significantly longer time to expand their physical network nationwide, which costs much more than their competitors' virtual cloud 5G network. Hence, there is a concern that the continuous expansive construction by these early adopters will hamper their efforts despite favorable conditions in the global 5G race.

Furthermore, the United States' greatest concern about using Huawei was Internet Communication Technology (ICT) supply chain attacks. The U.S. intelligence committee believed Huawei's production lines could undermine core U.S. national-security interests by committing cyber espionage and intellectual property (IP) infringement backed by the Chinese military.<sup>221</sup> Because of the danger of ICT cyber-attacks on 5G network manufacturing, securing an efficient and resilient supply chain that can be trusted by global buyers is a primary

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<sup>218</sup> Keizo Yokoyama. "米国がファーウェイなど中国5社排除、日本への影響 間近に迫る法律施行、様子見の姿勢では大きな痛手被る." *JBpress*, July 28, 2020. <https://jbpress.ismedia.jp/articles/-/61453>.

<sup>219</sup> Yokoyama. (see note 34 above)

<sup>220</sup> Yasuyuki Onishi. "5G料金3分の1、楽天モバイルが仕掛けた大勝負 メガ3社と比べて群を抜く低価格と明快さ、携帯市場に大激震." *JBpress*, September 30, 2020. <https://jbpress.ismedia.jp/articles/-/62321>.

<sup>221</sup> Mike Rogers, Dutch Ruppersberger, "Investigative Report on the U.S. National Security Issues Posed by Chinese Telecommunications Companies Huawei and ZTE." U.S. House of Representatives 112th Congress. October 8, 2012.

objective.<sup>222</sup> The Japanese government, therefore, should encourage Japanese telecommunication firms like NEC to compete globally and develop its 5G infrastructure capacities at a faster pace.

## Cybersecurity

Cyberattacks and information leaks are common in Japan and the lack of a strategic cybersecurity defense system has taken a toll. Increased concerns regarding the safety of Japanese cybersecurity make it difficult for Japanese companies to attract foreign investments and execute smooth business operations. In the past decade, there have been increased cyberattacks against Japanese companies. Japan's \$18 billion defense businesses, such as Mitsubishi Heavy Industry and Kawasaki Heavy Industry, have become cybersecurity targets because of their sophisticated technologies.<sup>223</sup> In 2020, Mitsubishi Electric's intrusion protection server in China was exploited by a cyber attack.<sup>224</sup> The infection in the network leaked confidential corporate documents and defense-related information from the Ministry of Defense.<sup>225</sup> It is believed that two Chinese hacking groups, BlackTech and Tick, were involved.<sup>226</sup> The information leaked from critical infrastructure builders undermined Japan and its allies' defense efforts as China could potentially use stolen information to better prepare its defense forces. The Japanese government then implemented the United States' security standards to its defense contractors to safeguard their data, but Japanese government agencies could potentially be targeted as well.<sup>227</sup> The People's Liberation Army (PLA)'s cyber attacking group called 61398 unit attacked Japan's Pension Services local area network by a remote access Trojan called Emdivi, leaking over a million cases of personal information.<sup>228</sup> Both the Japan Pension Service and the Ministry of Health, Labour, and Welfare acknowledged their systemic

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<sup>222</sup> Kyouzou Yokoyama. "ファーウェイと ZTE が米国市場から排除される理由 中国の電気通信企業が国家の手先となりあの手この手のサイバー攻撃." *JBpress*, December 7, 2018. <https://jbpress.ismedia.jp/articles/-/54857>.

<sup>223</sup> Masaya Kato. "Japan's Defense Contractors to Use US Cybersecurity Standards." *Nikkei Asia*, March 14, 2019. <http://asia.nikkei.com/Politics/Japan-s-defense-contractors-to-use-US-cybersecurity-standards>.

<sup>224</sup> Tomohito Isotani. "三菱電機、不正アクセス事件の詳細を公開、攻撃者は「ファイルレスマルウェア」で中国拠点から感染を拡大." *INTERNET Watch*, February 14, 2020. <https://internet.watch.impress.co.jp/docs/news/1235361.html>.

<sup>225</sup> Isotani.

<sup>226</sup> "Technical Details of Japan's next-Gen Missile Possibly Stolen via Cyber Attack on Mitsubishi Electric," May 20, 2020. <https://www.cybersecurity-help.cz/blog/1235.html>.

<sup>227</sup> Kato.

<sup>228</sup> LAC. "中国のサイバー攻撃の実態." Defense Structure Improvement Foundation, February 2016. 55, 56.

and technical unpreparedness for this kind of cyberattack.<sup>229</sup> Admitting their lack of preparedness caused them to lose citizens' and businesses' trust. This event could also make Japan more vulnerable to future cyber attacks.

One more concern is that the planned 2021 Tokyo Olympics makes Japan more vulnerable to cyber-attacks. Cyberattacks targeting ordinary Japanese people have significantly increased in recent years. Reporting of phishing emails' has increased from 1,713 cases in January 2019 to 32,171 cases in December 2020.<sup>230</sup> The increased crime numbers due to rampant cyber attacks reduce trust in the nation's security and expose Japan's weakness in cyber defense infrastructure to the world.<sup>231</sup> Cyberattacks thus not only threaten Japan's national security but also disrupt business functions and services. The damaging side effect is that it greatly reduces Japan's corporate competitiveness due to information breaches and loss from financial theft and fraud.

### **Threats to Japanese Cybersecurity**

To cope with these increasing cybercrimes, the Japanese government established the National Center of Incident Readiness and Strategy or Cyberspace (NISC) and the Basic Act on Cybersecurity in 2015. However, these cybersecurity countermeasures were a late start compared to other advanced nations. Therefore, Japan's resilience against cyberattacks remains weak. Due to the Chinese government's enormous resources and ability to use stolen intelligence for its political and economic purposes, China's government-backed attacks are usually hard to detect and very damaging.<sup>232</sup> Considering China's cybercrime numbers in the world and similar crime patterns found in identical industries, it is compelling enough to say that many uninvestigated crimes in Japan have been committed by Chinese hacking groups. The Chinese government grew its influence in global cyberspace, with the view that cyber warfare is a necessary way to enhance their international presence.<sup>233</sup> As stated in the PLA's operational planning, the Chinese government is willing to utilize cyber warfare to manipulate public opinion, evoke certain

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<sup>229</sup> LAC. 119.

<sup>230</sup> Council of Anti-Phishing Japan. "2020/12 フィッシング報告状況," January 6, 2021. <https://www.antiphishing.jp/report/monthly/202012.html>.

<sup>231</sup> Cyber Grid Japan. "CYBER GRID JOURNAL Vol.7 '2020 大規模サイバー攻撃に備えよ'" LAC, March 1, 2019. 6.

<sup>232</sup> LAC. 22.

<sup>233</sup> The United States Office of the Secretary of Defense. "Annual Report to Congress: Military and Security Developments Involving the People's Republic of China 2019," May 2, 2019. 112.

psychological reactions in the targeted population, and create desirable legal situations.<sup>234</sup> Unlike Japan, China has prepared itself to execute cyberattacks at any time to ensure its survival in 21st-century global affairs.

Japan lacks important qualities necessary to improve its cybersecurity situation. First and foremost, the low level of cybersecurity, in general, is striking. The awareness of cybersecurity threats among Japanese government agencies and corporations is very low compared to other Western countries. Only 30% of the top executives in the Japanese corporations intervene or manage cybersecurity policies and strategies.<sup>235</sup> With the lack of awareness in management groups, Japanese companies' investment in cybersecurity remains insufficient. The government's inadequate investment in cybersecurity damages its diplomatic and defense relations as well. Since Japan is allied with the U.S. and experiences increased tensions with China, it makes an attractive target to steal information from. Cyberattacks can greatly disturb Japan's own defense operations in the region. However, Japan's current level of cybersecurity spending fails to match the U.S. in its effort to respond to China's cyber attacks. One cybersecurity expert argues in order to bilaterally cooperate with the U.S. in cybersecurity, Japan would need to increase its spending by tenfold.<sup>236</sup> Considering the importance of cybersecurity in industry and defense, the Japanese government should consider increasing its investment in cybersecurity.

The second obstacle is the limited human capital in cybersecurity operations. There is an increasing demand for technicians who can work on cybersecurity issues. More than 86% of Japanese corporations expressed concerns about a lack of cybersecurity personnel.<sup>237</sup> The shortfall is not only limited to corporations. The quantity of personnel assigned to cybersecurity by the Japanese government was less than one-tenth of what North Korea had in 2015.<sup>238</sup> Limited legal infrastructure to control the situation is another concern for Japan. There is no strong investigatory agency that tracks cyber crime cases in Japan like the United States' Federal Bureau of Investigation (FBI) and the UK's Military Intelligence Section 5 (MI5). The existing investigatory teams such as the National Public Safety Commission, therefore, struggle to

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<sup>234</sup> The United States Office of the Secretary of Defense. 112.

<sup>235</sup> 野村総合研究所 (NRI) . “「企業における情報セキュリティ実態調査 2019」を実施 〜DX の推進に向けて、セキュリティ対応の意識・行動改革が求められる日本企業へ,」 July 18, 2019

<sup>236</sup> James Andrew Lewis. “U.S.-Japan Cooperation in Cybersecurity.” *Center for Strategic and International Studies*, November 2015, 26. 16.

<sup>237</sup> 野村総合研究所 (NRI) .

<sup>238</sup> Lewis. 11.

investigate cases immediately after cyberattacks. Most importantly, there is no obligation for companies to report a cybercrime to the government until 2022.<sup>239</sup> Overall, a stronger cybersecurity system is crucial for Japan, potentially promising market growth of \$150 billion by 2030.<sup>240</sup> Japan's unpreparedness for potential cyberattacks threatens not only its defense capabilities and credibility but also its economy.

## Intellectual Property Protection

Intellectual property (IP) theft is not confined to cyberspace. While IP has tremendous value to the economy, earning Japanese firms \$41.7 billion in 2017, China is notorious for stealing IP from numerous foreign corporations.<sup>241</sup> Japan has witnessed an increasing volume of claims against Chinese companies for copyright issues especially in entertainment industries, such as manga and anime. It is commonplace for Chinese firms to sell goods depicting popular Japanese anime characters, such as Doraemon, without licensing, and to use similar trademarks that resemble existing Japanese ones. These cases are often very visible and usually, lawsuits follow. With the rising concerns of pirating digital productions amidst the quick transition to virtual platforms, it is necessary for the Japanese government to continuously tighten laws regarding IP protection.

There are also serious security and economic concerns in science and technology domains that the Japanese government should recognize. China established a strategic program called the Thousand Talents Plan in 2008 to recruit exceptional foreign talents such as entrepreneurs, young professionals, and other experts. Over a thousand Japanese students and scholars have been recruited through this program. China has built numerous foreign talent acquisition centers across the globe to establish communities to exchange research findings and expertise.<sup>242</sup> However, there are likely IP theft and spying efforts involved in these programs since they are closely linked to China's United Front Work, an intelligence agency working with the Chinese Communist Party (CCP). Several retired Japanese professors were invited to work

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<sup>239</sup> Toshihiro Yamada. “日本がサイバー攻撃の餌食にされ続ける理由 被害を隠すだけでは攻撃相手をつげ 上がらせるだけ.” *JBpress*, June 24, 2020. <https://jbpress.ismedia.jp/articles/-/61428>.

<sup>240</sup> Keidanren, the University of Tokyo, and the GPIF for the Promotion of Investment in Problem-Solving Innovation. 41.

<sup>241</sup> Center for Strategic and International Studies. (see note 15 above)

<sup>242</sup> Yokoyama Kyouzou. “中国はこうして海外の先端技術を掠め取る 日本にも魔の手、「人材採用プログラム」の脅威.” *JBpress*, October 12, 2020. <https://jbpress.ismedia.jp/articles/-/62455>.

on China's research projects. For example, a 71-year-old Kyoto University emeritus professor taught until last year at the robotics research center of Beijing Institute of Technology, which is believed to have close ties to the Chinese military's weapons development.<sup>243</sup> This type of IP stealing is rarely recognized in Japan because it is not largely discussed in public. As IP plays a crucial role in the Japanese economy, it requires comprehensive protection from the government to prevent any loss.

### **A Greater Need for Intellectual Property Protection**

While China pledges to enhance IP protection and transparency in governmental operations, Japan also lacks critical legal enforcement in global IP dealings. The Intellectual Property Strategic Program of 2020 issued by Japan's IP Strategy Headquarters only functions to educate stakeholders about IP issues through seminars and international forums discussing possible solutions.<sup>244</sup> The role of the headquarters remains weak in enforcement power; thus, it will be difficult to tackle emerging issues in both the digital and physical dimensions in the foreseeable future. The most pressing issue for Japan's IP protection is the lack of investigative capacity.<sup>245</sup> This makes potential theft cases hard to detect and subsequently hard to prosecute legally.<sup>246</sup> An intelligence agency that can closely monitor Chinese suspects and public data centers would be an important supplement to Japan's IP Strategy Headquarters' agendas. As China has been increasingly interested in leading global patent competition, in which Japan, the U.S., and the European Union currently dominate, and accelerating talent acquisition across the globe, it is in Japan's interest to protect its IPs and foster innovation going forward.<sup>247</sup>

### **Conclusion**

Over the last couple of decades, Japan's economy has managed to sustain gradual growth due to the rapid growth of the Chinese market. However, it is not sustainable to continuously rely on the Chinese market because of increasing cybercrime and IP infringement. To counter these threats

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<sup>243</sup> "China Using Network of Researchers to Recruit Foreign Personnel." The Straits Times, January 4, 2021. <https://www.straitstimes.com/asia/china-using-network-of-researchers-to-recruit-foreign-personnel>.

<sup>244</sup> Intellectual Property Strategy Headquarter. "Intellectual Property Strategic Program 2020 —An Intellectual Property Strategy for the Post-COVID-19 "New Normal"—." May 27, 2020. 43.

<sup>245</sup> Yokoyama. (see note 215 above)

<sup>246</sup> Yokoyama. (see note 215 above)

<sup>247</sup> Center for Strategic and International Studies. (see note 15 above)

and secure the long-term competitiveness of Japanese companies, Japan needs a strong initiative to promote technological innovation and digitalization in the private sector. Researching and embracing new technology is especially critical for the manufacturing and communication industries. Strengthened industries would enhance Japan's position in the Indo-Pacific region and allow them to confront China's BRI. Cybersecurity and IP protection are critical in accelerating technological innovation as well as boosting customer and investor confidence. By addressing these issues holistically with a long-term perspective, Japan would benefit from improved productivity and greater competitiveness in the Indo-Pacific region. Proper preparation is essential for Japan's future prosperity and a healthy economic relationship with China.

## Chapter 6:

# Japan-United States Economic Relations Through Case Studies

The economic relationship between Japan and the U.S. is the cornerstone of Japan's economy. One of the most effective ways that Japan can strengthen its relationship with the U.S. and keep them as an economic and security partner is by focusing on changes that the U.S. wants. As of 2019, Japan is the 4th largest trade partner to the United States, accounting for \$74.7 billion in exports from the U.S. to Japan, and \$143.6 billion in exports from Japan to the U.S.<sup>248</sup>



Source: Diep, Published By C., and Jan 4. "Total Monthly Value of U.S. Trade with Japan 2019." Statista. January 04, 2021. <https://www.statista.com/statistics/217560/total-value-of-us-trade-in-goods-with-japan-since-2010/>.

<sup>248</sup> "Japan." United States Trade Representative, 2018. <https://ustr.gov/countries-regions/japan-korea-apec/japan>.

Japan's focus with the United States should be to work on growing and maintaining this economic relationship through the industries and services that are most important. Japan should focus on its automotive and auto parts industry, agricultural industry, medical industry, and machinery industry. The two countries' economic relationship is as strong as it has ever been, but Japan should not be complacent and continue to work on making the economic relationship with the United States even stronger.

## **Automotive Industry**

The United States' top imports from Japan are autos and auto parts, with auto imports from Japan in 2019 worth \$49 billion.<sup>249</sup> Furthermore, in 2019, Japan's automotive industry manufactured a total of 3.53 million cars in the U.S., employing more than 170,000 American workers.<sup>250</sup> With Japan's success in the American automotive market, it would be in Japan's best interest to continue to build more factories in the United States. Japanese automotive companies have already begun to do this. For example, Japan's largest car company, Toyota, plans to invest \$13 billion into their United States operations by 2021.<sup>251</sup> Investing more in the U.S. helps Japanese automakers expand their market share while also providing Americans with jobs. This is a win-win strategy.

Another opportunity for growth for Japan's economic relationship with the U.S. within the automotive industry is the development of electric and hybrid vehicles. In 2018, Japan's automotive companies collectively manufactured about 27,000 electric vehicles and 1.4 million hybrid vehicles, numbers that have continued to increase over the past few years.<sup>252</sup> Another area of growth is the development of autonomous technologies in Japanese vehicles. In 2019, Nissan developed a model of the Serena that had level 2 autonomous vehicle technology, allowing for features such as advanced driver assistance.<sup>253</sup> These new developments provide great

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<sup>249</sup> United States Trade Representative. "Japan." p. 1

<sup>250</sup> Cathleen D. Cimino-Isaacs, Brock R. Williams. "U.S.-Japan Trade Agreement Negotiations (IF11120)," p. 1-3, *Congressional Research Service*, December 18, 2020. <https://crsreports.congress.gov/product/pdf/IF/IF11120>. "Japan: Overseas Car Production in the U.S. 2019." Statista Research Department, October 13, 2020.

<sup>251</sup> Greimel, Hans. "Japan's U.S. spending mainly a Toyota story; Trump hails recent auto investments in the U.S." *Automotive News*, July 15, 2019.

Gale Academic OneFile (accessed February 23, 2021).

[https://link.gale.com/apps/doc/A593706903/AONE?u=wash\\_main&sid=AONE&xid=d6b22cad](https://link.gale.com/apps/doc/A593706903/AONE?u=wash_main&sid=AONE&xid=d6b22cad).

<sup>252</sup> "Japan Automotive OEM and Parts." International Trade Administration | Trade.gov. U.S. Commercial Service, June 15, 2020. <https://www.trade.gov/market-intelligence/japan-automotive-oem-and-parts>.

<sup>253</sup> *Ibid.*, 3.

opportunities for U.S. technological suppliers to work with Japanese car companies. Since several Japanese car companies' factories are located in the U.S., it makes it easier to work on these new vehicles together. By working together, U.S. firms can provide technology and Japanese automotive companies can use their manufacturing skills to develop these new vehicles more efficiently.

The most significant concern for the United States is the large trade deficit with Japan, which they want to decrease. This desire was displayed in 2019 when Donald Trump and the U.S. Department of Commerce under Section 232 of the Expansion Act of 1962 deemed imported motor vehicles and their parts (aluminum and steel) a threat to the United States' national security.<sup>254</sup> Specifically, to decrease the trade deficit, the U.S. wanted to restrict the number of Japanese automobile exports to the U.S. and increase the number of automobile exports Japan takes in from the U.S.<sup>255</sup> There were even talks of possibly increasing tariffs on Japanese autos. However, this ultimately proved to be just a threat and the existing 2.5% tariff on Japanese autos and parts still remains.<sup>256</sup> Even though Japan did not face significant, negative action from the U.S., Japan should continue to try to find ways to alleviate some of this trade imbalance to satisfy U.S. demands.

## **Agriculture Industry**

One of the key markets that Japan could open up further for the U.S. is agriculture. In 2019, the U.S. exported \$12 billion of agricultural products to Japan, while importing \$767 million of agricultural products from Japan.<sup>257</sup> However, in the same year, U.S. agricultural exports to Japan declined by 7%, which is one of the reasons that led the U.S. and Japan to sign the U.S.-Japan Trade Agreement (USJTA) in October 2019.<sup>258</sup> One of the main focuses of the USJTA was to help the United States gain access to Japan's agricultural markets. Under the USJTA, the United States eliminated or reduced 241 tariffs on industrial goods and agricultural products.<sup>259</sup>

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<sup>254</sup> Brock R. Williams, Cathleen D. Cimino-Isaacs, Anita Regmi. "'Stage One' U.S.-Japan Trade Agreements (RL46140)," *Congressional Research Service*, December 20, 2019. <https://crsreports.congress.gov/product/pdf/R/R4>

<sup>255</sup> *Ibid.*, 155.

<sup>256</sup> Lawder, David, and Jeff Mason. "U.S., Japan Sign Limited Trade Deal, Leaving Autos for Future Talks." Thomson Reuters, September 25, 2019. <https://www.reuters.com/article/us-usa-trade-japan/u-s-japan-sign-limited-trade-deal-leaving-autos-for-future-talks-idUSKBN1WA2D8>.

<sup>257</sup> United States Trade Representative. "Japan." p. 1

<sup>258</sup> Williams. "'Stage One' U.S.-Japan Trade Agreements." p 4

<sup>259</sup> Cathleen D. Cimino-Isaacs. "U.S.-Japan Trade Agreement Negotiations (IF11120)," p. 1-3

In return, Japan reduced or eliminated tariffs on about 600 agricultural tariff lines and expanded preferential tariff-rate quotas for a limited number of U.S. products.<sup>260</sup> More specifically, Japan's beef tariff was reduced from 38.5% to 26.6%, the poultry tariff from 11.9% to 7.9%, the apple tariff from 17% to 11.4%, the cherry tariff from 8.5% to 3.4%, and most vegetables, nuts, and other fruits became tariff-free.<sup>261</sup> In addition, for U.S. wheat and wheat products, the USJTA reduced the mark-up on these products to match that set for Japan's Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) partners.<sup>262</sup> On top of reducing tariffs and the U.S.- Japan trade deficit, this agreement makes it easier for American farmers and ranchers to sell their products to Japan. American agricultural exporters were put at a disadvantage in the Japanese market when the U.S. withdrew from the TPP because Japan had enacted other trade agreements with CPTPP members.<sup>263</sup> This decision by Japan to open up its agricultural market to the U.S. producers pleased the U.S. In many ways, this showed Japan's reciprocity for the U.S. allowing its automakers to have a large share of the U.S. market.

The Japanese government did receive backlash from their farmers and ranchers who did not want this agreement because they feared the foreign competition would harm their own agricultural market.<sup>264</sup> However, this agreement is benefiting Japan's overall economy by creating a \$14.4 billion reduction in tariffs on Japan-U.S. bilateral trade.<sup>265</sup> This is a win-win strategy.

## Medical Industry

Japan's medical industry market is very attractive to the U.S. because it is the second-largest market for pharmaceuticals and medical devices in the United States.<sup>266</sup> In 2019, Japan imported \$7 billion in medical instruments from the U.S. and exported \$7 billion in medical instruments

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<sup>260</sup> Ibid., 2.

<sup>261</sup> Nigh, Veronica Nigh. "Japan-U.S. Agriculture Agreement Could Help U.S. Catch Up to Global Competitors." American Farm Bureau Federation, September 25, 2019. <https://www.fb.org/market-intel/japan-u.s.-agriculture-agreement-could-help-u.s.-catch-up-to-global-competi>.

<sup>262</sup> "Japan Trade Deal Is Good News for U.S. Food and Agricultural Producers." Weaver, February 6, 2020. <https://weaver.com/blog/japan-trade-deal-good-news-us-food-and-agricultural-producers>

<sup>263</sup> Williams. "Stage One' U.S.-Japan Trade Agreements." p. 6

<sup>264</sup> Cooper, William H. Rep. U.S.-Japan Economic Relations: Significance, Prospects, and Policy Options . Washington D.C., Washington D.C.: Congressional Research Service, 2014. p. 12

<sup>265</sup> Williams, "'Stage One' U.S.-Japan Trade Agreements," p. 4

<sup>266</sup> Ibata-Arens, Kathryn C. *Beyond Technonationalism : Biomedical Innovation and Entrepreneurship in Asia. Innovation and Technology in the World Economy*. Stanford, California: Stanford Business Books, an Imprint of Stanford University Press, 2019.

and \$4.3 billion in pharmaceuticals to the United States.<sup>267</sup> However, in 2018, a key moment that shaped the Japan-U.S. relationship in terms of medical supplies and pharmaceuticals occurred. In 2018, to help reduce their trade deficit with Japan, the United States pushed Japan for clearer pharmaceutical standards and full market access for U.S. medical companies and products.<sup>268</sup> Japan responded by reforming their pharmaceutical industry by using health technology assessment (HTA) as a way to give more clarity to future drug pricing as well as new technologies that were to be introduced into the industry.<sup>269</sup> By listening and adhering to the wants of the U.S., Japan has been able to identify issues within their pharmaceutical industry and innovate to resolve them, creating a win-win partnership.

U.S. medical companies are also following Japan's recent policies toward this sector. The Japanese government began the second phase of its five-year health and medical strategy on March 27, 2020.<sup>270</sup> This strategy was originally introduced in July 2014 as a part of Prime Minister Abe's economic revitalization strategy, to promote research and development (R&D) within the medical and pharmaceutical industries, and create new industries to help extend "health and life expectancy" among the Japanese people.<sup>271</sup> Even though this strategy's focus was on developing Japan's medical field, it gave U.S. companies insight into potential opportunities within Japan's medical and pharmaceutical market.<sup>272</sup> Japan should allow the United States' medical companies to be a part of the creation of new industries to extend life expectancy. This strengthens Japan's economic relationship with the U.S. showing there are many win-win economic opportunities.

One possible issue that Japan may have to address with the United States is that in May 2020, the Japanese government put restrictions on their pharmaceutical and medical industry by requiring some foreign investors to report if they plan to buy more than a 1% stake in a firm

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<sup>267</sup> United States Trade Representative. "Japan" p. 1

<sup>268</sup> Kawanami, Takeshi. "Autos, Drugs and Currency Top US Agenda for Japan Trade Talks." *Nikkei Asia*, December 23, 2018. <https://asia.nikkei.com/Politics/International-relations/Autos-drugs-and-currency-top-US-agenda-for-Japan-trade-talks>.

<sup>269</sup> Nagatani, Tomoko, Michele Raviscioni, and Akira Sugahara. "Change in the Japanese Pharmaceutical Market: Cradle of Innovation or Grave of Corporate Profits?" *McKinsey & Company*, August 31, 2018. <https://www.mckinsey.com/industries/pharmaceuticals-and-medical-products/our-insights/change-in-the-japanese-pharmaceutical-market-cradle-of-innovation-or-grave-of-corporate-profits#>.

<sup>270</sup> "Japan Health & Medical Strategy." International Trade Administration, April 23, 2020. <https://www.trade.gov/market-intelligence/japan-health-medical-strategy>.

<sup>271</sup> *Ibid.*, 1.

<sup>272</sup> *Ibid.*

instead of the previous limit of 10%.<sup>273</sup> This major change was in response to the Covid-19 pandemic. Japan wanted to protect its companies from being taken advantage of by foreign investors who might be looking for an opportunity to exploit Japanese companies while they were weakened.<sup>274</sup> For example, in April 2020 a Japanese company called Fujifilm Holdings gained a lot of attention for their anti-flu drug Avigan because it was being tested as a possible treatment for Covid-19.<sup>275</sup> By protecting these types of companies, Japan also aimed to maintain a stable supply of medical equipment during a time when demand for it was high all over the world. As the vaccines roll out and Japanese businesses start to regain financial stability, the FDI restriction should be changed back from 1% to the original 10%. It is important for Japan to start allowing U.S. companies to invest again without these restrictions so that the U.S. can start capitalizing on opportunities in Japan's medical industry. If the Japanese government does not change this back to what it was, the U.S. might be tempted to do the same to Japanese companies that want to invest in U.S. companies.

## Machinery Industry

Japan's machinery industry and its products are very important to the U.S.-Japan economic relationship because these two countries are two of the top five machinery makers in the world, accounting for 9.6% and 10% of the global machinery equipment respectively.<sup>276</sup> Japan is one of the top three machinery exporters to the U.S.<sup>277</sup> Japan exported \$34 billion in machinery and \$17 billion in electrical machinery to the United States, while the United States exported \$7 billion in machinery and \$4.6 billion in electrical machinery to Japan.<sup>278</sup> This trade is beneficial to both countries, but Japan should be aware that there is a large trade imbalance in machinery, with Japan enjoying a huge surplus.

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<sup>273</sup> Reidy, Gearoid, and Shoko Oda. "Japan Moves to Limit Foreign Investment in Half of Listed Firms." *The Japan Times*, May 11, 2020. <https://www.japantimes.co.jp/news/2020/05/11/business/economy-business/japan-limit-foreign-investment-listed-firms/>.

<sup>274</sup> *Ibid.*, 1.

<sup>275</sup> Nikkei Asia. "Japan to Block Foreign Investment in Medicine amid Coronavirus." *Nikkei Asia*, April 22, 2020. <https://asia-nikkei-com.offcampus.lib.washington.edu/Politics/Japan-to-block-foreign-investment-in-medicine-amid-coronavirus>.

<sup>276</sup> "Looking at the Japanese Machinery Market from General Machinery." *Market Prospects*, July 21, 2020. <https://www.market-prospects.com/articles/japan-general-machinery-market>.

<sup>277</sup> "Machinery." United States International Trade Commission, March 10, 2020. [https://www.usitc.gov/research\\_and\\_analysis/trade\\_shifts\\_2019/machinery.htm](https://www.usitc.gov/research_and_analysis/trade_shifts_2019/machinery.htm).

<sup>278</sup> United States Trade Representative. "Japan." p. 1

One issue is that U.S. machinery exports to Japan are decreasing while Japan is increasing its machinery exports to the United States. Between 2018 to 2019, there was an increase of \$1.7 billion in machinery exports from Japan to the United States, but the United States machinery exports to Japan fell by \$1.2 billion.<sup>279</sup> For example, one of the most important and valuable products that Japan and the U.S. trade with one another is semiconductor manufacturing equipment. Between 2018 and 2019 semiconductor manufacturing equipment exports from Japan to the U.S. rose by \$1.6 billion, while U.S. sales to Japan and Korea declined about \$2 billion.<sup>280</sup> While it is great for Japan's economy to have such a dominant advantage in supplying semiconductor manufacturing equipment, it may be hindering the economic relationship between the United States and Japan. It may be best for Japan to look at what they can import more from the U.S. as a way of balancing out their overall trade.

Japan has been able to do this by being one of the top importers of U.S. aerospace and defense equipment.<sup>281</sup> Back in 2012, Japan hosted one of the largest aerospace trade shows that led to five U.S. companies achieving \$3 million in sales and partnerships.<sup>282</sup> Opportunities like this are what allow Japanese companies, such as Mitsubishi Heavy Industries, to partner with American companies, such as Lockheed Martin and Raytheon, to build defense products such as missiles or airplanes.<sup>283</sup> Japan should continue to import U.S. military equipment as well as collaborate with U.S. companies to build defense products because it is mutually beneficial. Building a strong relationship in this industry also helps the U.S. better defend Japan.

## Conclusion

Japan and the United States' current relationship may be the best it has ever been. Not only do Japan and the U.S. have a strong security alliance, but their economic relationship is also mutually beneficial. There are very few serious problems between the two when it comes to their economic relationship. Part of it may be due to the rise of China, but Japan has also done its part to satisfy the United States' demands for more access to the Japanese market and more Japanese investment in factories in the U.S. As important as it is for Japan to build up their own economy,

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<sup>279</sup> "Machinery." United States International Trade Commission, p. 3-4

<sup>280</sup> Ibid., 4.

<sup>281</sup> "Japan - Market Overview Japan - Market Overview." *U.S. Commercial Service of the U.S. Department of Commerce*, September 6, 2019. <https://www.selectusa.gov/article?id=Japan-Market-Overview>.

<sup>282</sup> Ibid., 7.

<sup>283</sup> Ibid.

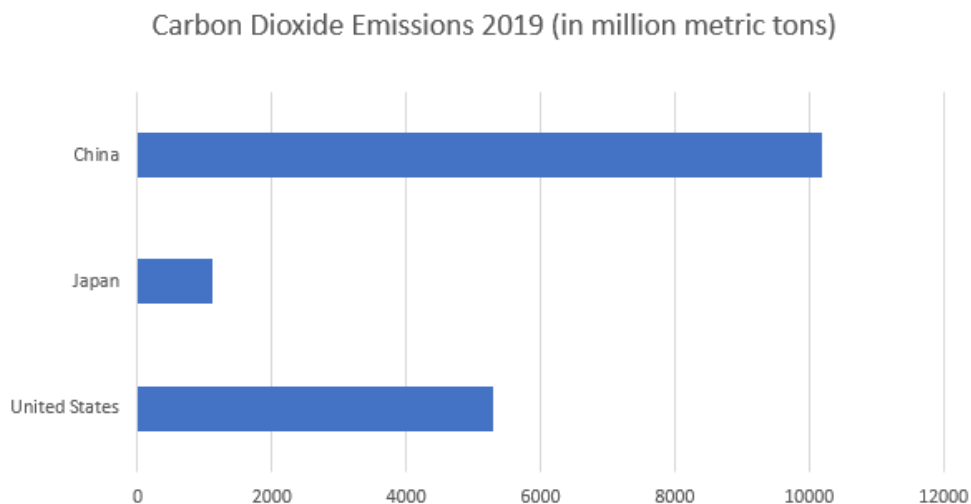
one of Japan's main focuses should always be on maintaining and building a stronger economic relationship with the United States. There are some issues that Japan needs to address to please the United States, but overall, they have done well in creating a strong economic partnership. Japan should continue down this path because having the world's greatest military and the economic country as an ally is extremely valuable for Japan's future.

## Chapter 7: Evolving Issues

In addition to the high profile issues surrounding Japan's economic and security concerns with the U.S. and China outlined in the previous chapters, there are many emerging issues and topics that the Japanese government needs to think about in considering their relationships with the U.S. and China. These include climate change and global health, matters of nuclear nonproliferation, China's issues with human rights, and continuing issues of history and war memories between Japan and China. These matters pose a range of concerns for Japan's future economic and national security relations with the U.S. and China. They deserve the attention of the Japanese government due to both the additional challenges they create and the new opportunities they present for cooperation between and amongst Japan, the U.S., and China.

### **Areas of Cooperation: Climate Change, Global Health, and Nonproliferation**

There are a few specific areas that offer Japan opportunities for cooperation with the U.S. and China. One of these is the climate crisis, one of the most pressing concerns of today. It is an issue that poses a significant danger to economies and national security worldwide, leaving no country unimpacted. Japan will feel the consequences of climate change acutely, with the country already experiencing worsening agricultural yields, a decline in the seafood industry, and increasingly common natural disasters. Furthermore, climate change will bring about more frequent global health emergencies, with COVID-19 acting as the first occurrence of what many scientists have suggested could be a new normal. Such issues related to climate change will require a more efficient and comprehensive international response to minimize damage. As a result, the climate crisis poses a common goal amongst Japan, the U.S., and China. As both the U.S. and China are two of the largest contributors to global carbon dioxide emissions, the Japanese government is perceived to be in a position between the U.S. and China that allows it to encourage, on the grounds of both the global economy and international security, multilateralism regarding the climate crisis that will benefit Japan.



Source: Tiseo, Published By Ian, and Jan 4. "CO2 Emissions Worldwide by Key Country 2019." Statista. January 04, 2021. <https://www.statista.com/statistics/270499/co2-emissions-in-selected-countries/>.

With its current aims, the Japanese government could find that Japan's interests align with China's and the United States' climate approaches, turning climate change action into an avenue for expanding Japan's security and economic interests. Prime Minister Suga refers to his own environmental strategy as building a "virtuous cycle of economy and environment as a pillar of [Japan's] growth strategy."<sup>284</sup> To achieve carbon-neutrality by 2050 the Ministry of Environment has begun working more closely with Japanese businesses and the Keidanren to develop economic incentives for achieving lower emissions.<sup>285</sup> Furthermore, in developing Japan's exports of climate change-conscious services, Prime Minister Suga has focused on investing more into renewable technology and infrastructure abroad, such as expanding Japan's presence in low-carbon foreign investment systems and funds like the Joint Crediting Mechanism<sup>286</sup> and the Green Climate Fund<sup>287</sup> and contributing financially in investment projects

<sup>284</sup> Ministry of Foreign Affairs of Japan, 「気候野心サミット 2020」における菅総理大臣によるビデオメッセージ及び結果概要, Dec. 15, 2020, [https://www.mofa.go.jp/mofaj/ic/ch/page6\\_000497.html](https://www.mofa.go.jp/mofaj/ic/ch/page6_000497.html).

<sup>285</sup> Ibid.

<sup>286</sup> Ministry of Foreign Affairs of Japan, "Joint Crediting Mechanism (JCM)," March 30, 2020, [https://www.mofa.go.jp/ic/ch/page1we\\_000105.html](https://www.mofa.go.jp/ic/ch/page1we_000105.html).

<sup>287</sup> Ministry of Foreign Affairs of Japan, 「気候野心サミット 2020」

with the Development Bank of Japan.<sup>288</sup> This approach is not too different from China's and the United States' with its intention to incorporate environmentalism into economic policies.

China's current climate policies complement Japan's in their intertwining of environmental and economic policies. Some of the goals they have outlined are reaching peak CO<sub>2</sub> emissions by 2030 and increasing the share of non-fossil fuels in primary energy to 20% by 2030.<sup>289</sup> These goals are aligned with the country's *Made in China 2025 Plan* and *14<sup>th</sup> Five Year Plan* and rely on the technology and materials that come from the former - such as batteries for electric vehicles - as well as the environmental policies of the latter - such as the targets to reduce coal and establish emissions standards for power plants.<sup>290</sup> China is already a world leader in investing in and producing renewable energy technology both domestically and abroad.<sup>291</sup> The president of the Asian Infrastructure Investment Bank (AIIB) recently stated that they have plans to have renewable energy and low-carbon projects make up at least half of their financing approvals by 2025.<sup>292</sup> It should be noted that despite its goals and commitments to low-carbon policy and infrastructure, China still heavily develops coal resources and plants, oftentimes of low quality, both domestically and abroad through the BRI.<sup>293</sup> This could be an area of contention in its foreign policy, as China's climate policies receive significant attention due to its impact on emissions and overall influence in the renewable and low-carbon industry. However, China's focus on expanding its low-carbon investments and technologies could function to expand demand for these services and provide Japan greater opportunities to enter into the renewable market through infrastructure investments and exporting technology.

The U.S. under President Biden's leadership has so far shown a significant redirection on its climate policy from that set by the Trump administration, one the Japanese government will

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<sup>288</sup> Shiko Ueda, "Japan development bank launches \$500m fund to grow wind sector," *Nikkei Asia*, Jan. 16, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Spotlight/Environment/Climate-Change/Japan-development-bank-launches-500m-fund-to-grow-wind-sector>.

<sup>289</sup> David Sandalow, "China's Response to Climate Change: A Study in Contrasts and a Policy at a Crossroads," *The Asia Society Policy Institute*, July 30, 2020, 2-6, <https://asiasociety.org/policy-institute/chinas-response-climate-change-study-contrasts-and-policy-crossroads>.

<sup>290</sup> U.S. Congress, "China's 14<sup>th</sup> Five-Year Plan: A First Look," *Congressional Research Service*, Jan. 5, 2021, <https://crsreports.congress.gov/product/pdf/IF/IF11684>.

<sup>291</sup> Scott Malcomson, "How China Became the World's Leader in Green Energy," *Foreign Affairs*, Feb. 28, 2020, <https://www.foreignaffairs.com/articles/china/2020-02-28/how-china-became-worlds-leader-green-energy>.

<sup>292</sup> Iori Kawate, "China-led AIIB targets 50% green investment by 2025," *Nikkei Asia*, Jan. 14, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Spotlight/Environment/China-led-AIIB-targets-50-green-investment-by-2025>.

<sup>293</sup> Sandalow, "China's Response."

find more open to collaboration. Already, President Biden has led the U.S. to rejoin the Paris Agreement and voiced his intention to set the U.S. on a path towards carbon-neutrality by 2050. In many ways, Biden's vision has been directly opposite of Trump's, with a focus on developing and creating new jobs in the U.S. renewable energy sector, protecting the country's natural resources, and protecting scientists from political bias. Similar to Prime Minister Suga, he has stated a desire to incorporate climate policies and goals into every facet of the government, reducing the emissions from federal agencies and bringing the topic of climate change comprehensively into policy discussions in an aim to rebuild the U.S. as a global leader on climate action.<sup>294</sup> Like Japan and China, the U.S. Special Presidential Envoy for Climate, John Kerry, has talked of establishing bilateral trade agreements to open up foreign countries to American investments in clean energy projects and discourage the use of coal abroad.<sup>295</sup> This will draw the U.S. deeper into the same renewable energy and technology markets that the Japanese government is working to expand its presence in.

While President Biden has established clear efforts and goals thus far, the U.S. is still playing catch-up. With the number of climate setbacks caused by Trump, along with the United States' divided politics surrounding climate change, the U.S. is not in the strongest position to move steadily forward on climate policy. While President Biden can move forward on some efforts, like his recent backing out of contracts for the Keystone XL Pipeline and reenlisting natural areas as protected, on many other fronts the U.S. will potentially have to wait years to make improvements.<sup>296</sup> At the same time, despite more being asked of it, the United States' Environmental Protection Agency (EPA) has fewer resources to work with in implementing the government's proposals.<sup>297</sup> The U.S. is currently looking for ways to expand its place on the

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<sup>294</sup> White House, "Fact Sheet: President Biden Takes Executive Actions to Tackle the Climate Crisis at Home and Abroad, Create Jobs, and Restore Scientific Integrity Across Federal Government," Jan. 27, 2021, <https://www.whitehouse.gov/briefing-room/statements-releases/2021/01/27/fact-sheet-president-biden-takes-executive-actions-to-tackle-the-climate-crisis-at-home-and-abroad-create-jobs-and-restore-scientific-integrity-across-federal-government/>.

<sup>295</sup> Somini Sengupta, "How Biden's Climate Ambitions Could Shift America's Global Footprint," *The New York Times*, Jan. 27, 2021, [https://www.nytimes.com/2021/01/27/climate/climate-change-biden-kerry.html?campaign\\_id=54&emc=edit\\_clim\\_20210127&instance\\_id=26467&nl=climate-fwd%3A&regi\\_id=91307204&segment\\_id=50404&te=1&user\\_id=12eb679b794a1812fa87e2ffd815e158](https://www.nytimes.com/2021/01/27/climate/climate-change-biden-kerry.html?campaign_id=54&emc=edit_clim_20210127&instance_id=26467&nl=climate-fwd%3A&regi_id=91307204&segment_id=50404&te=1&user_id=12eb679b794a1812fa87e2ffd815e158).

<sup>296</sup> Coral Davenport, "Restoring Environmental Rules Rolled Back by Trump Could Take Years," *The New York Times*, Jan. 27, 2021, [https://www.nytimes.com/2021/01/22/climate/biden-environment.html?campaign\\_id=54&emc=edit\\_clim\\_20210127&instance\\_id=26467&nl=climate-fwd%3A&regi\\_id=91307204&segment\\_id=50404&te=1&user\\_id=12eb679b794a1812fa87e2ffd815e158](https://www.nytimes.com/2021/01/22/climate/biden-environment.html?campaign_id=54&emc=edit_clim_20210127&instance_id=26467&nl=climate-fwd%3A&regi_id=91307204&segment_id=50404&te=1&user_id=12eb679b794a1812fa87e2ffd815e158).

<sup>297</sup> Davenport, "Restoring."

global climate stage and in the renewable energy and technology markets while simultaneously combatting an averse domestic environment. The Japanese government can see this as an opportunity to encourage the U.S. to collaborate with Japan and China on climate policy, supporting trade and investment in a low-carbon technology with Japan, and pursuing multilateral emissions standards with Japan and China.

Another area that the Japanese government can see as an avenue for cooperation in global health. Scientists have expected global health to become a greater issue for years due to climate change and increased global interconnection, and COVID-19 has been a defining catalyst for putting global health into political focus.<sup>298</sup> Japan's economy suffered significantly in 2020 and is expected to continue to falter in 2021, offering just a small example of the critical importance of global health cooperation.<sup>299</sup> President Biden and Secretary of State Blinken have already suggested the United States' willingness to cooperate with China on both climate and global health matters, noting an interest in developing systems that allow faster sharing and greater transparency of global health information.<sup>300</sup> In response, China has agreed they are willing, but that the U.S. must first back down in its involvement in Beijing's "domestic affairs," such as its recent pushback against China's human rights violations.<sup>301</sup> Furthermore, the U.S. has noted concern over China's lack of transparency during the COVID-19 crisis.<sup>302</sup> Consequently, there are hurdles to overcome in working towards collaboration, particularly that which joins the U.S. and China. However, for the U.S., which is so far behind in taking a place on the global climate stage, entering the low-carbon economy, and which has been heavily hit by the COVID-19 pandemic, reconnecting with both Japan and China on issues of climate change and global health needs to come sooner rather than later. As a result, the U.S. may be more willing now than ever before to respond to calls from the Japanese government to be involved in international cooperation efforts in this area, particularly with China. The convergence of interests that climate change and global health create between Japan, the U.S., and China offers the Japanese

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<sup>298</sup> CDC, "Winter 2017: Why It Matters: The Pandemic Threat," *Global Health Protection and Security*, 2017, <https://www.cdc.gov/globalhealth/healthprotection/fieldupdates/winter-2017/why-it-matters.html>.

<sup>299</sup> Ben Dooley and Makiko Inoue, "Japan Growth Rebounds, but Virus-related Weakness Looms," *New York Times*, Feb. 19, 2021, <https://www.nytimes.com/2021/02/14/business/japan-gdp-economy-coronavirus.html>.

<sup>300</sup> John Feng, "China Uses Climate Change to Threaten Joe Biden Administration," *Newsweek*, Feb. 2, 2021, <https://www.newsweek.com/china-uses-climate-change-threaten-joe-biden-administration-1566056>.

<sup>301</sup> *Ibid.*

<sup>302</sup> *Ibid.*

government a position to cooperate with both countries, advancing its security interests and helping secure a role in newly emerging markets.

The final area of cooperation noted here is the pursuit of nuclear nonproliferation. For many reasons, from domestic politics to security concerns, Japan is invested in reducing the presence and production of nuclear arms. Countries like North Korea are of immediate concern in this area, not just to Japan but to the U.S. as well. The nuclear posturing between the U.S. and China seems unlikely to die down soon, and while this means that disarmament is unlikely among these major countries, the U.S. is increasingly wary of the spread of nuclear weapons to other countries, like North Korea.<sup>303</sup> With a joint interest in reducing the spread of nuclear weapons, Japan may find success in gaining U.S. support for reasonable and concrete nonproliferation efforts, similar to those proposed in the Fissile Material Cut-Off Treaty (FMCT).<sup>304</sup>

In considering the risks and opportunities that climate change, global health, and nuclear nonproliferation will present to Japan regarding its relationship with the U.S. and China, there are two risks and five opportunities. In attempting to collaborate with two global superpowers, Japan could risk getting caught between the two and losing out on its own interests. For instance, U.S. and China cooperation on climate policy and emissions standards could drag Japan into altering its own decarbonization plans and result in calls for them to cut back emissions more severely. Japan could furthermore risk wasting its efforts of bringing the two countries together, achieving only getting themselves caught in a political crossfire. However, successfully engaging both the U.S. and China in a multilateral climate and health-focused relationship would not only serve to help defend Japan from potentially catastrophic climate impacts, but it would also give Japan a forum through which to work on stabilizing relations between the two and its position in the middle. Furthermore, focusing on developing green technology could open up new markets for Japan, domestically and abroad, and focusing on renewable energy could further benefit Japan's position by increasing its energy security and independence. Lastly, gaining U.S. support

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<sup>303</sup> Brad Glosserman, "It's time for arms talks with China," *The Japan Times*, Apr. 22, 2020, <https://www.japantimes.co.jp/opinion/2020/04/22/commentary/japan-commentary/time-arms-talks-china/>.

<sup>304</sup> CNS, "Proposed Fissile Material (Cut-Off) Treaty (FMCT)," *NTI*, May 14, 2020, <https://www.nti.org/learn/treaties-and-regimes/proposed-fissile-material-cut-off-treaty/>.

in nonproliferation efforts could advance progress in Japan's efforts to reduce nuclear weapons and bolster national security.

### **Caught in the Middle: Human Rights**

China's questionable track record surrounding human rights has emerged in recent years as another significant factor in foreign policy, spanning controversies from Beijing's response to the democratic protests in Hong Kong to the establishment of mass surveillance systems. One issue of particular importance to the Japanese government is the situation surrounding the mass internment of Uyghur minorities in China's Xinjiang province, a situation in which the Chinese government continues to deny the existence of oppression and forced labor. International action against China's treatment of Uyghur individuals beyond symbolic words has been slow, inconsistent, and accompanied by many challenges. However, the past six months have seen greater efforts in the West. Should the West continue to press China over its human rights abuses, Japan will likely have to be prepared to choose a side.

Of Western countries, the U.S. has been the most vocal about the Uyghur situation. Before Trump's departure, former Secretary of State Pompeo publicly described China's treatment of Uyghurs as a "genocide," with which Blinken agreed and which Biden also stated in August 2019.<sup>305</sup> The U.S. first took legal action in 2019 with the Uyghur Human Rights Policy Act, which was later amended in the summer of 2020. The law builds a legal framework for banning economic transactions between companies and individuals in the Xinjiang region believed to be connected with using forced Uyghur labor.<sup>306</sup> The law recently enabled Washington to ban imports of cotton and tomatoes from the Xinjiang area, with the equivalent of millions of dollars' worth of shipments already having been detained.<sup>307</sup> The U.S. government has received considerable backlash against the law and has run into difficulties upholding it. Logistically it is difficult for companies to trace their supply chains and thus difficult to enforce the law. Additionally, many large American corporations have suppliers in Xinjiang, leading to a

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<sup>305</sup> Michael R. Pompeo, "Determination of the Secretary of State on Atrocities in Xinjiang," *U.S. Department of State, Press Release*, Jan. 19, 2021, <https://2017-2021.state.gov/determination-of-the-secretary-of-state-on-atrocities-in-xinjiang//index.html>.

<sup>306</sup> Ana Swanson and Edward Wong, "U.S. Adds Sanctions Over Internment of Muslims in China," *The New York Times*, Aug. 7, 2020, <https://www.nytimes.com/2020/07/31/us/politics/sanctions-china-xinjiang-uyghurs.html>.

<sup>307</sup> Ana Swanson, "U.S. Bans All Cotton and Tomatoes From Xinjiang Region of China," *The New York Times*, Jan. 13, 2021, <https://www.nytimes.com/2021/01/13/business/economy/xinjiang-cotton-tomato-ban.html>.

backlash by such entities.<sup>308</sup> Furthermore, China has been clear that the involvement of the U.S. and other Western countries in Beijing's "domestic affairs" will not be tolerated, ensuring that other U.S.-China ventures such as those in climate cooperation will not be pursued until the U.S. backs off.<sup>309</sup> In this way, China is using other U.S. priorities to push the United States' hand on this issue. As of the present time, Biden has not indicated any intention to back down from the United States' current policy regarding the Uyghur situation, which may add further pressure to the international community to act. The Japanese government should not only recognize the significance of the United States' actions on the U.S.-China relationship and ability to cooperate in the future but should also predict a similar outcome to the United States' should Japan end up condemning China and pushing economic sanctions.

Despite the United States' efforts, multilateral action overseas has been scattered and less concrete. Whether or not Japan gets drawn into the human rights conflict with China will likely depend on whether Western countries outside of the U.S. commit to multilateral action against China. Europe's response has been slower and less strict than the U.S., but despite a lack of concrete action there is increasing pressure among governments to make a move. The UK continues to freely do business with China, but recently proposed the idea of a Genocide Amendment to its Trade Bill. The amendment would have enabled them to cease trade with other countries based on human rights violations and genocide. The bill passed with large support in the House of Lords but was narrowly rejected in the House of Commons due to the opposition amongst conservatives, who see the economic importance of China to the UK's economy.<sup>310</sup> The EU, on the other hand, adopted a global human rights sanctions regime in December 2020. This framework enables the EU to restrict trade and freeze funds of individuals and entities that are dictated to be associated with serious human rights violations.<sup>311</sup> The significance of this framework, however, is weakened by the EU's signing of a trade deal with China later the same month the system was put in place. The investment agreement acknowledges the important role

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<sup>308</sup> Ibid.

<sup>309</sup> Feng, "China Uses Climate."

<sup>310</sup> Sylvia Hui, "UK: 'Genocide' clause to China trade deal narrowly defeated," *The Seattle Times*, Jan. 19, 2021, <https://www.seattletimes.com/business/uk-lawmakers-debate-genocide-clause-to-china-trade-deals/>.

<sup>311</sup> Council of the EU, "EU adopts a global human rights sanctions regime," Dec. 7, 2020, [https://www.consilium.europa.eu/en/press/press-releases/2020/12/07/eu-adopts-a-global-human-rights-sanctions-regime/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=EU+adopts+a+global+human+rights+sanctions+regime](https://www.consilium.europa.eu/en/press/press-releases/2020/12/07/eu-adopts-a-global-human-rights-sanctions-regime/?utm_source=dsms-auto&utm_medium=email&utm_campaign=EU+adopts+a+global+human+rights+sanctions+regime).

China is playing in opening up markets and technologies – especially sustainable technologies – to EU companies and investors and is supposed to open up China more to investment from the EU by forcing greater transparency and access.<sup>312</sup> Accordingly, it is uncertain how far these countries will be willing to advance their political aims with their economic aims on the line. The call to take a stand for global human rights is gaining momentum in the foreign policy arena, but the action is combatted by economic ties and China’s unwillingness to move forward on other fronts when confronted with its human rights issues. How the West and China move forward will carry significant impacts on the global community and how the Japanese government will likely have to approach climate cooperation and global human rights.

Without considerable effort, follow-through, and multilateralism on the part of the global community, the current sanctions the U.S. has imposed on some specific Chinese companies and government officials could do little more than worsen already precarious relations with China. This could make Japan’s position between the two more precarious. Furthermore, there is a possibility that Japan will have to pick a side if the global community does follow through on pressuring China regarding its treatment of Uyghurs. In this situation, if Japan does not fall in line with the West in denouncing China and establishing economic sanctions against them, they could risk appearing too China-friendly and weaken U.S. support for Japan; but at the same time, if they do apply sanctions, it could hurt Japanese businesses in China and hurt Japan’s position in the Regional Comprehensive Economic Partnership (RCEP). In this way, its role among liberal democracies and in the Indo-Pacific economy are at odds. The Japanese government will need to be cautious about how it navigates its relationship with China and the U.S. in light of the international backlash against China’s human rights track record and the importance of other ventures like economic ties and climate cooperation.

### **Areas in Which to Act: History and War Memories**

Tensions stemming from Japan’s actions in China during WWII have long been a defining component of the Japan-China dynamic. In line with “hot economics, cold politics” is the continually antagonistic relationship that results from the directly conflicting roles that war memories play politically in each country. Japan has frequently been asked to apologize for its

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<sup>312</sup> European Commission, “EU and China reach agreement in principle on investment,” Dec. 30, 2020, [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_20\\_2541](https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2541).

actions during the war and its modern-day controversies, to which the reaction is often having a single politician offer vague words of regret rather than a comprehensive and definitive response.<sup>313</sup> Although Japan may be tired of having the past constantly held over its heads, memories of the war are still powerful in China. Within its domestic politics, the Chinese government actively uses war memory propaganda through its education, media, and public landmarks in order to portray China as victims and Japan as a national enemy. As a result, China revolts when they feel Japan acts in a way that does not respect or take responsibility for its role in the war. Two particular controversies where Japan continually causes unnecessary strife are Japan's representation of history in education and the visitation of public officials to Yasukuni Shrine. Even if China's reluctance to move on is the result of using memories of the war as a political tool, the best course of action for the Japanese government would be to make long-standing public efforts to illustrate that it is not forgetting about the past. There are several things that the Japanese government could do to help repair the wounds of the war, and unlike many efforts surrounding Japan-China relations, these are simple areas that do not cost millions of dollars to fix and could have significant impacts in the long run.

An area of repeated conflict is Japan's war history education. China and South Korea have both voiced concerns that Japan's textbooks whitewash Japan's actions during the war. Notably, China's education system goes in-depth into the trauma endured by the country at the hands of the Japanese,<sup>314</sup> without mentioning domestic issues such as the suffering the country went through at the hands of Mao, causing children to grow up with a view of Japan as being oppressors and prone to militarism and China as being a victim of outside forces. On the other hand, Japan's war history education is less direct and vocal about Japan's actions in the war. In recent years, the most radical far-right textbooks have sought to "revise" history and deny facts like the Nanjing Massacre; and while few school districts employ these radical textbooks, the fact that they can pass the government's standards is a concern.<sup>315</sup> Japan often highlights its own victimhood and emphasizes the importance of pacifism without at the same time recognizing its

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<sup>313</sup> "Japan's Apologies for World War II," *The New York Times*, August 14, 2015, <https://www.nytimes.com/interactive/2015/08/13/world/asia/japan-ww2-shinzo-abe.html#:~:text=In%20a%20speech%20on%20Friday,%E2%80%9D%20on%20%E2%80%9Cinnocent%20people,%E2%80%9D>.

<sup>314</sup> Julian Ryall, "Japan's 'nationalist' schoolbooks teach a different view of history," *Deutsche Welle*, August 15, 2017, <https://www.dw.com/en/japans-nationalist-school-books-teach-a-different-view-of-history/a-40092325>.

<sup>315</sup> *Ibid.*

aggression, as seen in the content of war museums like those in Hiroshima and Nagasaki that children often visit for school trips. As a result, many Japanese children grow up with a distorted understanding of the war and do not recognize its significance to the modern-day, resulting in younger generations viewing China's aggression as misplaced and frustrating, not understanding the full context. China and South Korea both have vocalized worry that the current system reveals Japan as forgetting or moving on from the past.<sup>316</sup> The Japanese government should recognize that even though China's own historical education is distorted and the Chinese government's antagonism is largely political, the portrayal of Japan that the Japanese education system gives also does not tell a complete story, a fact that, among other things, functions to give validity to both China and South Korea's claims.

Another important issue that causes tensions with China, South Korea, and the U.S. is the recurring visit of Japanese public officials to Yasukuni Shrine. Since 1978, when under new eligibility rules convicted war criminals became enshrined there, visits of Japanese officials to the shrine have been met by large-scale protests from both China and South Korea. Statements from the Chinese and South Korean governments about these visits highlight their anger and frustration, and the sentiment that these visits reflect Japan embracing its imperialist and militaristic past.<sup>317</sup> This has not only impacted Japan's relationship with China but also with the U.S. When Prime Minister Abe visited the shrine on December 26, 2013, the U.S. reached out with a statement expressing their disappointment in Abe's choice, noting that the action would only exacerbate existing tensions with China. To the U.S., for whom the security alliance requires coming to Japan's defense should China choose to attack, the choice of Japanese officials to visit the shrine damages their trust in Japan and goes against Japan's responsibility as an ally.<sup>318</sup> Abe later released a statement expressing his intentions to honor Japan's war dead and

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<sup>316</sup> Ibid.

<sup>317</sup> Ministry of Foreign Affairs of the People's Republic of China, "Foreign Ministry Spokesperson Zhao Lijian's Remarks on Japanese Leader Sending Offering to Yasukuni Shrine," Oct. 19, 2020, [https://www.fmprc.gov.cn/mfa\\_eng/xwfw\\_665399/s2510\\_665401/2535\\_665405/t1824975.shtml](https://www.fmprc.gov.cn/mfa_eng/xwfw_665399/s2510_665401/2535_665405/t1824975.shtml); Consulate General of the Republic of Korea in Los Angeles, "Statement by the Spokesperson of the ROK Government on Japanese Prime Minister Abe's visit to the Yasukuni Shrine," Dec. 30, 2013, [http://overseas.mofa.go.kr/us-losangeles-en/brd/m\\_4394/view.do?seq=703565&srchFr=&srchTo=&srchWord=&srchTp=&multi\\_itm\\_seq=0&itm\\_seq\\_1=0&itm\\_seq\\_2=0&company\\_cd=&company\\_nm=&page=45](http://overseas.mofa.go.kr/us-losangeles-en/brd/m_4394/view.do?seq=703565&srchFr=&srchTo=&srchWord=&srchTp=&multi_itm_seq=0&itm_seq_1=0&itm_seq_2=0&company_cd=&company_nm=&page=45).

<sup>318</sup> U.S. Embassy & Consulates in Japan, "Statement on Prime Minister Abe's December 26 Visit to Yasukuni Shrine," Dec. 26, 2013, <https://jp.usembassy.gov/statement-prime-minister-abes-december-26-visit-yasukuni-shrine/>.

post-war pacifism and apologizing for upsetting China and South Korea.<sup>319</sup> Still, officials continue to visit Yasukuni Shrine despite knowing the controversy it creates each time, with Abe visiting again before leaving office in 2020.<sup>320</sup> The shrine may fulfill domestic political purposes for the Japanese government, but the damage it causes in international relations is not balanced out by the domestic political benefits. The Japanese government would do well to motivate their actions moving forward on the reality that Yasukuni Shrine has and will continue to not be the best place to use as their political stage.

If the Japanese government were to not take action towards resolving these issues, then the current status quo of history and war memories harming Japan-China relations would likely remain the same, a situation that continually degrades Japan's foreign relations. However, if the Japanese government were to express a clear and comprehensive effort in reconciling with its past, this may help develop more trust with both China and the United States. Through concrete actions such as textbook reforms which accurately reflect Japan's actions during WWII, as well as stopping the tradition of visiting Yasukuni Shrine, Japan may be able to express the sincerity of its apology. The Chinese government may never change its position on painting Japan as an enemy, but improving its image among the Chinese public and giving itself credibility will be a major asset to Japan in the long run.

## Conclusion

The issues outlined here are some of the most important ones that Japan faces in navigating its relationship with the U.S. and China. Areas like climate change, global health, and nuclear proliferation can be seen as opportunities for multilateral cooperation, while others like human rights and issues of history are sensitive and require Japan to proceed with caution. All of them must be considered in debating how Japan can best navigate its precarious situation while adhering to its own interests.

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<sup>319</sup> Prime Minister of Japan and His Cabinet, "Statement by Prime Minister Abe – Pledge for everlasting peace," Dec. 26, 2013, [https://japan.kantei.go.jp/96\\_abe/statement/201312/1202986\\_7801.html](https://japan.kantei.go.jp/96_abe/statement/201312/1202986_7801.html).

<sup>320</sup> "Abe Visits war-linked Yasukuni Shrine for first time since 2013," *The Japan Times*, Sep. 19, 2020, <https://www.japantimes.co.jp/news/2020/09/19/national/politics-diplomacy/abe-visits-war-linked-yasukuni-shrine-first-time-since-2013/>.

## Chapter 8:

# Options for the Japanese Government to Consider

The goal of this chapter is to offer potential courses of action for the Japanese government to consider based on the information articulated in the aforementioned chapters. It is to be emphasized that the options provided in this chapter are not necessarily recommendations. Moreover, whereas the earlier portions of this report focused on specific bilateral relationships and conflicts, this chapter will take the risks and opportunities pertinent to all three powers into account, providing a holistic study of the potential paths that lie before the Japanese government. This chapter will provide three options for the Japanese government and will conclude with a wider analysis of the precarious multilateral situation in the Indo-Pacific.

### **Option 1: Strengthen and Expand the U.S.-Japanese Alliance**

The Japanese government can respond to increasing Chinese military aggression by reinvesting in the U.S.-Japan security alliance, increasing bilateral cooperation, and expanding the scope of the alliance's role in the Indo-Pacific region. This option would include actions such as an increase of American military personnel on Okinawa and the Japanese mainland, the opening of Japanese harbors to accommodate the United States' "60/40" fleet shift to the Pacific, housing greater numbers of missile defense and radar systems in and around Japan, and more comprehensive, binding bilateral defense treaties and security guidelines with the United States.<sup>321</sup> This might include joint military exercises in strategic hot spots of the Indo-Pacific theater, such as the Taiwan Strait, the Strait of Malacca, the South China Sea, the Sea of Japan, and the Senkaku Islands.<sup>322</sup> These measures would supplement the Japanese defense apparatus and increase overall security in the Indo-Pacific. China is well aware that it still cannot compete with the U.S. military. An increased American presence would deter Beijing from engaging in

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<sup>321</sup> Foot, Rosemary. 2017. "Power Transitions and Great Power Management: Three Decades of China–Japan–US Relations." *Pacific Review* 30 (6): 829–42. doi:10.1080/09512748.2017.1303535.

<sup>322</sup> Emma Chanlett-Avery, K. Alan Kronstadt, Bruce Vaughn, "The "Quad": Security Cooperation Among the United States, Japan, India, and Australia (IF11678)," p. 2, *Congressional Research Service*, November 2, 2020,

aggressive military actions, open conflict with the world's most sophisticated military force being far too great a risk.<sup>323</sup>

Though a stronger American presence would bolster Japan's short-term defense, the Japanese government must recognize that the United States is no longer the superpower that it once was. Washington has overextended itself in recent decades through interventionism and foreign adventurism has led to a massive increase in the country's public debt. Furthermore, the unpredictable presidency of Donald Trump has shown that American security assurance is no longer guaranteed.<sup>324</sup> Though the Biden administration is expected to attempt to repair the diplomatic damage inherited from its predecessor, Japan cannot solely rely on the United States for defense and security as it did in the past. To prepare for this reality, Japan would need to take drastic measures to increase its military capacity. This includes radically upgrading the air, sea, and land capabilities of the Japan Self-Defense Forces (JSDF) in terms of equipment, training, and the number of personnel. Japan must be able to adequately face Chinese aggression in the areas most pertinent to the country's national security, namely the Senkaku Islands and the Korean peninsula. The Biden administration would likely welcome this development as it would be consistent with nearly three decades of American requests to Japan to increase burden-sharing in the Indo-Pacific.<sup>325</sup> The United States would be able to focus on wider regional issues, such as China's incursions in the South China Sea and border conflicts with India.<sup>326</sup>

### *Advantages*

The advantages of this option are manifold. Firstly, this approach will give Japan ample time to build up its own defense forces and focus on areas that are of immediate concern to Japanese national security. The United States would be able to handle wider regional issues, such as Taiwan and the South China Sea, while Japan could focus on issues pertinent to their national

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<sup>323</sup> Emily Chanlett-Avery, Caitlin Campbell, Joshua A. Williams, "The U.S.-Japan Alliance (RL33740)," p. 10, *Congressional Research Service*, June 13, 2019, <https://crsreports.congress.gov/product/details?prodcode=RL33740>

<sup>324</sup> Emma Chanlett-Avery, Caitlin Campbell, Mark E. Manyin, "Japanese Prime Minister Abe's Resignation and the US-Japan Alliance (IF1164)," p. 2, *Congressional Research Service*, September 24, 2020, <https://crsreports.congress.gov/product/pdf/IF/IF11644>

<sup>325</sup> New US defense chief reaffirms commitment to Senkaku Islands defense," *Nikkei*, January 24, 2021, <https://asia-nikkei.com.offcampus.lib.washington.edu/Politics/International-relations/Biden-s-Asia-policy/New-US-defense-chief-reaffirms-commitment-to-Senkaku-islands-defense>

<sup>326</sup> Taro Kono, "The 26<sup>th</sup> Annual U.S.-Japan Security Seminar: The U.S.-Japan Alliance at 60," *Center for Strategic and International Studies*, January 16, 2020, <https://www.csis.org/analysis/26th-annual-us-japan-security-seminar-us-japan-alliance-6>

security, especially the Senkaku Islands. Greater American guidance and coordination would help Japanese military officials and leaders craft a more effective national security strategy. Furthermore, an incremental approach would win more public support compared to a dramatic overhaul of the security apparatus, which would surely incite mass protest from Japan's largely pacifist society.

This option would signal Japan's full commitment to the Western liberal world order, which would win the country greater international support, especially from the West. This could result in greater trading privileges in Europe, Canada, Australia, and of course, the United States. Furthermore, this could eventually lead to Japan being integrated into multilateral security organizations, such as the Five Eyes Agreement. In addition to this, increased American support would give Japan added diplomatic authority in the region, potentially enhancing its ability to effectively push pro-Japan policy within multilateral institutions in the Indo-Pacific.

### *Disadvantages*

In choosing this option, the Japanese government would likely incur immediate retaliation from China. Even the slightest reinforcement of the U.S.-Japan alliance sends Beijing into a frenzy; this option would prove no different.<sup>327</sup> Tokyo and Washington would need to have contingencies in place well in advance of cementing this policy change, as the situation in the Indo-Pacific is so fragile that the slightest provocation could have dire consequences for the region. China would be able to express its displeasure in a variety of ways, especially via economic, military, and diplomatic means.

Militarily, China could immediately begin to exacerbate territorial contentions with Japan. This could include actions such as greater numbers of Chinese vessels infringing on the Senkaku Islands, conducting intimidating naval exercises in the South China Sea, potentially with U.S. foes such as Russia and Iran, and tacitly encouraging North Korea to begin testing ballistic missiles over the Japanese mainland.<sup>328</sup> These measures would not be limited to Japan; China could potentially engage in a series of provocative actions against Taiwan, South Korea,

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<sup>327</sup> Shifrinson, Joshua R Itzkowitz. *Adjusting to Rise and Coping with Decline: The China-US Relationship in Historical and Theoretical Context*. Edited by Frédéric Mérand. Montreal; Kingston; London; Chicago: *McGill-Queen's University Press*, 2020. //www.jstor.org/stable/j.ctv18sqz86.12.

<sup>328</sup> Hang, Nguyen Thi Thuy. "The Rise of China: Challenges, Implications, and Options for the United States." *Indian Journal of Asian Affairs* 30, no. 1/2 (2017): 47-64. Accessed January 30, 2021. <https://www-jstor-org.offcampus.lib.washington.edu/stable/26465816>.

the Philippines, and India in an attempt to weaken the United States' greater position in the Indo-Pacific. These actions might be taken immediately to avoid a forceful response from the newly cemented alliance. That being said, China can be expected to do everything within its power to make Japan aware of the consequences of growing even closer to the United States.

Economically, Beijing could easily disrupt its status as Japan's largest export market by restricting and limiting imports from the country. This might include the imposition of tariffs on Japanese goods, placing restrictive policies on foreign direct investment (FDI) in the country, forcing Japanese companies to relinquish technology and research, aggressive theft of intellectual property, and curtailing Chinese exports to Japan. Additionally, China could reignite extensive media coverage of Japanese atrocities from the Second World War, fomenting massive anti-Japanese protests and subsequent boycotts. Such tactics have worked in the past and would be cheap, effective countermeasures for Beijing to pursue.<sup>329</sup> China could also opt to exclude Japan from key multilateral economic projects and advocate for anti-Japanese policies in global bodies and institutions, isolating a key part of the Japanese economy.

Despite ostensibly greater oversight from the United States, Japan's neighbors would still be alarmed by even the notion of a remilitarizing Japan. Memories of Japanese war crimes still run deep, particularly in South Korea as evidenced by the recent dispute between the two countries. Government officials will have to go to great lengths to alleviate the widespread fear of a newly militant Japan if they are to maintain the Indo-Pacific order which is centered on the post-war trust between Japan and its neighbors. Failure to do so would not only weaken the legitimacy of the revitalized U.S.-Japan alliance but could cause widespread instability and distrust throughout the region.

Lastly, the Japanese government would have to be prepared to weather intense domestic backlash from a pacifist populace. Massive political protests would divert the government's attention away from the Indo-Pacific and could denigrate Japan's moral legitimacy at home. An opportunistic China could wryly observe that not even the Japanese people want a more overbearing American presence in their country, a message that could extend regionally. This could open the door to liberal-pacifist political parties, disrupting the administration's long-term Indo-Pacific strategy. Considering the political stability Japan has enjoyed for the past

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<sup>329</sup> Becker, Kurt L. "Mutually Assured Destruction." *Scientific American* 308, no. 4 (2013): 8. Accessed January 30, 2021. <http://www.jstor.org.offcampus.lib.washington.edu/stable/26018041>.

several decades, the government may be wary to further bolster its relationship with the United States.

## **Option 2: Pivot From Competition to Integration with China**

Simply put, imperiling the economic relationship with China is not an option for Japan. Tokyo is more economically dependent on China than any other country, with Beijing being its largest trading partner and an invaluable link in the Japanese supply chain.<sup>330</sup> Given the nearing inevitability of Chinese dominance of Asia and the devastating economic effect of the COVID-19 pandemic, perhaps it is time for the Japanese government to reimagine its recently tense relationship with its neighbor. Fully integrating into the Chinese economic sphere would boost Japan's long-term economic recovery and create a prosperous regional system with China and Japan at the helm. Both countries already account for 60% of intraregional trade and 59% of intraregional development.<sup>331</sup> This could be actuated on Japan's part by lifting protectionist policies on Chinese private firms and state-owned enterprises (SOEs) and sharing and installing critical technology such as 5G, semiconductors, artificial intelligence (AI), and electric vehicles.<sup>332</sup>

Also, liberalizing trade would greatly enhance Japan's massive export market as well as potentially fomenting a talent-exchange between the two countries, a resource that Japan has been hemorrhaging for decades.<sup>333</sup> The Japanese government could also provide economic incentives for Chinese firms to invest in domestic projects and joint-ventures, particularly in critical technology industries. Japan could also eschew its past distance with Chinese infrastructure projects, embracing the Belt and Road Initiative (BRI) as the future of the Eurasian economy and merging the Asian Development Bank (ADB) with the Asian Infrastructure Investment Bank (AIIB). It is likely that China would want additional concessions from Japan to enact such dramatic change, including but not limited to sincere, comprehensive war crime

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<sup>330</sup> Shimizu, Naomi Tajitsu, Makiko Yamazaki, Ritsuko. "Japan Wants Manufacturing Back from China, but Breaking up Supply Chains Is Hard to Do." *Reuters*, June 8, 2020. <https://www.reuters.com/article/us-health-coronavirus-japan-production-a-idUSKBN23F2ZO>.

<sup>331</sup> Solís, Mireya. "China, Japan, and the Art of Economic Statecraft." Brookings Institution, GLOBAL CHINA, February 2020, 1–14.s

<sup>332</sup> Kilbey, Ben. "China Continues to Dominate Global EV Supply Chain: BNEF | S&P Global Platts." S&P Global, September 16, 2020. <https://www.spglobal.com/platts/en/market-insights/latest-news/electric-power/091620-china-continues-to-dominate-global-ev-supply-chain-bnef>.

<sup>333</sup> METI/経済産業省. "第1部第2章 ものづくり人材の確保と育成：2020年版ものづくり白書," 2020. [https://www.meti.go.jp/report/whitepaper/mono/2020/honbun\\_html/honbun/102011\\_1.html](https://www.meti.go.jp/report/whitepaper/mono/2020/honbun_html/honbun/102011_1.html).

apologies and a compromise or full capitulation on the Senkaku dispute. Though this would be a steep political and strategic price for the Japanese government to pay, this option has the potential to cauterize the economic wounds the country has lived with for the past thirty years, bringing prosperity, innovation, and tantalizing political capital for the ruling party.

### *Advantages*

As beneficial as this would be, in choosing this option, the Japanese government is recognizing that China does not pose a direct military threat to Japan. While there are major concerns, the biggest dispute between the two countries is by far the Senkaku Islands. China has no interest in invading the Japanese mainland; there would be no reason to disrupt its invaluable trading partner and trigger a war with the United States, which possesses the most sophisticated military force on the planet.<sup>334</sup> Simply put, Chinese aggression towards Japan is more smoke than fire. Their military actions serve to disrupt American-led Indo-Pacific multilateralism, not to incite a major regional war that would ultimately cause China to lose far more than they would gain. In acknowledging this, the Japanese government might likely find that the economic benefits of such an agreement would outweigh the potential security downsides. Domestically, if security issues are still a concern to Japanese far-right political parties, further integrating with Beijing would give the Chinese government even more reason not to interfere with Japanese security, as the risk of economic reprisal would be far more consequential to the Chinese economy.

In addition to greater regional stability, fully integrating with Beijing would allow Japan to unlock enormous economic benefits via trade and international development. Liberalizing the Japanese market to Chinese investors would not only help balance the two country's FDI exchanges but create employment and opportunity for citizens affected by the "hollowing out" effect of globalization.<sup>335</sup> This could be further realized by opening research and development collaboration between Chinese and Japanese technology and science firms, which could also facilitate intercultural exchange and trust. The combined resources and expertise of the two countries would completely overwhelm international competitors, securing market dominance for years, if not decades to come. This would also open the door for Chinese scientists and researchers to possibly emigrate to Japan, imbuing the country with greater capital and expertise.

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<sup>334</sup> Scott, David. "China's Indo-Pacific Strategy." *The Journal of Territorial and Maritime Studies* 6 (2019): 94–113

<sup>335</sup> Huijie, Gu. 2018. "Outward Foreign Direct Investment and Employment in Japan's Manufacturing Industry." *Journal of Economic Structures* 7 (27): 3. <https://doi.org/10.1186/s40008-018-0125-z>.

Perhaps the greatest opportunity that integration would present would be collaboration on international development, particularly in the Indo-Pacific. Merging the assets and capital of the ADB with China's AIIB would greatly improve the efficiency and stability of BRI projects, mitigating costly blunders like the Malaysian East Coast Rail Project.<sup>336</sup> In addition, Japan could leverage its respectable geopolitical reputation and robust regional relationships to assuage partner countries' apprehensions of Chinese financial duplicity, namely debt-trap loaning.<sup>337</sup> Following Beijing's lead, Tokyo would gain a greater role in shaping the Indo-Pacific's future, developing the necessary infrastructure and facilities to cement the region's status as the geoeconomics center of the twenty-first century.

### *Disadvantages*

The most severe consequence of such an option would be immediate backlash from the United States. By siding with Washington's greatest enemy, Tokyo would be signaling that they do not fully trust their defense partner to keep the peace in the Indo-Pacific. In addition to conventional security concerns, the U.S. would be alarmed by the rampant sharing of critical technology with China, especially 5G and semiconductors.<sup>338</sup> This would likely cause the United States to withdraw its forces from Japan, look for more suitable defense partners, and issue diplomatic penalties against the Japanese government. This would be realized through a massive withdrawal of American troops and ships, the exclusion of Japan from multilateral military exercises, and the withholding of vital military intelligence. Though the U.S. could not afford to completely abandon its relationship with Japan, full integration into the Chinese economic apparatus would greatly diminish Japan's national security. The U.S. has a penchant for viewing foreign policy through an "us" against "them" lens, despite geopolitics being far more complicated than a simple dichotomy.<sup>339</sup> Regardless, Japan would be taking the "them" position by siding with China, compromising the country's national security and hampering future cooperation with the world's remaining superpower.

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<sup>336</sup> Solís, Mireya. "China, Japan, and the Art of Economic Statecraft." Brookings Institution, GLOBAL CHINA, February 2020, 1–14.

<sup>337</sup> Hu, Weixing. "The United States, China, and the Indo-Pacific Strategy." *China Review* 20 (2020): 127–42.

<sup>338</sup> Ibid.

<sup>339</sup> Yukio, Satoh. "Indispensability of US Extended Deterrence." *Japanese Foreign Policy in the Twenty-First Century*. (March 9, 2020)

In effect, Japan would be placing an inordinate amount of trust in Beijing not to violate Japanese sovereignty, particularly in the Senkaku Islands and the shipping lanes of the South China Sea. In addition, Japan would more or less be at the mercy of North Korean antics, which China could potentially exacerbate to bully Japan into more exploitative economic agreements and systems. While Japan could attempt to bolster the JSDF with the agreement's increased economic gains, this would likely be met with opposition from China, which could threaten to renege on or restructure their new relationship with Japan to deter them from being militarily self-sufficient. Lastly, full integration with Beijing will put tremendous strain on Tokyo's liberal-democratic values, which the country has cherished since the end of World War II. China, with Japan's economic future hanging in the balance, could strongarm the government into censoring anti-Chinese media, intellectuals, and politicians with the threat of economic sanctions or decoupling. The United States having absconded from the alliance, Japan would have no choice other than to completely capitulate to Beijing, heralding a gradual stripping of Japanese democracy and economic liberalism.

### **Option 3: Embrace a Niche Position Within Wider Greater Power Competition**

Simply put, there is not a Japanese future without China and the United States. With a hamstrung economy and the uncertainty of a post-COVID-19 world order looming, Japan cannot afford to jeopardize its economic lifeline with China nor its security relationship with the United States. Fully committing to either power assuredly alienates the other, which is simply not an option for the Japanese government. To maximize what China and the U.S. offer, Japan must embrace an intermediary position that refrains from full commitment while judiciously evaluating areas of mutually strategic interest amongst all three countries. This option has the potential to not only further the national interests of Japan, but bring levels of stability and prosperity previously unknown to the Indo-Pacific.

Japan can approach its relationship with the United States by recognizing it as being necessary to regional security while implementing policies that uphold the nation's autonomy and preserve its standing with China. This can be realized through a stronger military presence from Tokyo and lessened involvement from Washington, within reason. Firstly, a stronger JSDF would dually placate the United States' long-held demands of greater burden-sharing and alleviate Chinese fears of a domineering U.S. military presence in the Indo-Pacific. Withdrawing

a reasonable amount of American troops would allow Japan to allocate funding towards its own armed forces, increasing JSDF personnel and upgrading outdated equipment and systems.<sup>340</sup> The Biden administration is already advocating for greater burden-sharing from Japan, citing the disproportional amount of regional American personnel honoring the alliance.<sup>341</sup> China, while still wary of a remilitarizing Japan, would prefer a rejuvenated JSDF over a larger American presence in the Indo-Pacific, which they perceive as being the greatest inhibition to their wider regional goals. However, American military apparatuses, most notably missile defense and radar systems, are essential for national security and must remain in high capacity on the Japanese mainland.<sup>342</sup> While this would draw Chinese ire, Japan can justify its presence by citing fears of the North Korean missile threat and pointing to the decrease of American personnel. While Tokyo would moderate its security relationship with the U.S., it would still fully participate in regional security institutions such as the Quad to provide for both its own security and coordinate multilateral strategy.

As for China, Japan can stimulate its ailing economy by engaging in cooperative economic activities and projects without risking its own national security. Regional infrastructure projects present an enticing opportunity for Japan and China to collaboratively invest in the Indo-Pacific. Japan could help coordinate these projects via the ADB with China's AIIB in addition to subregional organizations, such as the Lancang Mekong Cooperation Framework.<sup>343</sup> The combined financial resources and expertise of Japan and China would mitigate risk, enhance project efficiency and attenuate regional fears of aggressive economic statecraft from Beijing through multilateralism. China, learning from the precariousness of past BRI projects, would surely welcome Japanese assistance in its vision of mass Eurasian infrastructure.<sup>344</sup>

To hedge against Beijing abusing this partnership, the ADB would need to carefully choose which projects to back and stipulate that it would withdraw from any venture that would possibly

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<sup>340</sup> Richard L. Armitage, Joseph S. Nye, "More Important Than Ever: Renewing the US-Japan Alliance for the 21<sup>st</sup> Century," p. 3, *Center for Strategic & International Studies*, October 2018

<sup>341</sup> New US defense chief reaffirms commitment to Senkaku Islands defense," *Nikkei*, January 24, 2021, <https://asia-nikkei-com.offcampus.lib.washington.edu/Politics/International-relations/Biden-s-Asia-policy/New-US-defense-chief-reaffirms-commitment-to-Senkaku-islands-defense>

<sup>342</sup> Sankaran, Jaganath. "MISSILE DEFENSES AND STRATEGIC STABILITY IN ASIA: EVIDENCE FROM SIMULATIONS." *Journal of East Asian Studies* 20, no. 3 (November 2020): 485–508. <https://doi.org/10.1017/jea.2020.10>.

<sup>343</sup> Harding, Brian. "Common Ground for the United States, Japan, and China in Southeast Asia." *Center for American Progress*, March 2017, 1-15.

<sup>344</sup> Solís, Mireya. "China, Japan, and the Art of Economic Statecraft." Brookings Institution, GLOBAL CHINA, February 2020, 1–14.

entail harmful economic practices, most notably predatory lending. The ADB could safely fund these projects without ever having to explicitly endorse BRI, which might poison Japan's relationship with the United States. In addition, Japan and China could finally activate the previous Memorandum of Understandings (MOU), most notably between the Japan Bank for International Cooperation (JBIC) and China Development Bank (CDB), which made explicit reference to global standards such as economic transparency, freedom of navigation and others critical to Japan's desire for a rules-based regional order.<sup>345</sup> While it would be in Tokyo's best interest to collaborate with Beijing's vast infrastructure vision, it could not afford to lift domestic protections against punitive Chinese economic policies, particularly the theft of critical technology and the presence of Chinese 5G carriers such as Huawei.<sup>346</sup> These restrictions not only defend domestic industries but shield Japan from Chinese infiltration and exploitation of key national security vulnerabilities. This compromise with China, infrastructure funding in exchange for technological protectionism, would allow Japan to invest in its important market without having to submit to China and completely alienate the United States.

### *Advantages*

Perhaps the greatest advantage Japan would gain from this option would be the potential to act as a bridge between the two great powers, ameliorating tensions and opening the door to collaborate on pressing global issues. By taking a more neutral stance, Japan could facilitate China-U.S. dialogue without either side suspecting the other of ulterior motives. This could come in the form of climate change conferences and greater accountability, cracking down on human and wildlife trafficking in the Indo-Pacific, and limited discussions on human rights. Though this is far from a guarantee, skilled diplomacy from the Ministry of Foreign Affairs (MOFA) could make these visions a reality. This work would not only benefit trilateral relations but would serve the world's greater interest, especially as the United States and China are the two biggest carbon-emitters on the globe.<sup>347</sup>

Furthermore, it is possible for Japan to act as a 'de-escalation agent' in the wider great power competition. The Ministry of Foreign Affairs of Japan could help U.S. and China come to

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<sup>345</sup> Ibid.

<sup>346</sup> Ibid.

<sup>347</sup> Wang, Qiang, Shuyu Li, and Zhanna Pisarenko. "Modeling Carbon Emission Trajectory of China, US and India." *Journal of Cleaner Production* 258 (June 2020): 120723. <https://doi.org/10.1016/j.jclepro.2020.120723>.

understandings and compromises on key regional issues to protect both nations' wider foreign policy agendas without coming into conflict and escalating a calamitous 'hot-war' that would devastate the regional peace and the greater global economy. Negotiating limited missile disarmaments, minor troop withdrawals and de-escalating rhetoric would still go a long way to promoting peace and stability in the Indo-Pacific. This would help secure the country's precarious national security situation and win Tokyo international acclaim as an irenic champion with possible diplomatic benefits attached. Overall, Japan's intermediary position would be advantageous in the fact that it would not saddle Japan's future wholly to either power, mitigating future developments which may greatly inhibit their trajectories. Japan would be playing it safe while reaping the maximum benefits of both China and the United States.

### *Disadvantages*

The most noticeable disadvantage to this strategy would be the potential suspicion of China and the United States towards a Japan not willing to fully commit to either side. As previously mentioned, Washington has a tendency to subscribe to a pro and anti-U.S. dichotomy, with little patience for deviation. China is increasingly taking the same stance, gathering allies and pressing neutral countries to integrate into its widening global system.<sup>348</sup> A noncommittal position towards either power may conclude in one, or possibly both, moving on from Japan and seeking allies more willing to toe the line. Simply put, Japan may eventually not have a choice in opting out of the U.S.-China rivalry. One power alienating Japan would be disastrous; both would be unthinkable. This option would be the most precarious balancing act that the Japanese government will have ever faced and would take shrewd negotiation, robust relationship building, and strategic sacrifices for it to work.

Secondly, in choosing this option Japan would be taking an unprecedented role in regional management and decision-making. While many may view this as an advantage, its risk lies in its fundamental uncertainty. By becoming more responsible for its own security and the development of the international economic system, Japan will lose both China and the United States as scapegoats if either situation deteriorates. The Japanese government would be left with the lion's share of the blame, which could incur domestic backlash and foreign skepticism of the

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<sup>348</sup> Foot, Rosemary. 2017. "Power Transitions and Great Power Management: Three Decades of China–Japan–US Relations." *Pacific Review* 30 (6): 829–42. doi:10.1080/09512748.2017.1303535.

country's role in the global system. Though Tokyo has longed for a more independent role in the region and the world, it may ultimately prove politically wise to let others take the fall in the game of great power competition.

## **Conclusion**

Japan faces a difficult dilemma as it continues into the twenty-first century: stand by the United States, guaranteeing military protection and a seat at the international table, or turn to China, generating economic highs while acquiescing to a totalitarian regime. While developing regional multilateral organizations and relationships will be of the great long-term benefit, the overwhelming dominance of the United States and China will be the future of the Indo-Pacific for decades, if not centuries, to come. For Japan to maximize what both world powers have to offer, it must commit to finding a “middle way”, where it can reap the benefits of the Chinese economic machine while relying on the assurance of American power to nullify the need for a large defense budget. If the Japanese government plays its hand well, it can emerge from the China-U.S. conflict more prosperous, popular, and powerful than it has been in nearly half a century.

## Recommendations

China's rise has precipitated a massive shift in the current global order. With China's strong economic presence and its growing influence in the Indo-Pacific region, Japan faces a number of challenges that must be addressed. However, Japan must also balance maximizing its national interests in regards to China with maintaining strong relations with the United States, its long term ally. Given this goal, this Task Force offers recommendations centered around maximizing Japanese interests in three key areas: I) Defense and Security II) Trade and Investment III) Diplomacy and Multilateral Cooperation.

### Section I: Defense and Security

From a defense standpoint, maintaining a strong security relationship with the United States continues to be of prominent importance. However, it is in Japan's best interests to also invest in increasing its own military defense of land, naval and aerial domains both within and around the Japanese mainland to counter potential security threats. This would also allow Japan to contribute more to the U.S.-Japan security relationship. This can be achieved through the following actions:

- Work jointly with the United States to improve Japan's military and defense capabilities
- Further develop joint planning and command with the U.S. to increase efficiency and cost effectivity
- Reconsider the Aegis Ashore BMD purchase
- Enhance aerial and naval defenses on the Senkaku Islands, such as, but not limited to, the Japan Air Self Defense Force's (JASDF) air defense missiles and tactical fighter squadron

It is also advisable that the Japanese government continue efforts to cement strong diplomatic relations with countries in the Indo-Pacific in order to counter China's rising influence in the region. Furthermore, active participation in security agreements and regional and international alliances would serve to better strengthen Japan's national security from potential

threats. Potential concrete actions that the Japanese government could take in order to achieve this goal include:

- Host and lead joint and multilateral military exercises with Australia, India, and South Korea, such as JIMEX and RIMPAC
- Achieve Sixth Eye status by enhancing intelligence infrastructure through the adoption of U.S. standards and practices and by greatly bolstering cybersecurity defenses
- Strengthen relationships with nations involved in regional conflicts with China, such as but not limited to Vietnam and the Philippines in the South China Sea, and The Quad to counter China's global expansion through the Belt and Road Initiative.
- Continue joint collaboration with China on denuclearizing North Korea

If the Japanese government were to pursue these actions, it is advisable to avoid further military escalation in sensitive situations, such as the Senkaku Islands, in order to avoid harming vital economic and diplomatic relationships with China.

## **Section II: Trade and Investment**

Maintaining a strong trade and investment relationship between Japan and China is also vital for the economy of Japan. There are several actions that Japan can take to further benefit from its trade relationship with China, which include:

- Collaborate with China in sectors such as green technology, healthcare technology, and transportation
- Encourage Chinese investment in Japan in non-sensitive areas
- Change regulations and policies to make it easier for Chinese tourists to visit and enjoy Japan

While Japan can reap numerous benefits from its trade relationship with China, Japan must also strengthen several key sectors within its own economy to continue to stay competitive in the global economy. In an era of prolonged economic stagnation and China's ever increasing economic power, Japan can take the following actions to improve its economy:

- Reduce reliance on Chinese manufacturing supply chains by encouraging the relocation of companies back to Japan and to other countries outside of China
- Increase national spending on research and development to foster increased innovation in advanced manufacturing, 5G, AI, and medical fields
- Invest heavily in the digitization of Japan and specifically, automating manufacturing
- Establish a national, investigative agency for stronger national, economic, and cyber security
- Form and strengthen strategic alliances with countries in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership (RCEP)
- Enhance and safeguard intellectual property rights

However despite China's increasing importance for the Japanese economy, the United States also remains a key trading partner. American markets are an essential destination for Japanese exports from a number of industries. In order to continue to keep this mutually beneficial economic relationship strong over the long run Japan could potentially:

- Encourage the United States to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
- Continue to encourage Japanese investments in the United States such as new automotive factories
- Change the temporary FDI restriction on pharmaceuticals from 1% back to the original 10% to allow U.S. companies to invest again in Japan's medical industry
- Purchase more military goods from U.S. companies
- Encourage more collaboration between Japan's defense suppliers and U.S. defense product giants

### **Section III: Diplomacy and Multilateral Cooperation**

In addition to security and economics, there are several diplomatic and multilateral issues that the Japanese government must consider in its relationships with the U.S. and China. These issues include climate change and global health, which will, in the coming years, drastically affect

Japan's future. Thus, it is important for Japan to engage in diplomatic, multilateral cooperation with both the U.S. and China on climate change and global health. Specific actions that Japan can take in regards to these issues are:

- Encourage the U.S. to prioritize climate and global health cooperation with China by focusing on shared, common goals
- Develop a secure global health information system through collaboration with the U.S. and China
- Continue to invest in efforts such as the Joint Crediting Mechanism and the Green Climate Fund

In recent years, issues concerning human rights in China have emerged. For Japan, much of its involvement concerning human rights comes from its championing ally, the United States. It is important for Japan to be aware of the possibility for escalation between the U.S. and China in regards to human rights issues. Japan may take the following actions in regards to this issue:

- Wait until it is clear whether the West will unite in a multilateral front before taking an official stance on human rights issues in China
- Diversify manufacturing outside of Xinjiang should the situation escalate

History and memories related to World War II comprise a significant area of conflict and tension between Japan and China. In order to improve and further economic and diplomatic relations between the two nations, Japan should consider making a sincere, formal apology for its actions during the war. This apology needs to be backed by clear action and work to improve the image of Japan amongst the Chinese public. In order to accomplish this, specific actions include:

- Textbook reform to accurately represent Japan's actions during WWII
- Halting politician visits to Yasukuni Shrine and finding a new place to honor military members who died in the war, but not those deemed war criminals
- Encourage and invest in intercultural exchange

## **Conclusion**

Altogether, these recommendations aim to best balance Japan's relationship with both the U.S. and China. In a shifting global order, it is advisable that Japan be prepared to adjust its strategy in all three of these areas in order to best serve its national interests. This will likely take the form of finding a middle way which allows Japan to continue to have the United States as its long term security ally and trading partner while also reaping the benefits of China's rapid economic growth and expanding influence in the Indo-Pacific region. This Task Force hopes that the proposed recommendations are useful in providing a path forward for Japan.

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