



Japan-China Relations:
U.S. Perspectives and Suggested Responses



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Based in Honolulu, the Pacific Forum CSIS (www.pacforum.org) operates as the autonomous Asia-Pacific arm of the Center for Strategic and International Studies in Washington, DC. The Forum's programs encompass current and emerging political, security, economic, business, and oceans policy issues through analysis and dialogue undertaken with the region's leaders in the academic, government, and corporate arenas. Founded in 1975, it collaborates with a broad network of research institutes from around the Pacific Rim, drawing on Asian perspectives and disseminating project findings and recommendations to opinion leaders, governments, and members of the public throughout the region.

The Young Leaders Program invites young professionals and graduate students to join Pacific Forum policy dialogues and conferences. The program fosters education in the practical aspects of policy-making, generates an exchange of views between young and seasoned professionals, promotes interaction among younger professionals, and enriches dialogues with generational perspectives for all attendees. Fellows must have a strong background in the area covered by the conference they are attending and an endorsement from respected experts in their field. Supplemental programs in conference host cities and mentoring sessions with senior officials and specialists add to the Young Leader experience. The Young Leaders Program is currently supported by the Freeman Foundation, the Luce Foundation, and the Yuchengco Group, with a growing number of universities, institutes, and organizations also helping to sponsor individual participants. For more details, see the Pacific Forum CSIS website, www.pacforum.org, or contact Brad Glosserman, director of the Young Leaders Program at bradgpf@hawaii.rr.com.

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The views expressed here represent personal impressions and reflections of the Young Leaders program participants; they do not necessarily represent the views of the relevant governments, or the co-sponsoring or parent organizations and institutes.

Foreword

The Japan-China relationship is of critical importance to all of Asia and the United States. Cooperative relations between Tokyo and Beijing could provide the foundation for a broader community in East Asia and will facilitate the resolution of problems that threaten to derail the region's development; an antagonistic relationship will divide the region and add to the strains that could lead to conflict. With its large and growing stake in Asia, its alliance with Japan, and its partnership with China, the United States has a keen interest in this relationship.

Concerned about the deterioration of relations between Japan and China, the Pacific Forum CSIS joined with three other think tanks (the Center for Naval Analysis, the Institute for Defense Analysis, and the National Defense University) to study the Japan-China relationship in all its dimensions, assess the U.S. stake, and provide policy recommendations for Washington. The results of this analysis – an eight-month effort that included a series of meetings with scholars and former policy makers – will soon be available.

As at other meetings we host, the Pacific Forum CSIS included a Young Leaders component in the final meeting of the series, which was held in Honolulu in August 2006. This program was different from others in several ways. First, the Young Leader group was much smaller than usual, comprising six YLs, about half the size of our usual contingent. Second, in a departure from previous exercises, the Young Leaders produced a joint paper after the conference was over. Rather than provide individual assessments of parts of the issue (Japan-China relations), YLs collaborated on a single paper that explored all dimensions of the relationship. Thus, the paper that follows explores the various themes that were tackled in separate conferences throughout the life of the study group. While the table of contents identifies the lead author for each chapter, all chapters in their final printed version, represent a consensus view of the entire team.

We expected the collaborative nature of the exercise to challenge the Young Leaders in new and unanticipated ways. We were right: collaboration is a challenge in itself. We were so pleased with the results that we have adopted this model for subsequent Young Leader assignments, the fruits of which will soon be available to the public. (Stay tuned to the Pacific Forum website, www.pacforum.org)

After publication, this paper will be posted on the Young Leaders website (www.pacforumyoungleaders.org) where we hope it will attract comments, criticism, and amendment. We aim to create “living documents” that use the “open source” methodology used by Wikipedia and other online efforts. Our goal is to create a vibrant community of Young Leaders that draws on their collective wisdom and expertise to contribute to discussion of critical foreign policy issues. We hope you enjoy the papers that follow and we welcome your comments and suggestions on this program.

Ralph A. Cossa
President
Pacific Forum CSIS

Executive Summary

By Daniel Kliman

This Young Leader's report examines the causes and consequences of China-Japan strategic competition. More important, the report endeavors to provide a menu of initiatives for capitalizing on the momentum of the October 2006 summit between Japan's new prime minister, Abe Shinzo, and Chinese President Hu Jintao.

Most of the papers agree that strategic mistrust lies at the heart of the emerging rivalry between Tokyo and Beijing. The Young Leaders view this mistrust as embedded at both the elite and popular levels. As such, recommendations for addressing the taproot of rivalry are diverse, running the gamut from people-to-people exchanges to new government agreements. The United States, as an ally of Japan and guarantor of regional stability, cannot eschew a role in managing China-Japan competition without damaging its interests and image in Asia. Consequently, many of the Young Leaders have recommended U.S. policies that would help to ameliorate, or at the least, prevent further escalation of tensions between Tokyo and Beijing. However, a common theme of these papers is that U.S. influence should be exercised with restraint and that, ultimately, only Japan and China can implement policies needed to avoid a full-blown strategic rivalry.

Six Young Leaders have contributed to this report:

Susan Craig examines the respective roles of history, official policy, and public opinion in shaping China-Japan relations. Craig articulates history as a contextual factor. A perceived lack of Japanese contrition for wartime atrocities renders Chinese public opinion toward Japan strongly negative. Given a history of unequal relations – regional preeminence has alternated between China and Japan – both capitals must grope for a new modus operandi in a geopolitical environment of relative parity. Craig notes that official relations remain mired in many of the same disagreements that emerged in the wake of normalization three decades ago. Additionally, she emphasizes that official policy is constrained by nationalistic public opinion: taking steps to improve bilateral relations could incur substantial domestic costs for leaders in both Tokyo and Beijing. Lastly, Craig highlights the role of the Japanese and Chinese media in promoting mutual suspicion at the popular level via biased coverage.

Sun Namkung assesses the economic dimension of China-Japan relations. She affirms that “cold politics, hot economics” remains an apt shorthand for the coexistence of political rivalry alongside burgeoning economic ties. According to Namkung, the emergence of an economic rivalry between Tokyo and Beijing is attenuated by two factors: complementary comparative advantages in the short- to medium-term and the presence of institutional channels – the WTO and regular bilateral meetings – that provide venues for dialogue and conflict resolution. At the corporate level, bilateral trade and Japanese FDI in China have grown rapidly. However, Namkung notes that Japanese companies have adopted a “China plus one” investment strategy to hedge against structural weaknesses in the Chinese economy and political risk. Energy is both a source of China-Japan competition and potential cooperation. On the one hand, Tokyo and Beijing are currently at odds over energy rights in the East China Sea and the location of a Siberian natural gas pipeline. On the other hand, Namkung emphasizes that Japan could play

an integral role in enhancing China's energy efficiency, thus transforming an aspect of strategic rivalry into collaboration.

Erik Henderson explores the role of energy in China-Japan relations and the implications for U.S. policy. China's rapidly increasing energy demand has contributed to the recent downward spiral in its relations with Japan. Moreover, Henderson notes that China's search for new energy suppliers has undercut U.S. interests vis-à-vis Iran. To render China's quest for energy security more amenable to U.S. and Japanese interests, Henderson outlines a set of regional objectives: a strategic energy reserve in East Asia, resolution of the China-Japan dispute in the East China Sea, and Japan-China-ASEAN cooperation to safeguard key sea lines of communication. He also proposes new bilateral and trilateral energy initiatives. Henderson asserts that U.S.-Japan-China research cooperation would produce improvements in energy extraction technology and result in more energy efficient infrastructure. And he recommends that the United States encourage joint energy exploration by Japan and China, both as a step toward alleviating strategic mistrust and as a means of meeting regional energy needs.

Yuki Tatsumi illuminates the military dimension of China-Japan competition. She argues that while strategic mistrust prevails on both sides, the respective profiles of Japan and China in the other's defense planning process vary greatly. China dominates Tokyo's long-term threat assessments. However, Chinese defense planners tend to downplay Japan as a military actor in Asia. Instead, Chinese procurements and military doctrine appear to focus largely on the United States. The possibility of an all-out armed conflict between Japan and China is remote, argues Tatsumi. However, she fears that an accident at sea could escalate into a militarized crisis. To avert this scenario, Tatsumi recommends that Tokyo and Beijing conclude a Maritime Consultative Agreement. Lastly, she examines the implications of China-Japan military rivalry for the United States. Tatsumi contends that Washington, as Japan's ally, would not be an appropriate mediator between Tokyo and Beijing. Rather, Washington should encourage both sides to manage military competition via pragmatic frameworks such as a Maritime Consultative Agreement in the East China Sea.

Leif-Eric Easley outlines U.S. interests in East Asia, arguing that a paramount goal is averting a full-fledged China-Japan rivalry. He defines U.S. interests using a four-fold concept, SAVI: stability, access, values, and influence. Strategic competition between Japan and China, by increasing the likelihood of a China-Japan military crisis, undermining five-party solidarity vis-a-vis North Korea, and raising Chinese fears of Japanese intervention in a Taiwan contingency, undermines U.S. stability interests. As tensions between Tokyo and Beijing render East Asian regionalism less inclusive and exacerbate China's mercantilist energy policies, U.S. access interests suffer. Rivalry also makes the spread of U.S. values more problematic: promoting democracy and human rights could increase divisiveness rather than community. Lastly, Easley argues that friction between Tokyo and Beijing can degrade U.S. influence in the region, as rivalry with China may weaken Japan's capacity to work alongside the United States in Asia. While acknowledging the limits of U.S. policy, Easley offers several recommendations: Washington needs to synergize U.S. visions of Japan as a strong, proactive ally and China as a responsible stakeholder through trilateral cooperation; the U.S. should support China-Japan maritime confidence building and create new opportunities for leadership in Asia to transform Tokyo's and Beijing's jockeying for influence into a positive-sum competition.

Jason Show articulates Washington's role in realizing more cooperative U.S.-Japan-China relations. According to Show, ambitious forms of trilateral collaboration – large-scale energy projects, a regional security mechanism, and tighter economic integration – are unattainable due to deeply rooted strategic mistrust. To establish a basis for trilateral trust, Show advocates boosting personnel exchanges among future U.S., Japanese, and Chinese elites. Recognizing that Washington's ability to promote personnel exchanges between Japan and China is limited, his recommendations focus on the U.S.-China leg of the triangular relationship. First, Show proposes increasing the number of U.S. students studying in China and Japan. Second, he advocates that the U.S. promote additional military exchanges with China. Such exchanges could ultimately expand to include officers from the Japan Self-Defense Forces, and thus become a vehicle for fostering more cooperative trilateral relations. Third, Show contends that Washington should upgrade its public diplomacy efforts, particularly in China.

This report concludes with a brief evaluation of the October 2006 Japan-China summit. Although the summit heralds a thaw in China-Japan relations, the underlying cause of rivalry remains. It is the hope of all the Young Leaders involved in this report that ideas contained herein may assist U.S., Japanese, and Chinese policymakers in the difficult task ahead – dispelling strategic mistrust.

Defining the China-Japan Relationship

By Susan Craig

Many factors define contemporary China-Japan relations. Historically rooted, emotional resentment pervades this relationship. The governments of China and Japan recognize that improving bilateral ties is necessary to ensure continued economic growth and regional stability. Yet, strongly negative public opinion in each country regarding the other limits opportunities to do so. By examining the history of China-Japan relations, official Chinese and Japanese policies toward one another, and public opinion in each country, it is clear that the relationship remains a complicated one – with an unresolved past and an uncertain future.

The Role of History in China-Japan Relations

To most Chinese, the atrocities suffered at the hands of the Japanese during the first half of the 20th century remain fresh in memory. In 2005, a public opinion poll conducted by *China Daily*, a Japanese think tank Genron NPO, and Peking University found that the first thing that comes to the minds of a majority of Chinese polled when asked about Japan is the 1937 Nanjing Massacre (the second thing is electric appliances).¹ This finding demonstrates both the Chinese public's fixation on history that impedes relations and the dichotomous nature of the relationship, referred to as "hot economics, cold politics." While the economies of the two countries have grown increasingly interdependent, public attitudes have not likewise warmed. Further, despite numerous Japanese apologies for past atrocities, repeated unrepentant visits by Prime Minister Koizumi Junichiro to the Yasukuni Shrine affirmed Chinese perception that the Japanese are not sufficiently sorry. There is thus an overwhelming sense among China's public that the responsibility for the troubled relationship rests solely with the Japanese. As Deng Xiaoping said to Japanese Cabinet officials in 1987, "frankly speaking, the responsibility was never China's. Not one of the past and present troubles was caused by China."² This attitude ignores the fact that much Chinese hatred of Japan is a result of China's "patriotic education." The Japanese, meanwhile, especially the postwar generation that does not feel responsible for World War II misdeeds, is resentful of this blame for the poor state of relations and suffers from "apology fatigue."

Historically, the relationship between China and Japan has been characterized by inequality. Prior to the 19th century, China was the more powerful country. Japan viewed its neighbor with high regard while China perceived Japan as less advanced and culturally derivative. This balance of power changed around the Meiji Restoration in 1868. Only after defeat in the China-Japan War of 1894-1895 did China re-evaluate its perception of Japan and seek to emulate the modernizations undertaken by its island neighbor. During the first half of the 20th century, asymmetries between the two countries became even more pronounced as Japan

¹ Qin Jize, "Poll: China-Japan Ties Need Mending," *China Daily*, Aug. 24, 2005, http://www.chinadaily.com.cn/english/doc/2005-08/24/content_471671.htm (Nov. 16, 2005).

² Deng Xiaoping as quoted in Allen S. Whiting, *China Eyes Japan* (Berkeley, California: University of California Press, 1989): 149.

invaded and occupied coastal China.³ Japan's defeat in 1945 temporarily equalized the balance of power. However, following U.S. military occupation, Japan came to once again dwarf China, this time as an economic superpower.

Today, China and Japan are more equal than they have ever been. China's economic might now rivals that of Japan. At the same time, Japan is striving for "normalcy," or political and military power that is more commensurate with its economic power. Already characterized by mutual distrust, the China-Japan relationship is rendered more complex as the two must now approach each other as equals rather than as student-to-teacher or victor-to-vanquished.

Official Policy

The fixation on history has prevented the China-Japan relationship from maturing significantly. The two countries established formal relations with one another in 1972, when they declared their "abnormal state of relations that has hitherto existed" to be over.⁴ In 1978, they signed the Treaty of Peace and Friendship. But today's disagreements – over shrine visits, history textbooks, territory in the East China Sea, the extent to which Japan can and should grow its military capabilities – are largely the same disagreements of 20 years ago. A Joint Declaration issued in 1998, *On Building a Partnership of Friendship and Cooperation for Peace and Development*, is essentially a restatement of the 1970 declarations.⁵ The need to recommit to the principles of friendship and cooperation demonstrates the lack of progress in developing just such a relationship.

Chinese President Hu Jintao reiterated China's commitment to peace and friendship in his 2005 announcement of China's first official Japan policy. Crafting a new Japan policy had been debated in China for several years. A number of Chinese scholars (likely at the behest of the Hu administration) advocated "new thinking" on Japan and recommended getting past history and taking greater responsibility for the state of the relationship. However, the media and public strongly opposed those proposals. Hu's official policy represented a compromise between the academics' suggestion to engage more proactively and the reaction of the media and public.⁶ As a result, negotiation and cooperation are key tenets of China's Japan policy, but history is still a guide and the "correct handling" of Taiwan is still a requirement.

Japan has not declared such a China-specific policy. However, a number of recent official pronouncements and actions shed light on Japan's China policy. Most recently and perhaps most

³ For a comprehensive analysis of the China-Japan war and the beginning of the era of "carving up" China, see Bruce Elleman, *Modern Chinese Warfare: 1975-1989* (New York: Routledge, 2001).

⁴ Japan Ministry of Foreign Affairs, "Joint Communique of the Government of Japan and the Government of the People's Republic of China," Sept. 29, 1972, <http://www.mofa.go.jp/region/asia-paci/china/joint72.html> (Sept. 14, 2006).

⁵ For example, in 1998 the Japanese were "keenly conscious of the responsibility for the serious damage that Japan caused to the Chinese people" and expressed "deep remorse." The Japanese were "keenly conscious" and remorseful in 1972 as well.

⁶ The policy articulated by Hu contained five distinct elements: (1) Strictly adhere to the three standing political documents; (2) "persist in making history the mirror and looking forward to the future"; (3) correctly handle the Taiwan issue; (4) properly manage disagreements between China and Japan by continuing dialogue and negotiations on an equal footing; and (5) further expand exchange and cooperation. "Hu Jintao Gives Important Speech on China-Japan Relations," *Xinhua*, April 23, 2005.

significantly, Abe Shinzo's trip to China – his first overseas visit after becoming prime minister – demonstrated the priority his administration places on repairing bilateral relations. Other developments are not perceived by Chinese as helping to achieve this goal, however. Japan's latest National Defense Program Guidelines identified China by name for the first time as a possible military threat.⁷ In the 2005 U.S.-Japan Security Consultative Committee Joint Statement, Japan and the United States noted that Taiwan is a “common strategic objective.”⁸ Japan has also dispatched Maritime Self-Defense Force vessels to the Indian Ocean, joined the Proliferation Security Initiative, deployed troops to Iraq, and moved toward amending Article 9. On the economic side, Japan has announced that it will stop extending new loans to China in 2008, which comprise more than 90 percent of Japan's development aid to China, essentially halting over 25 years of economic assistance. While these developments in Japanese policy are not solely related to or directed against China, they nonetheless reaffirm the widespread Chinese perception that Japan is returning to its aggressive, militaristic past. Thus, while both administrations pledge to improve relations, they also take actions that reinforce mutual concerns about the other's true intentions.

Public Opinion

Public opinion plays a considerable role in shaping the official dimension of China-Japan relations. At the popular level, mutual perceptions are formed almost exclusively by the domestic media. A poll conducted simultaneously in both countries in August 2006 indicated that 90 percent of both Chinese and Japanese obtain their information about the other country and the state of bilateral relations from their news media. Very few of those polled in both countries had traveled to the other country and almost no one admitted to having acquaintances in the other country.⁹

As a result of this lack of personal familiarity and reliance on the news media, both Chinese and Japanese publics hold negative views of one another. In a poll conducted by *China Daily's* weekly youth newspaper, more than half of Chinese respondents professed hatred or dislike for Japan.¹⁰ Following the anti-Japanese protests across China in 2005, the proportion of Japanese who held an unfavorable view of China soared to 70 percent.¹¹ Yet, in spite of this mutual dislike, publics in both countries believe in the need for better relations: 72 percent of Japanese favor increasing contacts with Chinese, while 92 percent of Chinese support greater contacts with Japan.¹²

⁷ Japan Defense Agency, “National Defense Program Guideline for FY 2005 and After,” Dec. 10, 2004, http://www.jda.go.jp/e/defense_policy/japans_defense_policy/4/ndpgf2005/1.pdf.

⁸ Joint Statement of the U.S.-Japan Security Consultative Committee (Washington, DC: 19 February 2005), available at <http://www.state.gov/r/pa/prs/ps/2005/42490.htm>.

⁹ Wang Jian and Teng Jianfeng, “Poll conducted simultaneously in China, Japan shows that Chinese, Japanese peoples have few contacts with each other, view each other negatively, but agree on need for more contacts,” *Zhongguo Xinwen She*, Aug. 2, 2006. Translated by Open Source Center. It goes without saying that China's media is less open than Japan's. However, there is a nationalistic sentiment in some Japanese media that is not dissimilar to China.

¹⁰ Liao Meng and Zhu Ting, “Poll: 51percent of Chinese Youths Say They Want to Make Friends with Japanese,” *China Daily*, July 6, 2005.

¹¹ Hikari Agakimi “‘We the Japanese People’ – A Reflection on Public Opinion,” *The Japan Institute of International Affairs*, May 22, 2006, <http://yaleglobal.yale.edu/display.article?id=7444> (Sept. 13, 2006).

¹² Wang and Teng, op cit.

Japan and China are locked in a seemingly intractable situation. Both publics recognize the need to improve relations, yet at the same time hold attitudes that prevent their leaders from taking steps to overcome the current impasse. Interestingly, the perceived fragility of the Communist Party's control in China and the demands of democracy in Japan require both countries to heed domestic public opinion – sometimes at the expense of improved relations.

An Unresolved Past and An Uncertain Future

In the case of China-Japan relations, the depth of mistrust and the resulting inability to understand each other's intentions cannot be overstated. Despite public and elite admissions in both countries that boosting relations would be good for both countries, there seems to be little public demand for leadership efforts to realize such an improvement. Publics in China and Japan are overly reliant on nationalistic domestic media that promotes negative images of the other. Although repeated China-Japan joint declarations and each country's official policies espouse the need to pursue friendship and cooperation, the actions of both countries rarely demonstrate commitment to these objectives, and thus stimulate additional mistrust and misunderstanding.

While the Chinese and Japanese publics recognize the need for better relations, they do not exhibit much hope that future bilateral relations will improve. At the official level, both China and Japan have pledged to achieve increased trust and cooperation since normalizing relations in 1972. However, the current state of relations remains decidedly mixed, so popular pessimism is not surprising. With an unresolved history of conflict and an uncertain future characterized by growing military capabilities and nationalism in both countries, improving China-Japan relations will remain difficult. Yet, given the stakes in East Asia today, the importance of friendly and cooperative China-Japan relations is more important than ever.

China-Japan Economic Rivalry

By Sun Namkung

The China-Japan relationship has been described as “hot economics, cold politics.” Since Chinese President Jiang Zemin’s 1998 visit to Tokyo, history has remained a flashpoint in the political interaction between China and Japan. The political relationship has become frosty to the point that senior-level meetings were canceled in 2004. Nonetheless, since President Jiang’s visit, China-Japan trade has increased rapidly, hitting a seven-year high in 2005.¹ Indeed, both China and Japan are now each other’s largest trading partner.² Japanese exports to China tend to be high-end consumer electronics like digital cameras and imaging products. Imports from China are typically lower-end computers and personal electronic products. Because the economies of Japan and China are complementary in the short- and medium-term, an outright economic rivalry is unlikely. However, one area of contention is energy and raw materials, access to which constitutes a major constraint on Chinese economic growth. The U.S. is important to both economies, and that helps to stabilize trade relations.

No China-Japan Economic Rivalry, Yet

Does an economic rivalry exist between China and Japan? The consensus is no. Several factors allow the Chinese and Japanese economies to complement rather than compete with one another. The first and most important is simply that the Chinese economy is less advanced than Japan’s. China’s labor cost advantage attracts Japanese manufacturers to produce for the Japanese domestic market. Japanese companies directly or indirectly employ about 9.2 million people in China.³ China still requires labor-intensive industries like textiles to employ its citizens and 81 percent of Japan’s clothing imports come from China (the next largest importer is Italy at 4.9 percent). Another important trade and manufacturing sector for China is semiconductors. Japan imports semiconductors from China (8.2 percent) and exports to China and Hong Kong (32.6 percent).⁴ In 2002, China replaced the U.S. as the largest importer to Japan.⁵ Clearly, China-Japan bilateral trade is very important to the overall economic relationship.

The second factor that inhibits economic rivalry is the existence of dialogue channels to manage problems that arise in the economic relationship. Since China joined the World Trade Organization (WTO) in December 2001, Japan and China have used the WTO as one venue to work out their trade disputes. Mechanisms like the Japan-China Economic Partnership Consultation operate at the deputy-minister level to mitigate bilateral friction over trade and investment issues. The most recent meeting was held Dec. 2, 2005 in Tokyo. There have been

¹ “China-Japan Trade Hit New High,” Feb. 22, 2006, *People’s Daily Online*, http://english.people.com.cn/200602/22/print20060222_245019.html.

² U.S.-China Business Council, “Table 7: China’s Top Trade Partners (\$million)” 2005, *U.S.-China Trade Statistics and China’s World Trade Statistics*, <http://www.uschina.org/statistics/tradetable.html>.

³ “Japan’s Regional Diplomacy,” *Diplomatic Bluebook 2006*, 39.

⁴ “Japan’s Major Export and Import Commodities (2005),” *Trade, International Balance of Payments, and International Cooperation*, <http://www.stat.go.jp/english/data/handbook/c11cont.htm>.

⁵ “Table 11.2 Trends in Exports and Imports by Country/Region,” *International Balance of Payments, and International Cooperation*, <http://www.stat.go.jp/english/data/handbook/c11cont.htm>.

many working-level visits as well. Such contacts help manage irritants in the overall economic relationship.

The third factor is that recent history has demonstrated that Japan and China can cooperate when confronting common economic threats such as the 1997 currency crisis that devastated countries in Southeast Asia and South Korea. The Chiang Mai Initiative is an Asia-only effort to prevent another currency meltdown. Japan and China took the lead in creating this initiative. Indeed, Japan would rather work on monetary and financial issues with other East Asian nations rather than through international organizations created under the Bretton Woods system.

Japan's Hedging Behavior

As much as Japanese businesses express optimism over China's economic potential, they have adopted a "China plus one" strategy. The Chinese economy is characterized by structural weaknesses and political uncertainty. There are issues relating to labor, the environment, banking reform, intellectual property rights, real estate bubbles, excessive savings rate, high turnover of the workforce, a rapidly aging society, and weak rule of law.⁶ In light of the April 2005 demonstrations against Japan in Beijing and Shanghai, Japanese companies want to protect their interests should politics become too chilly for good economic relations. The demonstrations showed that the central government's patriotic education, undertaken in the aftermath of the Tiananmen Square massacre, has produced a nationalistic younger generation. Despite the reassurance of local Chinese governments that Japanese businesses are welcome in China, many Japanese-owned firms were still damaged by the demonstrations. Consequently, many Japanese companies are hedging by spreading investments across China and another production site. A favorite alternative location is Vietnam.

Japan is aware of the influence that China wields in the world. China is one of the five permanent members of the United Nations Security Council. However, Japan would like to utilize institutions like the WTO and APEC to work on trade issues because China's relative power in these institutions is more limited. Japan has less faith that the Association for Southeast Asian Nations (ASEAN) can curb Chinese influence and views ASEAN as more of a talk shop. But Japan understands that monetary and financial issues can be addressed more effectively in a regional setting that includes China. Japan is also hedging against a failure of the global trade system. The Doha Round is in limbo and prospects for a breakthrough appear slim. Although a latecomer compared to China and other countries, Japan is now aggressively pursuing bilateral free trade agreements (FTAs). Japanese FTAs are important in winning equal access to markets and privileges that China has achieved through its own FTAs. For Japan, FTAs are also important for sustaining economic influence in regions like Southeast Asia.

Limited Energy Rivalry

One area of potential economic rivalry is energy. Demand for energy is increasing in Asia. The region's daily oil imports are expected to increase by an additional 3 million barrels through 2010. China is more reliant on coal than oil for energy, but this reliance creates

⁶ Conference notes from China-Japan Rivalry Conference Report II, April 18, 2006.

externalities like pollution.⁷ China's policy of limiting the use of oil to transportation is a strategic move to decrease reliance on Middle East suppliers. In the 11th Five-year Plan, China expects to decrease per unit GDP energy consumption by 20 percent;⁸ China will have to increase energy efficiency through new technologies or through conservation. Japan could play an instrumental role in both of these areas.

The majority of oil that Japan and China import originates from Middle East suppliers. In 2005, Japan imported 85.5 percent of its oil from the Middle East.⁹ Over the past several years, China has launched a diplomatic charm offensive to secure oil and natural gas resources worldwide. Since China is ruled by a communist government, it is frozen out of many international energy institutions open only to democracies; the International Energy Agency and the OECD are two such groups. Attempting to secure oil resources, China has closed deals with pariah states such as Sudan and Myanmar. Since China is securing special access instead of relying on the international energy market, it has paid a premium over wholesale crude prices. Oil prices are determined by the market and less on bilateral deals. Japan embarked on a similar course starting in the 1960s to create a national oil company by purchasing oil acquisitions and exploration licenses for national energy security. In early 2005, the Japan National Oil Company (JNOC) was dissolved after having amassed over \$2 billion of debt. Tokyo, in an attempt to correct the faults of JNOC through creation of the government-affiliate Japan Oil, Natural Gas and Metals Corporation, is now pursuing energy security with a more thoughtful and lighter hand. Like China, it is using economic might, overseas development assistance, and free trade agreements to secure its energy supplies. Unlike China, it is not willing to do so at any price.¹⁰

As net importers of energy, Japan and China are looking for new sources of energy. Both nations have been lobbying Russia to end a Siberian natural gas pipeline in respectively favorable locations: Angarsk-Daqing in the case of China and Taishet-Nakhodka in the case of Japan. On New Year's Eve 2006, the pipeline route favored by Japan was approved by Russian Prime Minister Mikhail Fradkov.¹¹ But the most disputed source of potential energy resources is in underwater gas fields in the East China Sea. Bilateral consultations over this disputed area have occurred, but no resolution has been reached. To their credit, both governments profess that the East China Sea should be a "Sea of Cooperation" rather than a "Sea of Confrontation." Some view these statements as empty rhetoric, but the leadership of both countries realizes the importance of the China-Japan relationship. Note the early efforts of Prime Minister Abe to reach out to his Chinese counterpart, even before he took office in 2006. Early in 2006, unofficial director-level talks were held in Beijing to discuss joint development opportunities in the East China Sea.¹²

⁷ Handout from China-Japan Rivalry workshop in Honolulu, Aug. 24-26, 2006.

⁸ "Japan's Regional Diplomacy," *Diplomatic Bluebook 2006*, 45.

⁹ "Japan's major Export and Import Commodities (2005)," *Trade, International Balance of Payments, and International Cooperation*, <http://www.stat.go.jp/english/data/handbook/c11cont.htm>.

¹⁰ Hisane Masaki, "Another fund-guzzling white elephant?" *Japan Today*, Sept. 11, 2006, <http://www.japantoday.com/jp/comment/998>.

¹¹ Sergei Blagov, "Russia walks thin line between Japan and China," *Asia Times*, Nov. 10, 2006, http://www.atimes.com/atimes/Central_Asia/GA05Ag01.html.

¹² "Japan's Regional Diplomacy," *Diplomatic Bluebook 2006*, 42.

The U.S. Role

By advocating free trade and liberalization of the services industry in both countries, the U.S. plays an important role in the China-Japan economic relationship. This helps Japan and China to reform their economies, to be competitive globally, and to open domestic markets to foreign investors. Japan and the U.S. have tried to reinforce international norms such as intellectual property rights. China is increasingly receptive to these overtures as it has recognized it has much to gain from IPR protections. China's State Intellectual Property Office and Japan's Association for Overseas Technical Scholarship have been working together on a bilateral basis on this issue.

Revaluation of the Chinese yuan (RMB) has been a sticking point in U.S.-China relations. Though Japan has pressed for RMB revaluation – the Japanese were among the first to advocate RMB appreciation – they have never made it a priority in relations with China. Yuan appreciation makes Japanese investments more appealing for foreign investors. However, the China-Japan economic relationship is complicated. Japanese companies have factories in China that produce for a domestic Japanese audience; RMB appreciation would make products manufactured in China but sold in Japan more expensive.

The U.S. also plays a key role as the final market for Chinese and Japanese products. Without the U.S. absorbing exports, the economic relationship between China and Japan would still be cooperative, but the interdependence between the two nations would be significantly diminished.

Chinese and Japanese Energy Security: Implications and Recommendations for U.S. Policy

By Erik Henderson

One factor contributing to China-Japan friction is energy security. While Japan's energy demands will likely remain steady over coming decades, China's energy needs will continue to rapidly expand. The increased demand will compel China to import energy from across the globe and develop untapped reserves in the Asia-Pacific region. As a result, the East China Sea will remain a potential flashpoint as a sovereignty issue, since China and Japan maintain rival claims over areas containing undersea gas deposits. Moreover, China's growing energy needs could exacerbate mistrust in China-U.S. relations as Beijing pursues its own energy agenda. As the world's largest energy consumer, the United States will have to take an active role to encourage cooperation in the Asia-Pacific region while working bilaterally with both China and Japan to ensure their long-term energy security.

China's Future Energy Outlook

China's significant economic growth has fueled a significant increase in its demand for energy. As China's population, infrastructure, and middle class expand, its need for energy will increase in proportion with its growth. Estimates put vehicle numbers near 200 million by 2020. Due to this increase, China will import 70 percent of its oil (7.1 to 8.8 million barrels a day¹) vs. 40 percent of its oil today. As a result, China will become heavily dependent upon oil from the Persian Gulf, Africa, and Venezuela. China's natural gas needs are expected to grow at a slower pace, with 2010 marking the beginning of dependence on imports.

China possesses large supplies of coal, which fuels a major part of its industry. However, China's infrastructure has serious constraints in energy transportation, refining, power plant efficiency, and power grid efficiency. The country also produces energy via nuclear and hydroelectric sources. These sources, however, comprise only a small fraction of total energy demand. Thus, in the coming decades, oil and natural gas will continue to rise in critical importance.

Japan's Future Energy Outlook

With Japan's projected decline in population, long-term energy needs present far less of a demand issue than the case of China. In addition, Japan's energy sources are more diverse and balanced in comparison with its larger neighbor. Oil and liquefied natural gas (LNG) still play the dominant role, comprising 50 percent of total energy needs. Oil and LNG are followed by coal at 18 percent, natural gas at 13 percent, nuclear power (13 percent), and hydroelectric and other new energy sources provide 5 percent. In the future, Japan is planning a significant

¹Kenneth Lieberthal and Mikkal Herberg, "China's Search for Energy Security: Implications for U.S. Policy," *NBR Analysis* 17, no. 1 (April, 2006).

increase in nuclear reactors to meet energy needs. By 2010, nuclear energy is expected to account for 40 percent of Japan's total electrical supply.²

Conservation and energy security will remain central to Japan's energy strategy. Currently, Tokyo's overall energy policy aims to reduce reliance on the Middle East, as 87 percent of Japan's oil imports come from that region. Currently, 75 percent of natural gas imports originate in the Asia Pacific. This accounts for 15 percent of Japan's total energy supply. While Japan's energy consumption will not grow significantly in coming decades, dependence on local energy resources for natural gas will be significant. This dependence may render energy rights tied to territorial disputes in the East China Sea more intractable.³

A U.S. Role in Asia-Pacific Energy Security

Energy security in the Asia-Pacific region will be of paramount importance to U.S. leadership. China's growing energy demand will not only affect the global supply of oil and natural gas, but also security in the Middle East by providing a steady source of income to Iran. U.S. policy is committed to a stable Asia-Pacific. However it must play a balancing act in moderating the growing tensions between Japan and China. It must also aid China in addressing its growing energy needs while minimizing Beijing's economic impact on hotspots where oil is funding terrorism and insurgency. It must also not appear indifferent to Tokyo's concerns. Critical to this balancing act will be the promotion of regional and nation-specific solutions to mitigate Tokyo and Beijing's current energy security-related tensions.

Regional and Nation-Specific Solutions

At a minimum, the U.S. should strive to identify mutually acceptable regional strategic energy goals. There are many venues beyond negotiations involving the U.S., China and Japan. Strategic energy goals could also be discussed via the Six-Party Talks on North Korea, ASEAN-related talks, or a new regional energy consortium specifically created for this purpose. Whatever the method, it is important that the U.S. and its regional partners establish a framework that will be effective regardless of changes in leadership. A consistent system, such as the Asia Pacific Partnership for Clean Development, will enable partnership as well as mediation of all energy-related disputes that would serve all parties well.

First among these regional security goals would be the establishment of a strategic energy reserve. This would help to stabilize the regional energy market in case of an emergency. A second regional goal would involve solving the dispute over energy rights in the East China Sea. In 2008, there will be a meeting of the International Court of Justice to address continental shelf delineation in the East China Sea. The U.S. should support efforts to set up a framework to resolve this dispute. A clear decision on energy rights and maritime boundaries in the East China Sea will be a significant step toward reducing tension between China and Japan.

Until then, there are diplomatic options for reducing tensions. First would be a joint moratorium on drilling in the disputed area as well as adjacent areas. A second possibility is an

² Suvendrini Kakuchi, "Uncorking the Plutonium (Energy) Genie," *Asia Times*, May 10, 2005.

³ Tomoko Hosoe, "Japan's Energy Policy and Security," *Middle East Economic Survey* 48, no. 3 (January 2005).

agreement between Japan and China that will enable China to drill and extract resources from Japan's territory in return for payment at market prices. While sovereignty issues will still have to be resolved, this solution would allow Japan to profit from China's growing energy requirements and also diffuse tension over energy rights.

A third option would be an agreement to apply resources drawn from contested areas toward the establishment of the strategic energy reserve. Finally, in the hopes of limiting incidents at sea, it may be plausible via ASEAN or the UN to establish codes of conduct in the disputed region in the East China Sea. By minimizing the military factor in this region, the chances of an escalation-prone incident would be reduced.

Finally, maintaining the navigability of sea lanes is paramount in ensuring energy security for both China and Japan. A significant portion of oil and liquefied natural gas shipments bound for China and Japan travel through the Malacca Strait. There are three significant benefits to China-Japan cooperation with Southeast Asian nations in this critical waterway. First, such cooperation would enhance the security of the Malacca Strait, thus ensuring the delivery of vital energy supplies. Second, maritime cooperation would build trust and enduring relationships among future naval leaders of all states involved. Third, Japan's participation would improve its image in Southeast Asia.

Fostering Bilateral and Trilateral Cooperation

The U.S. must work with China and Japan to foster improvements in energy extraction techniques and energy efficient infrastructure. China holds great promise as a platform for developing new technologies. Many environmental laws within the U.S. and Japan that prohibit energy development are either limited or are non-existent in China. Given their substantial research and development capabilities, both countries will benefit from bilateral or trilateral development in China proper. Any technology that allows China to become more energy efficient will reduce overall energy demand and thus lessen regional and global competition for energy resources.

For example, Japan has long been a leader in transportation technology, and its continued research and development in the automotive industry could open new avenues of cooperation with China. China's growing demand for automobiles will offer Japan and the U.S. a test bed for energy efficient vehicles. Moreover, in addition to increased energy efficiency, successful implementation of fuel efficient or alternative vehicles in China will stem China's growing vehicular pollution problems and help to subsidize introduction of the same technology in Japan and the United States.

The second goal would involve resuming joint exploration of new energy reserves. Joint exploration between China and Japan, though difficult to initiate, should be encouraged to reduce long-term tensions over energy discoveries. U.S. and other foreign oil companies are already working alongside Chinese counterparts in developing some Chinese oil fields. Even more beneficial would be trilateral cooperation agreement including Japan.

The third goal would be research collaboration on new and existing energy sources. China and Japan already utilize nuclear reactors for energy. The U.S. should encourage both China and Japan to devote additional resources to nuclear power technologies, as this would reduce consumption of fossil fuels, at least in the long term. The U.S. should promote and increase exploration and utilization of deep sea natural gas deposits that surround Japan. Most deposits are in the form of Methane Hydrate (natural gas in a frozen state), which is not yet exploitable via current recovery technology. However, if Methane Hydrate can be harvested economically through new technologies, Japan will enjoy vast clean energy reserves in its regional waters. This would reduce the saliency of energy resources in the East China Sea, potentially making a solution to the territorial dispute more achievable.

The final goal would be to promote improved environmental safety measures. The U.S., China, and Japan must work together to improve platform design, shipping, and drilling methods. Such improvements would not only lessen accidents in the Asia-Pacific region, but the lessons could be transferred to the U.S. and elsewhere to minimize costly environmental accidents caused by deep sea drilling.

Conclusion

While Japan's energy demand will grow at a slow to moderate pace, China's energy needs will continue to increase at a robust rate over the coming decades. In the 21st century, energy security will be a critical factor in the prosperity of each nation. Because of the dispute over maritime sovereignty in the East China Sea, energy security could also play a significant role in inflaming existing tensions between Asia's two largest powers. A China-Japan crisis, particularly if militarized, would threaten U.S. regional and global interests. Therefore, promoting greater Asia-Pacific energy security cooperation is prudent U.S. policy. Such a policy would engender greater stability, support economic growth, and reduce historical tensions, benefiting the U.S. and the Asia-Pacific region as a whole.

Japan-China Relations: The Military Dimension¹

By Yuki Tatsumi

As Japan-China relations continue to deteriorate, there is increasing concern that political tensions between Tokyo and Beijing may lead to armed conflict. Given the uncertain trajectory of today's Japan-China relations, such concern appears well-founded. After all, former Japanese Prime Minister Junichiro Koizumi's repeated visits to the Yasukuni Shrine have brought bilateral relations to a nadir since normalization. While both sides clearly desire to improve relations, it remains uncertain whether the leaders of two countries can continue to build on the positive outcomes of the October 2006 summit. On the one hand, Prime Minister Abe will continue to exercise pragmatism, fending off pressure from conservative forces in Japan to look tough on issues such as visits to Yasukuni Shrine. On the other hand, President Hu will also have to fight the temptation to unify the country by appealing to, which, with the disappearance of communism, remains the only source of legitimacy for one-party dominance by the Chinese Communist Party. But military tensions will complicate efforts by the two leaders to keep Japan-China relations on a recovery path.

Defense Planning in Beijing and Tokyo: Asymmetric Importance

One of the dominant elements motivating Chinese as well as Japanese military planners is mutual distrust. Fear of the resurgence of Japanese militarism often drives Chinese defense planners' thinking about the East Asian security environment. Japanese are concerned by the lack of Chinese military transparency, particularly regarding Beijing's defense spending, force build-up decisions, and overall military intentions.

In practice, however, China looms much larger in Japan's defense planning than vice versa. For Japan, China has constituted a long-term security concern since the 1990s. While the missile threat from North Korea has been at the forefront of many recent decisions in Japan's defense build-up, the long-term concern of defense planners remains China.

The Japan Defense Agency stresses that Japan needs to remain vigilant when assessing whether China's military build-up exceeds China's legitimate self-defense needs.² Japan also pays attention to the fact that China's military spending has increased more than 10 percent annually since 1989, and that China sees its military build-up as an important national priority alongside economic development.³ Japan has been especially sensitive to recent moves to modernize China's naval and air forces, as well as its missile capabilities.⁴ In particular, Japan has been vigilant to China's recent attempts to expand its naval operations in the East China Sea.⁵

¹ The author would like to thank RADM Eric McVadon (USN, ret.) for sharing a paper on Chinese perceptions of Japanese military capabilities that he prepared for the Japan-China workshop on June 12-13, 2006.

² Japan Defense Agency, *Heisei 18-nendo ban Bouei Hakusho [2006 Defense White Paper]* (Tokyo, 2006), 42-43.

³ *Ibid.*, 42.

⁴ Japan Defense Agency, *Heisei 18-nendo ban Bouei Hakusho*, 43-45.

⁵ *Ibid.*, 46-47.

While Chinese defense planners are often preoccupied by the prospect of a militarily resurgent, ambitious Japan, when expressing views on Japanese military capability, they tend to look past Japan when framing their defense build-up. In other words, Japan is a minor factor in China's military development decisions, at least for the time being. Accounts suggest that Chinese military planners seem to think that if they can cope with the United States in military terms, they should be able to manage Japan.

Despite China's general "Japan passing" in its defense planning, there are a couple of important exceptions. First is Japan's potential role in a Taiwan contingency. Depending on the role Japan plays in support of U.S. forces during such a scenario, Japanese military capability could be an obstacle to Chinese military operations. Second, China is wary of Japan's development of a ballistic missile defense (BMD) capability. This is because Japan's BMD capability, especially when integrated with the U.S. system, has the potential to neutralize China's ability to threaten Tokyo with its missile forces.

Military Conflict Remote, but Inadvertent Clashes Possible

It is extremely difficult to envision the possibility of a full-scale military conflict between Japan and China. However, rising political tensions between the two countries and a heightening of mutual distrust mean that an accident at sea could escalate into an armed clash between the two countries. In other words, the risk of a minor incident spiraling out of control is much greater than that of a full-fledged war between Japan and China.

For instance, Japan and China have a territorial dispute over the Senkaku (Diaoyoutai) Islands. As recently as March 2004, Chinese activists tried to land on the islands to claim sovereignty. Japanese conservative politicians have attempted similar actions, drawing strong reactions from the Chinese government. It is conceivable that activists from both countries could skirmish in this area, leading to a dispatch of the Japanese Coast Guard (JCG) and/or the Japan Maritime Self-Defense Force (JMSDF), and the People's Liberation Army Navy (PLAN). Once vessels from both sides arrived at the scene, there would be a risk that an encounter between the JCG, JMSDF and PLAN could trigger a clash between Japan and China.

Furthermore, as China's energy demand has risen, tensions have also risen over the control of oil and natural gas reserves under the seabed of the East China Sea. The two governments drew a median line to limit economic activities to each side, but China recently began test-drilling in the area near this line. Japan contends that this activity may allow China to extract resources from Japan's side, violating this agreement. Bilateral negotiations to address this issue have been deadlocked in recent years. Consequently, Japan also began a maritime survey of the disputed area. As the activities of both countries in the disputed area increase, the risk of incidents also rises.

Therefore, it is desirable that an institutional framework for managing accidents and crises be established between Beijing and Tokyo. One model for such a framework is the Military Maritime Consultative Agreement (MMCA) that the United States signed with China in 1998. The MMCA was designed to provide a framework for both countries to cope with

incidents at sea, and provides a venue for dialogue between U.S. and Chinese naval officers.⁶ An agreement to deal with the potential for maritime incidents that is comparable to the U.S.-China MMCA will provide a helpful framework for Japan and China to: (1) avoid incidents at sea; and (2) establish a set of procedures to cope with incidents including notification and conduct of search-and-rescue operations. This can help prevent miscalculation on both sides and minimize the risk of inadvertent escalation. Such an agreement should include not only the PLAN and the JMSDF, but also the JCG. A similar arrangement that sets a code of conduct to deal with accidents should also be discussed between the PLA Air Force and the Japan Air Self-Defense Force.

The current state of Japan-China relations suggests that the prospect for such arrangements is remote. Between 2004 and September 2006, tension over then Prime Minister Koizumi's repeated visits to Yasukuni Shrine led to a freeze in bilateral summits. During this period, no bilateral dialogues occurred among security and defense officials at all levels.⁷ While there have been policy dialogues and several rounds of talks regarding resource development in the East China Sea, establishing a code of conduct to cope with unexpected incidents has not been on the agenda.

Implications for the United States

How do Japan-China military relations influence the United States? For one, as Japan-China relations worsen, China will enhance efforts to convince the United States that encouraging Japan to play a greater security role undermines regional stability. In addition, the more Japan-China relations deteriorate, the more critical China will be of the U.S.-Japan alliance. This may complicate U.S. efforts to deepen defense relations with Japan, particularly with regards to realizing seamless operational cooperation between the JSDF and U.S. military in BMD and other areas. Hence, U.S. military relations with Japan will certainly benefit from a more constructive Japan-China relationship.

On the one hand, the U.S. can play only a limited role in alleviating Japan-China rivalry. After all, the United States and Japan are treaty allies, while the United States and China are not. As such, it is impossible and inappropriate for Washington to play a visible role as a mediator between Japan and China. China will likely filter such efforts by the United States through its inherent suspicion of the U.S.-Japan alliance. Japan, on its part, will question the U.S. commitment to the U.S.-Japan alliance should it see Washington's action as "choosing China over Japan." Even so, the United States can help to facilitate dialogue between Japan and China discreetly and quietly. Washington can play such a role by emphasizing both to Tokyo and Beijing the importance of creating a framework that allows both sides to deal with problems pragmatically. For instance, it can encourage both capitals to seriously consider an arrangement similar to the U.S.-China MMCA. By offering practical solutions, the United States can play the role of facilitator and help to insulate the military dimension of Japan-China relations from their increasingly volatile political relationship.

⁶ U.S. Department of Defense, "Speech by the Secretary of Defense William Cohen at Chinese Academy of Military Sciences," Jan. 19, 1998, <http://www.defenselink.mil/Transcripts/Transcript.aspx?TranscriptID=707>.

⁷ Japan Defense Agency, *Heisei 18-nendo ban Bouei Hakusho*, 386.

United States SAVI Interests in East Asia: Stability, Access, Values, Influence, and Averting China-Japan Rivalry

By Leif-Eric Easley

For a region as diverse and dynamic as East Asia, where United States involvement is longstanding and significant, U.S. interests need to be clearly outlined to provide a sound basis for strategy and policy implementation. This task is particularly pressing given China's increasing multidimensional power and Japan's evolving international security role. For the first time in history, Japan and China are simultaneously strong nations, raising the possibility that tensions over history, resources, and regional leadership may develop into strategic rivalry. Contrary to some speculation in the region, such a rivalry is not in the interest of the United States, just as it is not in the interests of the rest of East Asia. A concise statement of U.S. interests in the region – SAVI: *stability, access, values and influence* – makes clear the reason for U.S. concern about China-Japan strategic rivalry, and suggests ways such a rivalry can be averted.

Stability

The U.S. interest in stability means more than avoiding a costly war. Stability also means preventing contingencies that, through misperception or miscalculation, could escalate to military conflict, or create a crisis of confidence adversely affecting trade and investment. One such contingency is a possible naval clash between Japan and China over the disputed Senkaku/Diaoyutai islands. To minimize the chance of such an occurrence, the U.S. should devote greater diplomatic efforts toward China-Japan confidence building measures such as a code of conduct, an incident at sea agreement, and mil-mil communications.

U.S. interest in stability significantly includes preventing the development of weapons systems that could prompt a regional arms race or directly threaten the United States or its friends. A prime example is North Korean nuclear proliferation for which Six-Party Talks have remained stalled for over a year. The present U.S. strategy of dealing with North Korea via multilateral diplomacy, offering security guarantees and economic engagement contingent on North Korean reciprocity, is likely the best course. But to be effective, a greater level of coordination among the U.S., South Korea, Japan and China is needed. A China-Japan rivalry would preclude such coordination, and could push South Korea toward strategic reliance on China and away from cooperative relations with the U.S. and Japan.

U.S. interest in stability includes rejection of unilateral changes to the status quo on sensitive security issues. The most relevant example is the international status of Taiwan. The balance of perceptions across the Taiwan Strait is drastically tipping in Beijing's favor with the increasing military and diplomatic influence associated with China's economic rise. But as Taiwan is denied international space commensurate with its political system and economic standing, Taipei's frustrations can result in destabilizing action. This situation is complicated by the fact that Japan has very close ties to Taiwan, which would aggravate and provoke Beijing in

the context of a China-Japan rivalry. Japan should be a U.S. partner for stability across the Taiwan Strait, helping to ensure peaceful development of cross-Strait ties with adequate representation for the people of Taiwan. But if Japan and China are locked in rivalry, Washington and Tokyo may do more to motivate than dissuade Beijing's military modernization.

To deter military aggression, avoid escalation scenarios, dissuade destabilizing military deployments and prevent political provocations, U.S. strategy should continue its time-tested policies of forward military deployment and strong bilateral alliances. But the United States and its friends must take a broad perspective on how actions may prompt undesired reactions. U.S. interest in stability requires avoiding the creation of regional rivalry. So while alliances are transformed and updated to address post-Cold War circumstances, it must be clear that military cooperation is not directed at any state, but instead geared toward regional stability. This means calibrating the Armitage-Nye vision for U.S.-Japan relations with the Zoellick vision of U.S.-China relations on the basis of a mutually understood and desired concept of stability. This calibration will be further guided by U.S. access, values, and influence outlined below.

Access

Ever since the United States articulated its "Open Door Policy" concerning China and sent Commodore Perry to open relations with Japan over 150 years ago, the U.S. has pursued and secured access to East Asia. Access concerns guide U.S. orientation on Asian regionalism, trade infrastructure, and forward military deployment.

U.S. interest in access motivates a strategy of supporting open regionalism in East Asia. The U.S. favors meaningful but not exclusionary regional frameworks. Regional institution building is considered positive, if these institutions efficiently apply diplomatic resources, do not ignore serious challenges (such as poor governance in Myanmar), do not devalue U.S. alliances in the region, and do not seek to establish an Asian bloc oriented against the U.S. or insulated from the global economy. The recent test case of these measures was the first meeting of the East Asia Summit in 2005. It is too early to tell what may come of the East Asia Summit, but it is apparent that Japan-China competition can hold back the summit's progress and could even render it counterproductive. The extent to which China attempts to drive the summit, and the extent to which Japan is seen to cause roadblocks (because of historical issues such as Yasukuni Shrine), the more concerned the U.S. must be about the effect of Asian regionalism on U.S. access to the Asia Pacific region.

Crucial for U.S. access is the region's openness to the global trading system. The U.S. strategy is to push for increased trade liberalization through the World Trade Organization (WTO), as WTO agreements are more efficient than bilateral free trade agreements (FTAs). However, the United States may pursue FTAs to deepen trading relationships with regional security partners such as South Korea, Japan, and Taiwan. The greatest political economic challenge at present is the unsustainable massive U.S. trade deficits with East Asia. Thus, the United States must be focused on market access that leads to a balance of payments in its trading relationships in the region.

While a China-Japan rivalry would not bode well for progress in the current WTO round, it could be even more problematic regarding energy competition. The U.S. favors a market-based allocation of global energy, as opposed to mercantilist attempts to procure special rights to oil production. China's demand for energy is growing at an impressive rate, and in pursuit of its own economic security, China is making special agreements with energy suppliers. This may spur politically divisive energy competition with Japan, still the world's second largest economy, which is heavily dependent on energy imports. The competition is already materializing over planned pipelines from Russia and posturing over Exclusive Economic Zones (EEZs) that may contain resources. In the interest of access and stability, the U.S. must convince the region of the desirability of market solutions.

The United States maintains a robust forward deployment of military forces, which it also uses to engage the region. While pursuing a strategy of more flexible basing and operational integration with allies, the U.S. could also promote greater cooperation on energy exploration, transportation security (including sea lanes), and countering cross-border crime, to continue its secure and stable access to the region.

Values

International relations theorists make much of the difference between interests and values. Explanations based on the former have recently focused on the need to deal with disaffected populations and territories that can become breeding grounds for terrorism. Explanations based on the latter have highlighted the concept of democratic peace and the building of international community based on shared values. The practical heart of the matter is that U.S. national identity is that of an inclusive and free society with a leadership role in the world. This means U.S. values more than inform U.S. interests: on issues of democracy and human rights, American values *are* U.S. interests. Plainly stated, the American people have a genuine interest in the freedom and welfare of peoples everywhere, and the lack of democracy and human rights in large parts of East Asia is of great concern to the United States.

Difficulty arises in how to pursue a values promotion strategy. By no means should the U.S. turn a blind eye to the lack of freedoms of speech, religion, and civil organization in East Asia. Indeed, the U.S. looks to gradually transform the sovereignty norm toward a post-Westphalian order where governments are held accountable for the welfare of their people. But direct intervention could prove counterproductive for the people the United States wants to help, and aggressive imposition of values could damage U.S. interests in stability and access.

This is why U.S. strategy needs to be more sophisticated and nuanced, comprising three initiatives: (1) support for international nongovernmental organizations (NGOs) in their efforts to assist East Asians attain sustainable development and vibrant civil societies; (2) provide international incentives (membership in organizations such as the OECD being an example) for good governance, political economic reform and responsible stakeholder foreign policy; and most important, (3) pursue a process of two-way socialization where the U.S. not only looks to shape other countries but also seeks feedback and works to improve its own system by applying the lessons of others. This third initiative is particularly important for U.S. influence because it is

essential for maintaining U.S. soft power and discrediting perceptions of American arrogance and unilateralism.

The U.S. strategy related to democratic values must carefully consider relations with China and Japan. Chinese democracy must come out of Chinese needs and desires, with the encouragement and support of NGOs, international incentives, and two-way socialization. U.S. democracy promotion, in which Japan is an important ally, must not fuel a China-Japan rivalry. Democratic values and international efforts to improve human rights and welfare should attract rather than isolate China. This is essential for avoiding enmity. A new bipolar order in East Asia, with the U.S. and Japan on one side and China on the other, is in no one's interest. Neighboring countries want desperately to avoid choosing sides. Moreover, any such ideological conflict would threaten stability and U.S. access to the region. To promote democracy and human rights, it is necessary for the U.S. to maintain and enhance its influence to counter perceptions of rivalry.

Influence

The U.S. interest in regional influence is not just for the sake of influence; the U.S. has no desire to control or dominate East Asia. The maintenance and enhancement of influence is geared toward protecting U.S. interests in stability, access, values, and working toward a positive shared future with the peoples of East Asia. While the foundation of U.S. influence is provided by international political, economic and military power, U.S. influence in the region is largely determined by perceptions of commitment, credibility and even-handedness.

Attention to regional perceptions yields several important implications for U.S. strategy in East Asia. The U.S. must show that (1) it is not absorbed or bogged down in the Middle East and remains engaged in East Asia; (2) the U.S. is not attempting to contain China but will confront Beijing if and when it challenges U.S. interests; (3) the U.S. does not stand against Asian-based solutions for preventing economic crisis and contagion; and (4) the U.S. objects to divisive nationalist and face-saving politics. Given these implications, the United States must focus on better public diplomacy in conjunction with its forward presence and alliance transformation efforts. In addition, Washington must be concerned about a China-Japan rivalry that isolates Japan in the region and reduces Tokyo's capacity as a diplomatic ally in Asia. The U.S. should thus encourage leaders of all nations to promote more balanced and informed public opinions about regional neighbors.

If the U.S. does not exercise any of its influence to counter a China-Japan rivalry, it is easy to perceive that Washington sees such a rivalry as in its interest. The United States can do more to encourage regional military to military exchanges to increase transparency and build trust. To the extent that China and Japan perceive a competition between them for "leadership in Asia," the United States can help to enlarge the leadership pie. There is plenty to be done in this region, and the U.S. can convene further regional efforts on issues of human and comprehensive security on which China and Japan have different comparative advantages and can take different leadership roles. Such initiatives may be just a start, but the U.S. must devote attention to preventing zero-sum perceptions by Japan and China concerning their roles in Asia and in regards to their bilateral relationships with the U.S.

Conclusion

SAVI offers a straightforward formulation of U.S. interests in stability, access, values, and influence in East Asia and helps explain U.S. policy approaches to a rapidly changing regional environment. The United States shaped the postwar order by building new international institutions, with careful consideration of the interests of other peoples. In the post-Cold War, post-Sept. 11 environment, the United States faces a similar but perhaps even more difficult task. The challenge now is to shape post-Westphalian norms of good governance and principled effective multilateralism, again in line with U.S. interests, but with greater input and cooperation from other nations.

U.S. interests clearly favor U.S.-Japan-China cooperation over a China-Japan rivalry. Trilateral cooperation among the major powers in East Asia would provide shock absorbers to the region, allow frank discussion of the implications of long-term demographic and political change, help manage economic imbalances (trade deficits, exchange rates, significant and growing gaps between global rich and poor), facilitate disaster relief, improve responses to health and environmental crises, and expand effective counter-terrorism efforts.

The younger generation in East Asia envisions a region no longer divided by Cold War lines and old historical animosities, a region where states transcend rivalry and compete for greater prosperity, not dominance. The younger generation sees this being achieved not so much through the building of international institutions as was the case after World War II, but through the diffusion and mutual shaping of global norms of interaction, governance, and security, facilitated by a revolution in communication and human exchange. The United States should recognize and adopt this vision in the articulation of its SAVI interests and enduring role in East Asia.

Toward Cooperative U.S.-China-Japan Relations

By Jason Show

A cooperative trilateral relationship between the United States, Japan and China would significantly benefit each country in key areas — security, energy, and economics — to name but three. However, focusing directly on these areas ignores the problem that has prevented the relationship from coalescing -- a lack of trust. Developing mutual trust among the three nations is a prerequisite for more ambitious forms of cooperation.

Enduring Suspicions

Building cooperative trilateral relations among China, Japan, and the United States will prove one of the most complex diplomatic challenges facing each of these nations in the first half of the 21st century. Although the benefits of cooperative trilateral relations are obvious, they have largely eluded China, Japan, and the U.S., in part due to suspicions in each country of both of its partners. China fears that the U.S. and Japan are trying to contain its rise. The U.S. worries that Beijing intends to supplant it as the regional leader. Tokyo's deteriorating relations with its neighbors and the implications for the U.S.-Japan bilateral alliance also concern Washington. Meanwhile, Tokyo worries over China's growth and the gradual shift in the balance of power between the two nations. Periodically, Japan also worries that the U.S. might deemphasize it as a partner in Asia in favor of China, the region's rising power.¹ Given the almost innate level of suspicion among the three nations it is imperative to promote mutual trust in order to foster successful trilateral relations.

Some observers argue that energy cooperation, a regional security mechanism, and greater economic integration will lay the foundation for mutual trust. They assert that the mutual interests of China, Japan, and the U.S. are so intertwined that cooperation is self-evident and diplomacy is capable of addressing potential areas of conflict. This argument is flawed: it fails to take into consideration nationalism and more generally, domestic politics. Recent history has proven that mutual interests are not enough. Large-scale, trilateral energy cooperation has been nonexistent despite the fact that China, Japan, and the U.S. are the world's three largest energy consumers. In fact, the sovereignty dispute in the East China Sea has rendered the prospect of China-Japan energy cooperation remote. In the security realm, three years of Six-Party Talks have neither produced a regional security mechanism nor significantly enhanced mutual trust among China, Japan, and the U.S.

Finally, economics, long viewed as a promoter of closer trilateral relations, has demonstrated its limits. Despite recognition that a booming Chinese market has helped turn around Japan's economic fortunes, visits to the Yasukuni Shrine by former Prime Minister Koizumi have managed to "cool" politics despite the "hot economics." Compounding the "cold politics" is a growing sense of nationalism in both Japan and China that magnifies ill feelings between the two nations. Meanwhile, in the U.S.-China economic relationship, the potential for friction will continue to grow as the trade imbalance soars past \$200 billion and China has been slow to significantly revalue its currency. Given this history, energy cooperation, a regional security mechanism, and greater economic integration should be viewed as the outgrowth – rather than the foundation – of cooperative trilateral relations. The only way to develop cooperative trilateral relations will be to first develop mutual trust, thereby alleviating the mutual suspicions that currently frustrate trilateral collaboration.

¹Brad Glosserman, "Strategic Visions for U.S.-China-Japan Relations," *Pacific Forum CSIS Issues & Insights* 11 (July 2006): 3.

Promoting Mutual Trust

Competition between the three powers can be incessant over trade, resources, and military power. Additionally, history has produced an innate distrust among some of the more mature policymakers in these nations, who are unable to escape memories of World War II and the zero-sum mentality developed during the Cold War. The paradigm through which they view the world, passed down to younger generations through textbooks, the media and professional conferences, coupled with today's rivalries, is hard to escape. To break out of this paradigm, mutual trust must be promoted among tomorrow's policymakers in all three countries – students, junior military officers, and young bureaucrats. Promoting mutual trust is an investment, one that will require time to mature. Measures to remedy these situations have already been taken by the United States with some success. Indeed, as the regional leader and the world's sole military and cultural superpower, it is incumbent on the U.S. to take a leading role in promoting mutual trust in its U.S.-Japan and U.S.-China relationships. Unable to directly affect trust between Japan and China, the U.S. can, through strengthening bilateral relationships with each nation over time, work to break down obstacles to better Japan-China relations. The U.S. can facilitate this process through the following recommendations:

Recommendation 1: Increase Academic Exchanges

One way for the U.S. to establish foundations of mutual trust with China and Japan would entail increasing student exchanges with each nation. Present U.S. student exchange efforts fall considerably behind Asian counterparts. In 2004-2005, Japan sent 42,215 students to study in the U.S., while China sent 62,523. In contrast, the U.S. only sent 3,707 students to Japan and 4,737 to China. However modest, these numbers do provide some hope. The number of U.S. students studying in Japan represents an increase of 7.2 percent over 2003-2004. Even more impressive, the 4,737 U.S. students in China represent a 90 percent increase over the previous year. In April 2006 the U.S. and China signed an agreement for continued cooperation in educational exchanges.² All three nations should continue to increase the volume of these exchanges as well as other student forums. They represent down-to-earth opportunities to help remove cultural barriers and solidify relationships.

Recommendation 2: Boost Military-to-Military Interaction

In addition to facilitating student exchanges with Japan and China, the U.S. should also look to increase military-to-military contacts. The U.S. should focus its efforts on U.S.-China military exchanges, while continuing to publicly reaffirm its security arrangement with Japan so as not to worry its ally. The U.S. has already begun to facilitate confidence building measures at the military level with China through U.S. Pacific Command. Since assuming command of U.S. forces in the Pacific in February 2005, Adm. William Fallon has taken a lead role in promoting military-to-military exchanges, hoping to repair U.S.-China military ties that were terminated in 2001 after a Chinese fighter jet collided with a U.S. surveillance aircraft near Hainan Island. With no regular high-level military visits between the two countries since the 2001 incident, Fallon's recent attempt to restart military cooperation between the two countries is notable.

In May 2006, Fallon conducted a seven-day visit to China that included meetings with some of China's senior officials such as Defense Minister Cao Gangchuan and Foreign Minister Li Zhaoxing.

² U.S. Department of State, "United States and China Sign Agreement for Cooperation in Educational Exchanges," April 28, 2006, <http://www.state.gov/r/pa/prs/ps/2006/65451.htm>.

The visit concluded with the two sides agreeing to step up military exchanges at all levels.³ In June, Fallon invited a 10-member Chinese delegation to observe operation *Valiant Shield*, one of the U.S. military's largest operations in the western Pacific. This marked the first time the U.S. has invited Chinese observers to a military exercise. Finally, in September, the *Qingdao*, a guided missile destroyer, and the refueling tanker *Hongzehu*, became the first Chinese military vessels to call on a U.S. state in six years when they docked in Pearl Harbor.⁴ Although these events represent only small steps, they are building blocks for establishing mutual trust between the U.S. and Chinese militaries. These small steps should be continued and, over time, slowly utilized to incorporate officers from the Japan Self-Defense Forces, thereby promoting an atmosphere of trilateral mutual trust.

Recommendation 3: More Effective Public Diplomacy

Increasing academic and military exchanges are critical to developing long-term mutual trust. However, they must also be complimented by more effective public diplomacy on the part of all three countries. For foreign diplomats, it will be crucial to more effectively reach out to host populations and work to diminish perception gaps that often plague relationships. Chinese diplomats have increasingly used public diplomacy to great effect to achieve these ends. In the U.S. they have become skillful in establishing outreach programs such as Confucius Institutes and other efforts to better acquaint Americans with Chinese language and culture. Additionally, in April of this year, China opened its third Confucius Institute in Japan.⁵ Meanwhile, the U.S. State Department has also looked to expand its efforts to positively affect international perceptions of American culture through programs such as the Global Culture Initiative.⁶ It will be important to maintain and if possible increase the effectiveness of such programs. Like academic exchanges and military interaction, they represent a valuable building block of mutual trust.

Conclusion

Building cooperative trilateral relations among the United States, Japan, and China will not be an easy task. Recent history has proven that despite the great benefits all three could derive from greater trilateral cooperation—greater security, improved trade relations, and energy collaboration—the mutual trust that must underpin such cooperation is lacking. As both a global and regional leader, the United States should take the lead in promoting mutual trust at the “grassroots level” through academic exchanges, increased military-to-military interactions, and more effective public diplomacy. Only by building mutual trust will an effective and lasting trilateral relationship emerge.

³ “US commander invites China to observe Guam drills,” *China Daily*, May 16, 2005, http://www.chinadaily.com.cn/china/2006-05/16/content_591251.htm.

⁴ “Chinese warships visit Pearl Harbor,” *Navy Times*, Sept. 7, 2006, <http://www.navytimes.com/story.php?f=1-292925-2087767.php>.

⁵ “Third Confucius Institute set up in Japan,” *People's Daily*, http://english.peopledaily.com.cn/200604/06/eng20060406_256339.html.

⁶ U.S. Department of State, “State Department Launches Global Cultural Initiative,” <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2006&m=September&x=20060925152441jmmnamdeirf0.3944361>.

Looking Beyond the Abe-Hu Summit

By Daniel Kliman

Strategic rivalry has characterized China-Japan relations in recent years. Issues ranging from the treatment of history to energy rights in the East China Sea to changing military balances have combined to bring Asia's most important bilateral relationship to a post-normalization low. The October 2006 summit between Prime Minister Abe and President Hu signals a new, positive trend in China-Japan ties. Yet, it is only a first step. By reaching a tacit agreement on visits to Yasukuni Shrine, Abe and Hu have created a window of opportunity to address the underlying cause of Tokyo and Beijing's emerging rivalry – strategic mistrust.

It is imperative that policymakers in both capitals as well as Washington seize this opening to undertake initiatives aimed at the source of rivalry rather than its symptoms. A number of recommendations contained in this Young Leader's report provide a basis for building strategic trust.

To reiterate only a few:

- Establishing an East Asian strategic energy reserve.
- Trilateral research cooperation on energy technologies.
- U.S. encouragement of China-Japan joint energy exploration.
- U.S. support for a China-Japan Maritime Consultative Agreement in the East China Sea.
- Promoting mutual trust among the next generation of leaders in the U.S., Japan, and China. Increase trilateral student exchanges, and in particular, boost the number of U.S. students studying in Japan and China.
- Expanding military exchanges between the United States and China with the goal of ultimately bringing in the Japan Self-Defense Forces.
- Providing Japan and China with new opportunities for regional leadership, in disaster relief and other areas, to prevent a zero-sum competition for regional influence.

In the wake of the North Korean nuclear test, promoting strategic trust between Japan and China could not be more important. Coming months will put Washington's Asia policy to the test. That test will prove less trying if China-Japan relations continue on an upward course.

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