Sino-Japan Rivalry: A CNA, IDA, NDU/INSS, and Pacific Forum CSIS Project Report

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Center for Naval Analyses

The Center for Naval Analyses is a federally funded research and development center serving the Department of the Navy and other defense agencies. For over 50 years, the Center for Naval Analyses (CNA) has provided "full-service" research and analysis services that have helped the military become more effective and efficient. CNA analysts pioneered the field of operations research through their groundbreaking work with the Navy during World War II. Today, CNA's goal is the same as it was then: to use scientific techniques to support the effective use of naval forces – and other defense concerns.

Institute for Defense Analyses

The Institute for Defense Analyses is a Washington-based non-profit corporation that administers three federally funded research and development centers to provide objective analyses of national security issues, particularly those requiring scientific and technical expertise, and conduct related research on other national challenges.

The Institute for National Security Studies

The Institute for National Security Studies was created by the Air Staff in 1992 as a cost-effective way to use the military community's academic expertise and receive a better return on the Air Force's research investment. INSS' primary sponsor is the Strategic Security Directorate on the Air Staff (HQ USAF/A3S). INSS is also supported by a number of other sponsor organizations that currently include the Secretary of Defense's Office of Net Assessment, the Defense Threat Reduction Agency, United States Northern Command, the Air Force Information Warfare Center, the Army Environmental Policy Institute, the Army Foreign Military Studies Office, the United States Military Academy Combating Terrorism Center, and other organizations. Through FY06, INSS contributed almost $3 million to support more than 1300 researchers working on over 950 projects.

Pacific Forum CSIS

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 areas. 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.

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Executive Summary

Troubled by deteriorating relations between Japan and China and the implications this had for regional stability, the project organizers conducted four in-depth workshops to explore all aspects of the topic.

During the course of the project, Sino-Japanese relations have improved, thanks to Prime Minister Abe Shinzo's deft diplomatic moves, but the rivalry is, if anything, intensifying. When the project was conceived in early 2006, Sino-Japanese relations were close to a modern-day low. They have rebounded since the retirement of Japanese Prime Minister Koizumi Junichiro; however, sources of tension in the relationship are deeply rooted and will likely persist despite changes in political leadership.

Causes include: the unprecedented rise of both nations as Asian powers – and the fact that neither Tokyo nor Beijing appears content to play a secondary role in Asia; questions about shared history that will continue to cast a long shadow over the bilateral relationship and will feed and be influenced by nationalism; the disputes over East China Sea resources, which have made the use of force a possibility – with consequences that could lead to conflict.

Mutual strategic suspicion clouds the relationship and involves the United States as well. China is especially troubled by Tokyo's increasingly outspoken support for peaceful resolution with respect to Taiwan. Beijing believes that Taiwan has gone from being an implicit to an explicit focus of Japanese military policy. China sees updating and strengthening of the U.S.-Japan alliance as being anti-Chinese. At the same time, China's military modernization is creating anxiety in Tokyo, and concern in Washington.

There are positive factors at work, too. The two countries' economic relationship is increasingly intertwined and acts as a shock absorber. The two economies are complementary, and neither country wants commerce to be disturbed by poor relations. Neither government wants nationalism to get out of hand. And, while rising energy demand is a source of potential competition, it also provides an opportunity for cooperation.

Both countries are increasingly involved globally as "stakeholders," which suggests that they have many interests in common which might provide a way to bridge differences.

The United States should:

- Develop interagency consensus about U.S. interests and policy objectives. It cannot simply ignore the rivalry and hope for the best.

- Not let Beijing or Tokyo think that the rivalry goes unnoticed in Washington. It should make clear that it thinks the rivalry is dangerous. However, Washington should not be directly involved in the history debate; nor should it attempt to act as a go-between.

- Emphasize shared "stakeholdership" by highlighting shared interests, which include regional stability, access to energy, and dependence on maritime commerce. Promote trilateral cooperation.

- Encourage Japan and China to pursue better mil-mil relations; an incidents-at-sea agreement (INCSEA) seems especially useful.

- Recognize that it cannot be totally "even-handed." U.S. priorities are overwhelmingly inclined toward the U.S.-Japan alliance; however, it should not blindly sacrifice its interests in productive relations with China.

- Stay engaged in the discussion about Asia's economic future through APEC and free trade agreements – both bilateral and, eventually, regional.

- Be prepared for a crisis in the East China Sea. Also, understand the expectations that Tokyo and Beijing have of Washington in such a crisis.

- Continue to frequently reassure Japan. China also needs reassurance that U.S. intentions are not malign. Reaffirming that Washington is not trying to contain China or promote Taiwan's independence is important.

- Consider the impact of explicit official references to "hedging against China." All countries hedge against the future. Talking about it in official documents implies that hedging equals containment.

- Continue to act as a catalyst for improved trilateral U.S.-Japan-ROK relations. Many of the problems in the Japan-China relationship also bedevil Japan-ROK relations.

Summary Report

Between March and late August 2006, a consortium of policy-oriented research organizations conducted an in-depth examination of the troubled Sino-Japanese relationship. The Center for Naval Analyses (CNA), the Institute for Defense Analyses (IDA), the National Defense University's Institute for Strategic Studies (NDU/INSS), and Pacific Forum CSIS collaborated under the chairmanship of former Assistant Secretary of State for East Asian and Pacific Affairs James Kelly to conduct four in-depth workshops to explore all aspects of the topic. The consortium plans a follow-up effort to explore its findings with international experts.

This project summary details major findings and concludes with recommendations for U.S. policy. Detailed reports on each of the workshops are also included in this volume.

Introduction

During the course of the project, Sino-Japanese relations have improved, although the rivalry is, if anything, intensifying. When the project was first conceived in early 2006, relations were close to an all-time low. Japan's Prime Minister Koizumi Junichiro refused to yield to pressure from China and the Republic of Korea to stop visiting the Yasukuni Shrine and demonstrate a "proper appreciation for Japan's history." At the same time, Japanese officials were furious with Beijing for tolerating anti-Japanese riots in March and April 2005, and for having orchestrated a sustained effort to thwart Tokyo's attempt to gain a permanent UN Security Council seat. In Beijing, policy initiatives to improve relations with Tokyo ground to a standstill after President Hu Jintao failed in his attempt to personally persuade Koizumi to be more responsive on the "history" issue.

The relationship took a decided turn for the better when Prime Minister Koizumi retired in September 2006.[1] His successor as prime minister, Abe Shinzo, took the initiative to improve relations by making his first official visit to Beijing, not to Washington as has been traditional. Combined with Koizumi's departure and the timing of North Korean missile and nuclear tests, this symbolic gesture has resulted in restoring some sense of normalcy into diplomatic contact between Tokyo and Beijing.

Participants in this study applaud this upturn in relations but caution that a number of deeply rooted issues remain between the two leading Asian powers and indicate that it would be a mistake for U.S. policy makers to assume that the Sino-Japanese relationship will remain stable and trouble-free.

Findings

[1] Before he retired, he made a final trip to the Yasukuni Shrine on Aug. 15, 2006 the sensitive anniversary of Japan's World War II surrender – a visit seen by many as being in defiance of Beijing and Seoul.

We are in a historically unique period in East Asia.

For the first time in modern history, a rising China and a re-emerging Japan are facing one another. Between the Meiji Restoration in the mid 19th century and the end of the PRC's Cultural Revolution in the mid 1970s, China's weakness or its chaotic periods of revolution created instability in East Asia. China's peaceful rise, following the strategy set out by Deng Xiaoping at the end of the 1970s, has affected Japan in particular.

When the West entered East Asia in the 19th century, it was Japan that promptly adapted to this shock to the traditional Sinitic order and became the "leading power in Asia," while China languished in imperial stagnation and then went through various phases of revolutionary chaos. The Meiji Restoration and Japan's success in the Sino-Japanese War of 1894-95 dramatized the role reversal in Asia. The Japanese, whom the Chinese had once considered "eastern barbarians," adopted a patronizing attitude toward their large neighbor, viewing it as especially backward. Tokyo quickly appointed itself the leader of East Asia. This self-image has been reinforced because Japan was the first East Asian economy to "take off" after World War II and because Japan emerged as Asia's first real democracy

Neither Tokyo nor Beijing is content to be number two in Asia.

The issue of national self-image, and the concomitant international respect that comes with being considered the most important nation in Asia, will continue to influence relations between Beijing and Tokyo and will sustain the sense of rivalry that already colors their respective policy choices. These attitudes are not symmetrical at present, and have not been so historically. Japan's leadership over the past half-century has been essentially economic, whereas China's leadership has major shares of both political and economic elements. China has had permanent status on the United Nations Security Council, and it has a traditional historic sense of itself as the "middle" or central kingdom. Japan's attitudes are less ingrained, but it does not want to be seen as a secondary Asian power.

It is not clear how hard either country wants to work at being the recognized, sole regional leader, but each will work to make certain it is not eclipsed by the other. The efforts of both Tokyo and Beijing to improve relations with India are but one example.

Today the Japanese are still preoccupied with their place in Asia. Now, however, they face the reality that most Asian nations and a good many of the major world powers accord primacy of place to China.

The history issue will be a frequent spoiler to closer relations.

Japan's conduct during the 1930s and throughout World War II remains an unresolved political issue between Tokyo and Beijing. Many factors have, at one time or another, served to complicate relations, including the teachings of high school textbooks, the use of "comfort women," the Imperial Japanese Army's experiments with germ

warfare in China, the controversy over the extent of atrocities at Nanjing, and the treatment of prisoners of war.

Over the past few years, visits by the Japanese prime minister to the Yasukuni Shrine have been a source of particular tension and have constituted a core problem for Sino-Japanese relations. The Yasukuni Shrine was established in the Meiji period to honor all Japanese war dead. The issue is not that former Prime Minister Koizumi went there to pay homage to the dead, but rather that he continued to do so after the spirits of 14 World War II Class A war criminals were enshrined there in the late 1970s. Beyond that, an associated museum portrays Japanese war history in a highly questionable light. Whether Beijing's very adverse reaction is a pretext or not, halting (or reducing the prominence of) visits would help minimize a visible problem and test Beijing's stated desire to improve relations. Because Prime Minister Abe has not visited the shrine as PM, high-level meetings in Beijing have become possible.[2]

There is no question that Japanese atrocities in the war period still rankle deeply in China. At the same time, given the Chinese Communist Party (CCP)'s own manipulation of China's history to legitimize its rule, there is a great deal of cynicism in Japan and, for that matter, in Washington, about the way Beijing has used this issue diplomatically to gain leverage over Tokyo. In any event, many Japanese believe that, even if visits to Yasukuni were stopped or the spirits of the Class A war criminals removed, Beijing would find another issue to exploit for political purposes. Our own group was divided on this question.[3]

There also is a growing sense among the Japanese that their country has not received proper credit for the past 60 years of its peaceful, democratic transformation and for helping China in the postwar years.

No matter how the "history" issue plays out, the reality is that nationalism is rising in both countries, and questions of history and legacy sovereignty issues are inherently nationalistic. Traditional political elites in both countries are less able to shape the political debate. Public opinion, informed by 24/7 mass media and real-time personal communications, has only intensified political discourse. These new entrants to the discussion are usually from the grassroots level and are inclined to have harsher views.

At this point, it appears that neither the Chinese nor the Japanese government finds it convenient to fan the flames of nationalism; the question is whether they can lead public opinion and avoid making policy decisions that set relations back.

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[2] Intense negotiations preceded Abe's visit to Beijing (and Seoul) in early October 2006, and rumors are rife about a "deal" with China regarding his future intentions about visiting the Yasukuni Shrine. In public, at least, there is no indication that Abe promised he would not go, and some indicators point to an effort to resolve the problem by disenshrining the 14 Class A war criminals before he goes. In any event, some agreement was reached that allowed the Abe trip to go forward and enabled Chinese and Korean counterparts to accept invitations for return visits to Japan.

[3] There is an important distinction between the two countries regarding the impact of history on relations. Beijing's manipulation of its history has not had an adverse impact on Japan's attitudes about China, or on Tokyo's relations with Beijing.

The dispute over East China Sea resources is a serious problem that could lead to conflict.

Over the last four years, China has constructed offshore facilities to extract natural gas from an undersea field that crosses disputed marine boundaries. As a result, the prospect of incidents between Chinese and Japanese commercial and military vessels in the East China Sea has risen for the first time since World War II. If an incident occurs, it could result in the use of force – with consequences that could lead to conflict. This is more a sovereignty issue than an energy resource issue, which makes it especially dangerous.

To examine this issue in detail, during two separate workshops we conducted tabletop exercises with experts playing U.S., Japanese, and Chinese teams. They were given a crisis scenario that involved a collision between Chinese and Japanese warships in the East China Sea.

The results suggested that all three parties would attempt to exercise restraint, and to give others the opportunity to act with restraint. But there is good reason to think that the crisis management strategies of either Tokyo or Beijing could back the other into a corner in which restraint would serve its interests poorly and some escalation would seem like a reasonable risk. Successful avoidance of escalation would require a level of clear and consistent signaling between the parties that, in a crisis, cannot be taken for granted. As a group, we were left uncertain about what weight to assign to escalation risks – but we were unanimous in our sense that policymakers are insufficiently attentive to them.

The bilateral economic relationship is a shock absorber.

The two economies are increasingly intertwined. China has become Japan's largest trading partner, and Japan is China's third largest trading partner. Japan ranks third in foreign direct investment in China – in 2005 it was $6.5 billion, according to JETRO (the Japanese External Trade Organization). Japan's recent revival from its decade of stagnation is largely related to its success in China's booming market, and, for its part, Beijing does not want to see problems with Japan interfere with the flow of Japanese investment and technology, which are critical to China's continued growth.

Japan's commercial decision-making toward China is profit based, not values based. Despite recognized problems such as protection of intellectual property rights and contract enforcement, land ownership, and labor issues, the Japanese view China as simply too good a business opportunity to pass up.

The economic dimension of China-Japan rivalry is played out regionally. Japan's effort at playing catch-up with China's free-trade agreement (FTA) diplomacy is a salient example of combined economic and political competition. In the short to medium term, the Chinese and Japanese economies are complementary, not competitive. This encourages economic cooperation. The deepening interdependence serves to dampen tension between China and Japan, but questions persist as to how long "hot economies, cold politics" can be sustained.

Finally, the rising energy demand in both countries is both a source of potential competition and an opportunity for cooperation.

Beijing is increasingly upset about Japan's involvement in the Taiwan issue.

Tokyo's increasingly less tacit, more outspoken interest in the peaceful resolution of the Taiwan issue is worrisome to Beijing. Declarations by Tokyo and Washington that they have a stake in developments in the Taiwan Strait have only increased unease in Beijing. While statements such as the February 2005 "2+2" declaration reiterate long-term interests or are benign in language – e.g., saying that the two governments seek a peaceful resolution to the situation in the Strait through dialogue – any expression of concern over Taiwan touches a core Chinese national interest in which Beijing insists the U.S.-Japan alliance has no business meddling.

Beijing believes that Taiwan has gone from being an implicit to an explicit focus of Japanese military policy. As Japan takes on larger responsibilities within the alliance, military planners in Beijing seem increasingly focused on the potential Japanese role in a military confrontation over Taiwan, although this is by no means a new issue.

Chinese planners extrapolate that a militarily stronger Japan will bring with it a revival of militarism in Japanese society and politics. As a harbinger of problems to come, they cite an increasingly hard line from Tokyo on maritime territorial disputes. Accordingly, they are focused on a range of potential military flashpoints with Japan involving the broader maritime environment, not just Taiwan. But, there is little to suggest that China is actually developing military capabilities specifically focused on Japan, with the important exception of medium-range ballistic missiles.

Japan's military capabilities remain limited. Concerns about a Japanese "remilitarization" are often heard in China. Yet the reality is that without bombers, ballistic missiles, or nuclear weapons, and with no capability to invade or project military power, Japan's competent but relatively small defense forces are not on that page. Japan would have to build up its forces for many years – involving at least a tripling of its defense budget – to begin to bear out such projections. In fact, Japanese defense spending remains under 1 percent of its GDP, with no apparent prospect for even mild increases.

China's military modernization is creating anxiety in Tokyo.

At present, China's military modernization is overwhelmingly focused on being able to conduct a successful campaign against Taiwan, even if the United States were to intervene. By definition, however, many of the same capabilities – specifically, ballistic missiles, long-range tactical aircraft, and submarines – are also relevant to a campaign against any nearby island nation. As a result, defense planners in Tokyo, while focusing on the immediate threat posed by North Korea, are also concerned about the long-term strategic challenge posed by China and have been increasingly outspoken about it. Likewise, the Japanese public is becoming increasingly apprehensive about the long-term implications of PLA modernization for Japan's security.

Tokyo is particularly sensitive to China's growing submarine force, given Japan's dependence on seaborne commerce and its experience in World War II, when it was virtually isolated by U.S. submarines and sea mines. Japanese planners are well aware that Japan lies astride China's inner maritime defense perimeter – the so-called first island chain. This means that Beijing's "defensive anti-access strategy" against U.S. involvement in a Taiwan crisis would, if successful, also greatly complicate reinforcement of Japan from the United States.

A strengthened U.S.-Japan alliance is creating anxiety in Beijing.

In the Tokyo Declaration of April 1996, the United States and Japan affirmed that their alliance "remains the cornerstone for achieving common security objectives, and for maintaining a stable and prosperous environment for the Asia-Pacific region." Since that time, they have been engaged in an effort to adapt the Cold War alliance to the evolving post-Cold War security environment. Japan's 1997 Defense Guidelines committed Japan to rear area support of the United States "in contingencies in areas surrounding Japan," thereby highlighting the regional context of the alliance.

Over the past 10 years, each alliance-strengthening initiative has been met with expressions of concern from Beijing.

From a U.S. perspective, a strengthened alliance serves to assure Japan of the U.S. security commitment. "Assurance" of allies is defined in the 2001 *Quadrennial Defense Review (QDR)* as one of the major objectives of U.S. security policy. China appears to accept the alliance as a geopolitical fact of life. At every opportunity, Chinese officials and analysts insist that China has no interest in "kicking the U.S. out of the region."

Still, Beijing often views a strengthened alliance as being a constraint on the PRC or a link in a U.S. containment strategy and as encouraging Tokyo to take a harder diplomatic line toward China. This is reinforced by the fact that Tokyo appears to have incorporated the strengthened alliance as an instrument in its China diplomacy "toolbox," giving it greater confidence in its approach to Beijing on a range of bilateral issues, including disputes in the East China Sea.

Beijing is concerned that the alliance is increasingly directed against China, and has encouraged the United States "to balance its bilateral relations better." It is unlikely, however, that the United States will do so. While the United States does not seek to confront China – and indeed is striving to improve U.S.-PRC relations across a broad

spectrum of issues and activities – Japan is an American ally; China is not. Japan and the United States have a unique security partnership. The U.S.-Japan alliance is not, and should not be seen as, a vehicle for isolating Beijing. From the viewpoint of others in East Asia, it would fail and defeat its own purpose if it tried to do so.

Many of the issues that trouble the Sino-Japan relationship also trouble ROK-Japan relations.

This project focused on China-Japan relations, but the Japan-Korea relationship is beset with similar issues concerning history and sovereignty. Economic compatibility, propinquity, and a shared approach to North Korea make a close ROK-PRC relationship inevitable, but issues of history and sovereignty make it easy for Seoul to find anti-Japan causes in common with Beijing. Unfortunately, these issues also contribute to a belief in Seoul that its ongoing naval development is necessary to reduce its vulnerability to Japan. Additionally, over the last 10 years, Seoul has pressed Washington for "equal treatment" with Japan. This has introduced a sense of rivalry into the U.S.-Japan-ROK trilateral relationship.

China appears prepared to exploit the issues to drive a wedge between the two U.S. allies and between the United States and the ROK.

The bi-polar rivalry construct could become an oversimplification if it causes policy makers to assume that others are not involved.

Just as the ROK is involved in issues related to the political, economic, and security relationship between Tokyo and Beijing, so too is the United States. The existing political rivalry and security competition between Washington and Beijing in East Asia influences the Sino-Japanese relationship, as does the increasingly intertwined trade and investment relationship between all three. Finally, the maturing political relationship between Tokyo and Washington also relates to the Sino-Japanese rivalry.

The Sino-Japanese rivalry has implications for the United States.

For the United States, a diminution of Japan's influence in the Asia-Pacific region should be a matter of concern. A U.S. policy objective has been to encourage Tokyo to employ Japanese assets in pursuit of a shared bilateral/alliance interest in maintaining peace and stability. While most policy makers and policy elites understand that sources of Sino-Japanese frictions are complex and that neither Beijing nor Tokyo is blameless or above reproach, at the public level there is a widespread perception in Japan, as elsewhere, that Japan's failure to deal forthrightly with its past is at the heart of the matter. The initiative taken by Prime Minster Abe to improve relations with China, and sustained Japanese efforts toward this end, will serve the interests of Japan and the United States across the Asia-Pacific region.

Perceptions matter in another, negative, way. If the United States and a strengthened U.S.-Japan alliance is perceived – not only by the PRC but also by other Asian countries – as encouraging Japan to take a harder line toward China, the U.S.

ability to promote stability and manage security affairs in the region will be impaired and its influence diminished.

Acting as common "stakeholders" is an important way to improve relations.

Despite the dangers inherent in this rivalry, it is manageable if handled properly. Economics, in particular, can provide a "concrete floor" for the relationship.

While China's surging "soft power'" is the source of some angst in Washington and East Asia, it is also a derivative of Beijing's efforts to highlight diplomacy and commerce in its approach to the region rather than raw military or political power. Former Deputy Secretary of State Robert Zoellick encouraged Beijing to take further steps in the direction of becoming a responsible stakeholder. At the same time, Japan's efforts to assume a larger role in support of international stability and security are in line with U.S. interests and goals. This means that Tokyo will also play a larger "stakeholder" role.

Encouraging both Beijing and Tokyo to continue along present paths – including improvement of their bilateral relationship – should highlight shared interests in international stability, access to energy, security of the sea lanes, the development and exploitation of high technology, and a greater Asian voice in setting international norms.

Looking out to mid century, the Asia-Pacific region will be shaped largely by the interplay of policy choices made by the United States, Japan, and China.

A Japan-China rivalry, rooted in history, combined with a future-oriented competition aimed at defining the contours of the region, will present the United States with complex policy problems. The complexity is increased because the forces of nationalism and domestic politics in both China and Japan have caused their bilateral relationship to become inured to external involvement and advice.

Toward Japan, the Chinese feel a profound cultural animosity, which is ever present and ever capable of being exploited. Internet sites in China offer poisonous anti-Japanese content without the interference by authorities that is pervasive in other sensitive areas. A key to better relations will be eliminating opportunities – and temptations – to exploit such ill will.

It is important to keep in mind that the East China Sea is a potential flashpoint. Although conflict is an unlikely outcome, the possibility of a crisis that could involve the United States underscores the reality that U.S. interests are involved in the evolution of Sino-Japanese relations.

Mutual strategic suspicion casts a cloud over the relationship.

Mutual suspicion exists between Tokyo and Beijing over a number of issues, including Taiwan, the alleged "remilitarization" of Japan, the long-term objectives of China's military modernization, and perceived containment policies. Given America's security role as a force for stability, the United States is involved in all of these issues.

The Department of Defense and the Pacific Command face a particular and extremely demanding challenge – institutionally, to prepare to intervene in a Taiwan contingency, while simultaneously engaging China and the PLA in broader and deeper exchanges. Both are elements of the articulated U.S. "hedging" strategy toward China; yet the two may prove to be irreconcilable. At the very least, there will be tension between these two elements.

Recommendations: What role should the United States play?

In looking at the China-Japan relationship, the United States must develop interagency consensus regarding U.S. interests and policy objectives. The United States cannot resolve the outstanding issues of history between China and Japan; nor should it try.

It is not in the interest of the United States to encourage a strategic rivalry between Beijing and Tokyo, while it is in the interest of this country to promote trilateral cooperation and avoid zero-sum outcomes. Identifying a productive approach will not be easy – initiatives taken toward either China or Japan can always be interpreted as tilting U.S. policy in one direction or the other. But, given the U.S. national interests involved in its relations with both Japan and China, Washington cannot simply ignore the state of their own relations and hope for the best.

At the same time, the United States has interests in and obligations toward Japan that prevent it from being even-handed. U.S. priorities overwhelmingly are inclined toward the alliance, but this does not mean that the United States will blindly sacrifice its rapidly growing national interests in strong and productive relations with China.

What should the United States do?

First, we must not let either Beijing or Tokyo form the view that their rivalry goes unnoticed in Washington. The participants in this project see the rivalry as dangerous, and believe that both capitals should be made aware of this assessment. But, at the same time, the United States should not seek to play the role of a go-between in the China-Japan relationship.

The United States should not officially become involved in the issues of history. This is a "lose-lose" proposition. However, quiet track-II support by respected American historians for the China-Japan study of history, as agreed to at the Abe-Hu summit, may advance the mutual understanding of the shared past.

Responsible "stakeholdership" has promise of being a trilateral conceptual approach that could dampen the rivalry. An exploration of how each of these Asian powers could work with the United States or the United Nations could help develop habits of cooperation between Tokyo and Beijing. Seoul could also usefully be included in this approach.

We must stay engaged in the discussion about Asia's economic future. U.S. economic policy is focused on APEC and trade liberalizations. The United States should

actively advance the administration's initiative for an APEC-wide Free Trade Zone. At the same time, bilateral FTAs should continue to be pursued as steps toward an Asia-Pacific FTA structure.

Washington should encourage Japan and China to pursue better mil-mil relations. In particular, an incidents-at-sea agreement (INCSEA) involving the two countries' navies and coast guards makes a lot of sense. In the meantime, it would be useful to explore and illuminate the risks of a military incident at sea in track-II dialogues. This would also be a useful way to develop a common sense of risk and a common vocabulary for crisis management.

As illuminated by both our tabletop exercises, the United States must prepare for crisis: it must understand what Japan expects of it in a crisis and be prepared to respond. It must also understand what Beijing expects. Thinking through how to manage these expectations will be an important aspect in determining policy options.

More broadly, strategic dialogue with both Japan and China is essential to reducing strategic suspicion. Some have argued that a clearer definition of "hedging" would prove helpful, but clarity on this point could translate suspicion into hardened opinions and enshrine rivalry. Given that all three countries hedge – and will continue to do so because they cannot predict the future – it might be more beneficial to suspend public discourse about hedging. Given China's inclination to construe it as de facto containment, this could be an important way to build trust.

U.S. policy toward East Asia has traditionally aimed at "assuring" Japan and "deterring or dissuading" China. However, during the course of this project, many participants argued China, too, needs to be "assured" – in particular, it must be assured that the United States does not seek to contain it or to promote Taiwan independence. Such assurances, however, must not be given in ways that undercut the U.S.-Japan alliance. They must be balanced against the feelings of insecurity that they may raise in Japan, where long-harbored fears of abandonment are today latent but nonetheless real.

Assurances to China, and in turn to Japan, are best cast along the lines laid out by former Deputy Secretary of State Zoellick – namely, that the United States (and Japan) has no intention of attempting to contain China or arrest its development, and that the United States (and Japan) desires that China assume the role of a responsible international stakeholder, with the respect and authority due one playing such a role. Likewise, the United States can reassure Beijing (and Taiwan) by reaffirming its declaratory policy opposing unilateral change in the cross-Taiwan Strait status quo.

We must not forget South Korea. Washington, Tokyo, and Seoul need to determine how individual policies can be used to help reach common strategic objectives. Washington has to persist in acting as a catalyst for increased trilateral cooperation.

Ultimately, U.S. policy toward the Sino-Japanese rivalry would best be guided by the Hippocratic tradition: to "help or at least do no harm."

This report was compiled by Michael McDevitt with important contributions from James Pryzstup, Alan Romberg, Brad Roberts, Brad Glosserman, James Kelly, and Ralph Cossa.

Conference Report One

"Understanding the Issue: Where is the Sino-Japanese Relationship Today, and Why?"

by Laura Peterson and Michael McDevitt

Under the chairmanship of former Assistant Secretary of State for East Asia James Kelly, the Center for Naval Analyses is partnering with National Defense University, Pacific Forum CSIS, and the Institute for Defense Analyses to conduct an in-depth inquiry into the downward spiral in Sino-Japanese relations. This collaborative project will examine all aspects of the relationship between these two Asian powers in order to, first, understand this very complex interaction and, second, explore its implications for U.S. interests in the region.

The first in the conference series was held March 8-9 at CNA in Washington DC. As the conference title makes clear, its goal was to provide an overview of the Beijing-Tokyo relationship, and to explore why China and Japan have all but ceased senior-level diplomatic and political interaction. It also focused on different aspects of the history question.

Three other conferences will complete the series. They will cover:

- China and Japan in the global economy and energy competition (Host: NDU, April 18)
- The military dimension – to include both conventional and strategic aspects (Host: IDA, June 12-13)
- Implications for U.S. interests and recommended courses of action. (Host: Pacific Forum/CNA, August 25-26)

Over 30 leading experts from throughout the United States joined for over a day and a half of candid and intense discussion.

What has happened over the last decade?

We first examined the recent past. All agreed that the current downward spiral in relations – characterized by some as poisonous – is a significant departure from the general Sino-Japanese rapprochement throughout much of the Cold War period. One specialist characterized the period of 1971 to 1992 as the "heyday" of Sino-Japanese reengagement. During this time Japan gave China considerable aid and transferred much-needed technology as a proxy for reparations for Tokyo's aggression in the 1930s and 1940s. Beijing politely acknowledged Japanese statements of contrition, and high-level meetings were cordial in a period during which Tokyo's financial aid was crucial to Beijing's domestic reform agenda and Cold War imperatives demanded stable ties. In other words, Beijing's larger strategic agenda, at home and abroad, resulted in cooperation and the minimization of "history" as an issue between the two countries.

After the end of the Cold War, and especially by the end of the 1990s, latent tensions in the relationship began to surface in both countries. Causal factors included a

post-Tiananmen focus on nationalism/patriotism, and, as its economy took off, China became less dependent on Japan. This trend was symbolically underscored by Jiang Zemin's unpleasant visit to Japan in 1998 – during which he publicly hectored the Japanese about history. The visit made relations worse instead of better. It made direct public criticism of China not only politically acceptable in Japan, but also politically beneficial. Since that time, relations have been characterized as "hot economics and cold politics."

Currently, the Chinese public's perception of Japan's purported lack of remorse over the many depredations and atrocities committed by the Imperial Armed Forces – created by sundry textbook flaps, Yasukuni Shrine visits, and disputes about the Nanjing massacre – has shaped and constrained the political space that Beijing has to operate. Tokyo's perceived failure to be appropriately contrite about its past was used as the public pretext for Beijing's open opposition to Japan's attempt to gain a UN Security Council seat, the issue that sparked the April 2005 demonstrations. This is especially true since President Hu Jintao became personally involved in attempts to resolve the dispute triggered by the Yasukuni Shrine visits of his Japanese counterpart. There was broad agreement in the conference, however, that it would be a mistake to blame history alone for the current downward trajectory.

In fact, there are other fundamental sources of friction: competition for regional leadership; growing nationalism in both societies; territorial disputes; Taiwan; military modernization in both countries and the concomitant perceptions of threat in both capitals and a growing competition over potential energy resources in areas close to both Japan and China – especially in the East China Sea and Siberia. Many of these concerns overlap: disaggregating them is difficult, especially since they go to fundamental issues of national security, national psychology, and self-image.

A number of experts pointed to the unique historic circumstance in Northeast Asia, where, for the first time, a powerful Japan and powerful China are facing one another. For the 75 years between the Meiji Restoration and WWII it was the weakness of China and the growing power of Japan that created instability. A politically coherent China that is economically vibrant, nuclear armed and globally influential is a unique geopolitical fact for the Japanese in the modern era – as it is for the rest of Asia and the United States.

Has the United States contributed to the current situation?

Considerable discussion ensued over whether the U.S. was part of the problem. The general view was that the U.S. was certainly not at the center of the problem. Despite the assertion that Chinese often make at unofficial gatherings, it is not in Washington's interests to promote the rivalry as a way to make Japan cling even more tightly to the U.S.-Japan Alliance. As one expert mentioned, Beijing acknowledges that the U.S. did not instigate tensions, but it thinks Washington enjoys the current situation very much. Otherwise, Washington would try to ameliorate tensions by pressuring the Japanese.

At this conference, there was no support for this point of view. No one thought the U.S. was happy about the deterioration of Sino-Japanese relations. All participants

agreed that bad Sino-Japanese relations were definitely not in Washington's interest, and that the possibility of a military confrontation – deliberately or by accident – between Japan and China over territory and resources in the East China Sea was a cause for great concern.

Despite past instances when the U.S. has sought to exploit the rivalry (e.g., Nixon playing on China's fears that Japan might seek to take over Taiwan as a spur to U.S.-PRC normalization), neither the Clinton nor Bush administration consciously attempted to create differences between Tokyo and Beijing. Still, its alliance with Tokyo means that the United States is not an impartial observer in the rivalry. Over the past five years the Bush administration has encouraged Japan to take a more equal role as a partner – as outlined in the Armitage-Nye Report of 2000 – primarily to strengthen the alliance.

A strengthened alliance with a democratic Japan, which still has the second largest economy in the world, would be in the U.S. national interest even if China were weak and self-absorbed. Because it is not, a strengthened alliance is also motivated by a need to "hedge" against an assertive China. This fact has not been lost on Beijing and contributes to its views that Washington is "complicit" in Japan's more assertive policies.

A number of participants pointed out that that the alliance, as it exists, also strengthens Tokyo in its dealings with Beijing. Japan is wrestling with how to deal with Beijing without bowing and scraping. The alliance empowers Tokyo so that Japan does not have to either kowtow or to militarily confront. In other words, it gives Tokyo greater flexibility in how it chooses to interact with Beijing.

Neither Tokyo nor Beijing is content to be number two in Asia

An important discussion theme was the rivalry between Japan and China over who is recognized as Asia's leading power. Interestingly, one presentation made clear that the Sino-Japanese rivalry is not ages old, but has its roots in the relatively recent disruptions to the traditional Asian order occasioned by the coming of Western powers in the 19th century. This caused "national emergencies" in both China and Japan and brought these countries into full contact with one another. To be sure, the Chinese had been traditionally dismissive of the Japanese, who were referred to as "eastern barbarians," "island barbarians," or "dwarf bandits." The Japanese were a lesser caste in the Sino-centric world order. Japan, for its part, understood it was part of the Sinitic culture zone, but never saw itself as part of China's traditional world order, nor was it part of the tributary system. The two countries peacefully coexisted – largely ignoring one another.

Since the West began to interact with Asia in the 19th century, it has been the objective of both Japan and China to be treated with respect and as an equal in dealings with the "West." In dealing with one another, however, no such feelings existed. Since the Meiji Restoration, Japan has considered the rest of Asia as backward and appointed itself to lead the region. The national myth that WWII was an attempt by Japan to "liberate" the region is but one manifestation of this "conceit." "It was America, not China, that defeated us in the war" is one expression of this attitude one sometimes hears from Japanese.

Post war Japan saw itself as the natural leader of Asia since it was the first Asian economy to take off. Its economic development would set the pace for the economic development of the region – the so-called "flying geese" concept. Today, we still see Japanese preoccupation with its leading role in Asia: the notions that Japan should be the "thought leader of Asia" or that Japan needs to take a leading role in East Asian regionalism are contemporary examples. Nonetheless, Japan has recognized that the rules of the game have changed and that the "flying geese" model no longer applies. As a result, it is grappling with its conception of itself and its place in the regional order.

China, for its part, recognizes that, in the 19th and the first half of the 20th century, Japan took its leading role in Asia mainly at China's expense. Starting with the annexation of the Ryukyus, Japan began to nibble at the Chinese empire. The overwhelming Japanese success in the Sino-Japanese War of 1895 was a shock to both the Chinese court and to the "West."

Since that time, the Chinese have been involved in a "revolution" to transform a traditional civilization into a modern nation state, and Japan has played the largest role in that revolution, for good or ill, over the past 100 years. Today the government of the PRC is the self-appointed torchbearer for the historical legacies of over a century of resentment over Japanese abuse of China. As one expert said, the CCP is the official "curator" of the historical grievances the people of China harbor toward the Japanese.

China is overcoming these historical legacies, and identifying abuse suffered at the hands of Japan is part of the ritual of doing so. Lessons learned from the "Century of Humiliation" that are salient in China's foreign policy activities today are:

- Deterring foreign aggression is essential;
- Deterrence requires comprehensive national power;
- National power necessitates modernization of society;
- A modern society requires a national will;
- Modernization is not possible if there is domestic instability.

What makes the history debate so contentious is that, for China, when it comes to Japan, history appears to have ended in 1945. Little credit is given for postwar Japan's "peaceful rise" or for its positive contributions to China's rise. The focus on the first half-century in part can be attributed to China's tactic in stressing the worst. But China is also reluctant to debate the history of the second half of the century since it contains too many contentious and detrimental aspects for China.

Beyond rectification of the past, China is casting a more influential shadow across Asia, thanks to its rapid economic development, adroit diplomacy, and the perception of the PLA's growing military power. Globally, its economic clout is yielding political influence that increasingly comports with its membership in the UN permanent five. In terms of comprehensive national power – a PRC affectation for calculation of its place in the world in terms of "power" – Beijing sees that it is roughly equal with Japan today, with trend lines in its favor. Chinese (and many others around the world) see that China's

power is growing, while Japan's is stagnating. In truth, the situation is more complex, but these perceptions are vitally important.

Being number one to do what?

Some participants argued that competition for regional leadership is more a symptom than a cause of tensions. In fact, a couple of participants argued that Japan is not much interested in leadership. Rather, Japan's pursuit of permanent membership in the United Nations Security Council (UNSC) is a search for international recognition and prestige rather than a genuine interest in speaking for underrepresented Asian nations in an international forum or a willingness to shoulder the burdens associated with genuine "leadership." Moreover, Japan and China both were said to be unable to act as honest brokers in dealing with the difficult issues in the region because their own interests are often at odds with international interests. China's unwillingness to really pressure North Korea is a case in point. Finally, since national sovereignty is such a major consideration for the many former colonies in Asia, it is unlikely that these countries would be happy to have either Japan or China "speak for them."

Others argued that Tokyo's worries about being supplanted by China as Asia's leading power were contributing to its drive to become a more "normal" state, at least to the extent that it wants to be able to play a security role in maintaining regional stability. They argued that this ambition, aided and abetted by Washington (which sees such a role as in the U.S. national interest), does contribute to tensions by providing Beijing an opportunity to conflate history with Japan's current security ambitions. Beijing can assert Japan is a looming threat to the region because Japanese militarism is once again on the rise.

How important is the Yasukuni Shrine issue?

Yasukuni and nationalism are inextricably linked. One presentation made the telling point that both countries are experiencing social malaise and both governments are failing to provide adequate social safety nets. As a result, there is an upsurge in the retelling of national myths with the goal of restoring national pride. Some argued that China is using tensions with Japan to distract Chinese from difficult political problems within their own country.

Several argued that Yasukuni is just a pretext: if visits to Yasukuni by democratically elected officials were made illegal, China would then lodge an official complaint to Japan about the content of history textbooks; in short, there will always be flash points around the history question. China makes use of arguments over history because it is politically convenient for it to do so, and it is not evident that resolution of these issues could genuinely improve relations between the two countries. Others disagreed, arguing that, while all problems will not disappear nor tensions evaporate, there is recognition in Beijing that the current level of stress between China and Japan is not in the PRC's interest. In this view, once Yasukuni is resolved, absent some other precipitating event, China has no interest in keeping tensions high.

The Japanese are also dealing with social dissatisfaction that contributes to the changing tone of the Sino-Japanese relationship. Rising unemployment and structural changes to the Japanese economy and workforce have increased uncertainty over Japan's own economic security and fueled calls for cuts to official development assistance directed at China as well as nativist trade policies. Public opinion polls in Japan show a growing hostility toward China. A new generation also views the last 60 years of history as more important than a 15-year period from 1930-1945. This group is not ignorant of history, but demands that it be put in perspective.

In Japan, Prime Minister Koizumi has dug in his heels on the visits to the shrine – the more Beijing complains, the more he refuses to yield. Koizumi's successor will have to determine if continued shrine visits are in Japan's interest. Also discussed was how WWII is portrayed in the newly renovated museum (Yushukan) collocated with Yasukuni. The portrayal of Japan as the aggrieved party manipulated into war by the U.S. has outraged most U.S. visitors. Were this story to gain traction in the U.S., some felt Yasukuni could also have a negative impact on the U.S.-Japan alliance. Whether valid (and some conferees doubted the American reaction would go so far), this could provide the U.S. government with a reason to urge Japanese officials to stop visiting the shrine, or to construct an alternative. It is unclear whether this is a wise course for Washington.

Implications for U.S. policy

Washington has to appreciate that a rivalry exists and that while history plays a role it is not the only factor at play. The forces of nationalism and domestic politics in both countries make this situation particularly resistant to third-party intervention. Nonetheless, the U.S. must be conscious that some in Asia feel Washington is encouraging Japan to take a more militant line or indirectly profiting from it.

However, incidents between Chinese and Japanese commercial and military vessels in the East China Sea have for the first time since World War II made the use of force a possibility – with consequences that could lead to war. This is not likely, but remains a possibility. Plainly, then, U.S. interests are involved. For this reason alone, the U.S. government should be concerned about the downward spiral in Japan-China relations. It is important that Washington understand that this is more a sovereignty issue than an energy resource issue, which makes it especially dangerous.

The U.S. has to be clear about policy objectives. Washington is not going to solve the history question, nor is it going to make China and Japan like one another. But it is not in the U.S. interest to promote or tolerate strategic rivalry; it is in the U.S. interest to promote trilateral cooperation. While identifying a productive approach will not be easy, the U.S. government cannot simply ignore the rivalry because, left unattended, there is no confidence that both sides would deal with it in ways that promote U.S. interests.

A strong argument was made that the U.S. government also needs to be candid about the fact that its interests and obligations means that it must "lean Japan." That does not mean that relations between Washington and Beijing and Tokyo are a zero-sum game. This needs to be clear to both capitals. It does mean however, that it will be

difficult for the U.S. to be "objective" about the overall relationship. Nor, because of U.S. interests at stake, should it be.

Washington must be particularly careful not to appear to be tilting toward China. This could have a negative impact on the alliance and on Japan's efforts to achieve a leading role in Asia.

But, the idea of pressing China to become a responsible stakeholder in the international system makes sense in this context – especially since Japan is already far advanced in its stakeholder role. Having both Japan and China as common stakeholders with us is trilateralism at the grand strategic level.

Issue areas that might be effective in ameliorating the rivalry include environmental protection, nontraditional security threats, and energy security. However, the U.S. should not become involved in the history debate. Although the symbolism of the Yasukuni Shrine insults the memory of U.S. service members who died in World War II, and despite the "rationale" the museum could provide for an American argument, U.S. injection into the debate was characterized as a "lose-lose" situation for Washington.

Finally, U.S. policy needs to be careful to avoid doing something stupid: in the fashion of Hippocrates, we should "help or at least to do no harm." Without detailed prescriptions at this point, proper management of both the comprehensive alliance relationship with Japan and our broad and deepening relations with China were identified as first order priorities.

Note: We acknowledge with great appreciation the very helpful comments and edits provided by: Brad Roberts, Alan Romberg, Brad Glosserman, and Ralph Cossa.

Conference Report Two:

"Economics and Energy: Their Role in Sino-Japanese Rivalry"

by Laura Peterson, James Pryzstup, Phillip Saunders,
and Michael McDevitt

Executive Summary

- After the conference concluded, it became clear that at the moment, the risks of economic rivalry are overblown, but there is a real potential that energy policies will deepen both economic and political rivalry. In other words, it is a mistake to treat economic and energy issues as separate, when it is their increasing convergence that ought to attract policy attention.

- Representatives of Japan's business community observed that Japan's commercial decision-making toward China is profit-based, not values-based; Japanese officials concurred. China (including trade through Hong Kong) is now Japan's largest trading partner. Despite recognized problems such as IPR and contract enforcement, land ownership, and labor issues, China is viewed as too good a business opportunity to pass up.

- The Japanese business community remains optimistic with regard to China, notwithstanding political tensions in the Japan-China relationship. One presenter noted that Shanghai city officials (not from the central government, an important distinction) made a point of reassuring Japanese business representatives during the April 2005 anti-Japanese demonstrations. This was interpreted as evidence of the importance China attaches to commercial relations with Japan and an indication that in China "all economics is local." The emphasis on local growth (a critical factor in the promotion of Party officials) was thought to give Japanese companies important leverage.

- At the same time, some Japanese analysts predict significant problems ahead for the Chinese economy, and Japanese companies are hedging risk by pursuing a "China plus one" strategy. Vietnam is a favored "plus one"-investment destination.

- The China-Japan regional rivalry is not economic in nature; the two economies are complementary, not competitive, in the short-to-medium term. This encourages economic cooperation. The rivalry is political in nature and, while importantly tinged with historical issues, is largely derived from competition for regional leadership in Asia. Japan's efforts at playing catch-up with China's free-trade agreement (FTA) diplomacy are indicative.

- Japanese government officials are increasingly wary of exclusive forms of regional economic cooperation, except in the monetary/finance arena where Japan has a large advantage over China. Bilateral FTAs and (to a lesser degree) organizations such as APEC and WTO are preferred as means less susceptible to Chinese dominance.

- Both Japan and China depend heavily on imported oil and gas from the Middle East/Persian Gulf. Both share an interest in security of the sea lanes to and from the region, and both share an interest in improving energy efficiency. However, competitive behavior currently dominates the Japan-China energy relationship, especially in efforts to secure access to sources of energy (e.g., Iran and Sudan).

- Finally, the U.S. policy community needs to spend some effort beyond worrying about the East China Sea to consider how the U.S. might help dampen economic incentives to rivalry. The role of the WTO, and the role of fair trade practices more generally among the three needs to be assessed, something this conference did not do. Since the U.S. intends to remain a competitive economic force in the region this provides a self-interest based rationale for proactive policies aimed at dampening the competitive aspects of the Sino-Japan relationship.

Background

On April 18, 2006 the National Defense University's Institute for National Strategic Studies hosted the second in a series of conferences on Sino-Japanese Relations. The project is a collaborative effort between the Center for Naval Analyses, National Defense University, Institute for Defense Analyses, and Pacific Forum CSIS to examine the sources of Sino-Japanese tensions and the factors driving the current downturn in bilateral relations. The goal is to understand how this situation affects U.S. interests and to make recommendations about what actions the U.S. government should, or should not, take. The conference brought together over 30 leading experts from throughout the United States.

The Sino-Japan economic relationship

Japanese economists and business leaders offered perspectives on deepening economic ties between China and Japan. Japanese businesses and investors are wary of political and economic risks in conducting business in China, but will remain engaged in the large and rapidly growing China market as long as they are making money. The issue is how businessmen perceive risk.

Economic and trade data confirms that the two countries' economies have become interdependent over the past 20 years. China is now the third largest recipient of FDI from Japan. Bilateral trade has expanded rapidly and may soon exceed U.S.-Japan trade. China has large and growing trade surpluses with the U.S. and EU, but Sino-Japanese trade is relatively balanced. Some Japanese business leaders describe the Chinese economic powerhouse as the "salvation" for Japanese businesses that were in the doldrums during the 1990s.

Japanese economists and investors are concerned about structural problems in the Chinese economy. These include real estate bubbles, high savings rates, over-dependence on investment, over-reliance on government controls in trade, energy shortages, intellectual property rights, high turnover of the workforce, difficulty enforcing contracts, income gaps, and the rapidly aging Chinese society. While Japan would like a more

flexible Chinese exchange rate policy, renminbi rate adjustment is less important to Japanese business leaders and economists than fixing China's structural economic problems.

Experts at the conference felt that Japanese businessmen were willing to accept the risks associated with investment in China due to a general sense of optimism that China's economy will continue to grow and because they believe PRC leaders recognize the need to address structural problems and are beginning to move in that direction.

However, some Japanese investors are already hedging their bets, often via a "China plus one" strategy that involves simultaneous investments in China and a second Asian country. Whether this is based on caution regarding China's economic future or uncertainty associated with political risk is not entirely clear.

Japanese businesses were reassured by protective actions taken in China during periods of anti-Japanese fervor. For example, conferees observed that the Shanghai city government "protected" Japanese businesses during anti-Japanese demonstrations in April 2005 ["Protected" should not be taken literally – many restaurants were destroyed, and Japanese autos burned]; after the fact Shanghai officials met with Japanese businessmen to assure them that the city government valued their presence. This was interpreted as evidence of the importance China attaches to commercial relations with Japan and an indication that in China "all economics is local." The emphasis on local growth (a critical factor in promotions of Chinese officials) was considered to give Japanese companies important leverage.

Because the U.S. economy looms so large in the economic calculations of both Tokyo and Beijing it may be unrealistic to try and reduce the discussion in to just Japan and China. The U.S. is again looming large in Japanese economic thinking, and reportedly, METI is not interested in an economic policy that is Asia only. However, in order to develop a better understanding of the Sino-Japanese relationship, the triangular relationship that includes the U.S. was not a focus area.

Sino-Japanese regional economic rivalry

Experts were split on whether there is a genuine rivalry between China and Japan for economic dominance in Asia. At the same time even those that thought there was an economic – vice political – rivalry thought that non-expert commentators have overblown the notion of an economic rivalry. Economic data suggests that a rivalry does not exist, given that the Chinese and Japanese economies are complementary, not competitive, at least in the short-to-medium term. This provides a solid basis for economic cooperation. However, Chinese and Japanese political and economic policies appear to be shaped with the intent of strengthening each country's regional economic role. This dynamic is evident in Free Trade Agreement (FTA) diplomacy. One participant made the important point that FTAs are about more than trade: they are also about investment, tech transfer, and many other economic issues.

Evidence of regional cooperation

Some argued that suggestions of economic rivalry or China economically overtaking Japan are greatly exaggerated. Experts noted that foreign multinationals control approximately 60 percent of China's exports, and that China is heavily dependent on non-Asian nations for its economic growth. China and Japan do not yet compete head-to-head in economic sectors, so trade with China has not supplanted key industries in Japan. Instead, trade with China has siphoned off trade between Japan and other Asian nations, so that China is now manufacturing products destined for Japanese consumers that were once produced in other parts of Asia.

In the political/security realm, experts emphasized that China needs regional stability for its own economic development. China's economy is still dependent on exports, and especially on exports to the United States. For this reason, China is unlikely to rock either the economic or regional stability boat. It will also try to avoid upsetting Japanese investors to avoid disrupting the flow of Japanese investment.

Many participants argued that Japanese actions are key to whether a regional economic rivalry develops with China. A debate is under way within Japanese government agencies and political leadership about whether to approach regional economic issues through multilateral venues, regional venues, or through bilateral FTA. U.S. experts described Japanese government officials as increasingly wary of exclusive forms of regional economic cooperation, except in the monetary/finance arena.

The bilateral FTA camp appears to have won this debate, although *not* because Japan wants direct competition with China in establishing FTAs with other Asian nations. Rather, Japanese bureaucrats seek to use FTA negotiations as a form of *gaiatsu* to loosen Japan's protectionist agricultural trade regime. One participant depicted FTAs as a sort of jobs program for officials at the Ministry of Economy, Trade and Industry (METI). Bilateral FTAs and (to a lesser degree) organizations such as APEC and WTO are preferred as means less susceptible to Chinese dominance.

From the Japanese perspective, ASEAN and ASEAN+3 were both described as being largely manipulated by China, and as a medium for Southeast Asia to play the Chinese and Japanese off each other. For this reason, Japan does not want to negotiate regional free trade guidelines through ASEAN. However, the Japanese Ministry of Finance does support using regional organizations such as ASEAN+3 to address regional financial and monetary issues. In part this is because Japan *is* the financial capital of Asia, and thus has bargaining power over monetary and finance policy that China lacks.

Due to negative attitudes toward the IMF and World Bank in the wake of the Asian Financial Crisis in 1997, Asian-only organizations are perceived as more appropriate venues for addressing regional financial and monetary concerns.

Implications for Asia's future

Discussants generally agreed that the region would not experience outright economic competition between China and Japan. Talk of a regional economic rivalry is exaggerated. Given the disparate levels of economic development, it will be many years before Japan and China compete head-to-head. Rivalry is focused on the political

question of which country will lead Asian regionalism – a competition that Japan appears to be losing.

Competition for favorable FTAs with other Asian nations will continue, although both China and Japan will benefit from each other's FTAs via most-favored nation clauses. Japan encourages other Asian nations to demand stronger support for intellectual property rights and rule of law in their economic dealings with China.

Participants also highlighted extensive cooperation between Japan and China in relation to monetary and fiscal policy. There is a broad Asian consensus – demonstrated by the Chiang Mai Initiative – about the need to contain future regional financial contagions.

Japan will not drive economic growth in the region, but its economic and political position within the region will improve as it continues to pull out of the economic downturn of the 1990s. In contrast, at least one participant argued that the economic future looks less good for China. He argued that China's economic success was just by chance – it has been blessed with a "perfect storm" of positive economic circumstances – that have allowed China's to economic growth to overcome poor fundamentals. In other words, Beijing has dodged major difficulties associated with painful economic restructuring, but it is not clear that the stars will continue to align.

The Sino-Japanese energy relationship

By 2015 the Asia Pacific region will account for roughly half of global energy demand. The bulk of the increased demand for oil will be from China, while Japan's oil demand will remain relatively flat. By 2020, it is projected that 75 percent of the oil China consumes will be imported; Japan already depends almost entirely on imported oil.

Both countries will be equally exposed to external oil shocks, and equally dependent on energy imports that come by sea. Both countries share an interest, along with the United States, in maintaining unimpeded use of the high seas for the transportation of energy, raw material imports, and international trade. This is a geostrategic-economic fact of life that seems to call for cooperation rather than competition.

Both Chinese and Japanese governments feel their oil companies need government support to compete effectively against established players. The Chinese government is more active with diplomatic and financial support; the Japanese government has encouraged mergers of smaller companies while holding so-called "golden shares" to protect the companies from foreign takeovers.

Negotiating rules for energy competition in terms of subsidies, government loans, etc., would be difficult, but if implemented could keep competition within bounds. (One expert indicated that the PRC leadership actually had very little day-to-day control over the oil sector.) Currently only 15 percent of China's oil imports come from equity investments of state-owned oil companies; the rest of China's oil comes from spot market

purchases or long-term contracts at market prices. China regards its equity investments around the world as an important element of a future-oriented energy/resource strategy.

According to experts like Chas Freeman, China's most recent Five Year Plan (which is not publicly available) contains a new energy policy that emphasizes demand management and price incentives to reduce dependence on oil imports. The goal seems to be to restrict oil usage to the transportation sector, and not use oil for heating or electricity generation. China will limit demand by raising fuel taxes and using the revenue to fund a unified transportation policy that links roads, high-speed rail, airfields and water transport. This is essentially copying the French model. China is well positioned to implement such a strategy, since automobiles currently account for just 2 percent of current oil use.

Energy cooperation limited; energy competition heating up

There is a limited amount of Sino-Japanese cooperation in building regional energy institutions such as the Northeast Asia Petroleum Forum and the ASEAN+3 Oil Market Forum. Japan is helping China improve its relatively low energy efficiency via technology sales and higher efficiency standards. China's national oil companies have some excellent economic analysts, but the Chinese government does not systematically collect or produce good statistics on its own energy production or demand, which exacerbates problems created by the lack of transparency in the Chinese energy sector.

This limited cooperation contrasts with increasingly competitive Chinese and Japanese behavior in a variety of energy-related areas. Japan and China are locked in a worrisome and potentially very dangerous feud over territorial issues, particularly in the East China Sea. Tensions regarding territorial issues are very high, and discourage cooperation in other areas of energy security. (See below for more discussion.)

The conferees thought that China's equity investment strategy in an attempt to secure upstream oil contracts abroad introduce an unhelpful degree of competition – not only with Japan but also with India. Most economists think this is a foolish strategy, noting that Japanese efforts in the 1970s and 1980s to obtain large equity oil stakes ultimately failed. However this effort signals that China does not trust the market when it comes to long-term access to resources and creates pressures for Japan to emulate Chinese tactics.

Possible areas for cooperation

Experts identified a number of areas of potential Sino-Japanese cooperation. Japan and China could work together to address the documented price discrimination on oil purchased from Middle Eastern countries (referred to as the "Asian premium").

Japan could invest more into encouraging improvements in Chinese energy efficiency, which lags far behind world standards. China is receptive to this sort of technology transfer, and Japan has a lead over U.S. technology.

Japan is also world-renowned for its recycling technology, and could help improve China's ability to use resources efficiently.

China could benefit from enacting genuine price reforms, including linking the price of fuel with the price of power. Japanese ministries have experience in implementing such policy reforms, and could provide useful advice to China.

Japan and China could also develop regional oil stockpiles to guard against a supply shock.

Implications for the United States

After the conference concluded it became clear that the risks of economic rivalry are overblown, but there is a real potential that energy policies will deepen both economic and political rivalry. In other words, it is a mistake to treat economic and energy issues as separate, when it is their increasing convergence that ought to attract policy attention.

On the most serious issue, the Sino-Japanese standoff in the East China Sea, there was a difference of opinion about whether the U.S. should become involved in attempting to resolve this problem. Some argued that it would be a mistake for the U.S. to be perceived as uncritically supporting Japan. Other Japan specialists argued that even the perception of evenhandedness by Washington would be perceived in Beijing as a diplomatic success, and in Tokyo as a weakening of the alliance. All agreed that given the importance of the U.S.-Japan alliance to America's strategic position in Asia, the U.S. interest lies in continuing to encourage both parties to solve the issue diplomatically or to agree to a cooling off period until political relations between Tokyo and Beijing improve. The U.S. should not try to broker a solution.

The U.S. role in addressing and shaping economic and energy competition between China and Japan is complicated because the U.S. is not an impartial observer. U.S. policy makers are well-known critics of Japan's protectionist trade policies and of China's currency regime. Moreover, China and Japan will likely take energy policy recommendations from the United States, a country struggling with its own dependency on foreign oil imports, with a grain of salt.

As other experts have written*, Beijing apparently believes that energy security is "too important" to be left to the market. This topic was discussed at length and conferees opined that Chinese efforts to secure exclusive energy contracts make China more vulnerable to international market fluctuations, which could pose a double penalty on Beijing. First, they are already seen in the west as supporting corrupt and unsavory political regimes in the developing world. Second, these efforts may in the long run prove futile because of the globalized energy market.

* Kenneth Leiberthal and Mikkal Herberg, "China's Search for Energy Security: Implications for U.S. Policy," NBR Analysis, National Bureau of Asian Research, //www.nbr.org, p. 13.

To reduce the impact of international energy market shocks on domestic markets, the U.S. should encourage China's ongoing efforts to develop its strategic stockpiles, and support the creation of regional energy stockpiles, perhaps in conjunction with Japan. One speaker argued that the value of regional stockpiles was highlighted after Hurricane Katrina, when Germany dispatched tankers filled with gasoline to the Gulf coast. The arrival of gasoline reserves was enough to "settle" energy markets in the southern United States. A similar mechanism could have been useful in China last year, when gasoline shortages were witnessed all across the country. That incident made it clear that China needs energy price reforms, but also demonstrated that access to strategic reserves could have had a psychological calming effect on the markets.

One argument held that Beijing seeks upstream contracts with Zimbabwe, Venezuela, Angola, and the Sudan *because* it is excluded from international institutions. Specifically, several participants argued that the U.S. should work to bring China into the International Energy Agency (IEA). Although IEA membership also requires membership in the OECD (which is currently not possible for China, as a nondemocratic state), it was stressed that China's current position *outside* international energy organizations discourages it from acting as a responsible player in world energy markets.

Finally, the U.S. policy community needs to spend some effort beyond worrying about the East China Sea to consider how the U.S. might help dampen economic incentives to rivalry. The role of the WTO and, the role of fair trade practices more generally among the three needs to be assessed, something this conference did not do. Since the U.S. intends to remain a competitive economic force in the region this provides a self-interest-based rationale for proactive policies aimed at dampening the competitive aspects of the Sino-Japan relationship.

Conference Report Three:
"Sino-Japanese Rivalry: The Military Dimension"

by Brad Roberts

Executive Summary

This third workshop in the series on Sino-Japanese rivalry focused on the military dimension of rivalry.

Defense planners in Beijing are paying close attention to Japan but also convey considerable and growing confidence in China's ability to manage Japan as a military problem. Japan is seen as increasingly likely to be involved in a dispute over Taiwan, though some in China's military see Japan's declaratory policy in this regard as not consistent with its real interests and what they anticipate to be its likely military restraint in crisis and war. Japan is also seen as a significant military factor in China's maritime security environment – which is the focus of China's military modernization campaign. On the other hand, there is little to suggest that China is actually developing military capabilities specifically focused on Japan, with the important exception of medium-range ballistic missiles.

Defense planners in Tokyo take China as a central preoccupation. They seem more focused on China as a military problem in the East China Sea than in a Taiwan confrontation. But they also tend to resist making significant military investments to deal with China – especially for missile defense – at a time of many competing demands for defense transformation. But the political leadership has committed Japan to missile defense against North Korea.

Defense planners in Washington face the twin challenges of assuring Japan and deterring and dissuading China. At present there seem to be no major challenges in assuring Japan, though the implementation strategy for the February 2005 "two plus two" agreement seems not fully energized and both Japan and the United States are concerned with the implications of China's growing influence in East Asia. The challenges of deterring and dissuading China are less well framed, as is the strategy for doing so. The dissuasion concept remains a work in progress. Little thinking seems to have been given to how to achieve both assurance of Japan and deterrence/dissuasion of China and to how to operationalize such a balance approach in military planning.

A potential flashpoint for military confrontation between China and Japan is in the East China Sea, where the two are already in a tense standoff over energy resources and competing territorial claims. A tabletop exercise conducted for this workshop demonstrated a significant potential for miscalculation and unwanted escalation in such a crisis and raised important questions about how the United States would balance its complex interests in such a crisis.

Background

On June 6-7, 2006 the Institute for Defense Analyses hosted a workshop on the military dimension of Sino-Japanese rivalry. This was the third in a series of four workshops focusing on Sino-Japanese rivalry in a collaborative effort among the Center for Naval Analyses, National Defense University, Pacific Forum CSIS, and IDA. The first workshop, convened by CNA in February, focused on the political relationship between China and Japan and explored both the weight of unresolved historical issues and the competition for future leadership as the two powers "rise" simultaneously. The second workshop, convened by NDU in April, focused on economic factors in the bilateral relationship and explored trade, finance, and energy issues and the competition for leadership of East Asian economic integration. The series will conclude with a fourth workshop hosted by Pacific Forum CSIS in August focused on deriving policy recommendations for the United States.

For the June 6 discussion, we posed the following basic questions:

1. How do planners in Beijing assess Japan's place in China's military policy?
2. How do planners in Tokyo understand the military implications of China's rise?
3. How do planners in Washington seek to influence the Sino-Japanese military relationship?

The second day of the workshop was devoted to a tabletop exercise that posited a military incident at sea in the East China Sea, arising from competing claims to energy resources there and invoking questions about the appropriate U.S. response.

Defense planning in Beijing: competing for geo-strategic position

China's most recent Defense White Paper uses the phrase "competing for geo-strategic position" to capture current thinking in Beijing military circles about the East Asian security environment. Defense planners in Beijing see Japan as competing with China for political, economic, and military advantage in East Asia and as participating with the United States in an effort to contain a rising China. Accordingly, they pay very close attention to Japan's debate about security policy and developments in its military capabilities.

Defense planners in Beijing tend to emphasize the following main trends in the development of those capabilities. They see Japanese leaders as not satisfied with Japan's current military stature and thus committed to transforming the Self-Defense Force to put it in the forefront of militaries globally. They also see Japan as embarked on a major effort to strengthen its capacity to operate militarily in areas beyond its immediate environs, an effort which "far exceeds its own defense needs." Chinese planners are particularly concerned about improvements to Japan's ability to project power across the East Asian littoral because this implies increasing Japanese military engagement in China's maritime areas. They are also concerned about Japanese deployments of ballistic missile defense, which will erode China's capacity to threaten and coerce Japan in a future military crisis. The potential combination of these capabilities would be particularly significant to China in military contingencies related to Taiwan, but the implications are more far-reaching because missiles are the only realistic means by which

the PLA might attack Japan directly. Japanese missile defense will therefore undercut China's ability to coerce and deter Japan.

This points to another trend that is worrisome to Beijing: Tokyo's increasingly direct and overt involvement in the military equation over Taiwan. Taiwan has gone from being an implicit to an explicit focus of Japanese military policy. Accordingly, military planners in Beijing seem increasingly focused on the potential Japanese role in a military confrontation with Taiwan, although this is by no means a new problem for them. Because Japanese military capabilities would supplement U.S. capabilities, rather than provide something unique, the PLA can consider Japan as an included case as it works to deal with the possibility of U.S. intervention in a Taiwan crisis.

Chinese experts also argue that a militarily stronger Japan will bring with it a revival of militarism in Japanese society and politics. They assert that the reemergence of a militarized Japan would be a threat to Asia and indeed to the larger international system. As a harbinger of problems to come, they cite an increasingly hard line from Tokyo on maritime territorial disputes. Accordingly, they conceive potential military flashpoints with Japan not just over Taiwan but also in the broader maritime environment. To a certain extent, these fears may reflect a rather conscious effort by China's leaders to manipulate Chinese public opinion by encouraging them to remember past "humiliations."

It is important to note, however, that the latest Chinese Defense White Paper does not take an entirely negative view of Japan and endeavors to offer a balanced assessment of the opportunities and challenges for China as the two countries modernize and transform their military forces.

The U.S.-Japan alliance is an essential factor in Beijing's assessment of Japan's military role and potential. Experts in Beijing see the alliance as aimed at containing China – especially after the Cold War. Some experts in Beijing see Washington as manipulating Tokyo to participate in America's effort to encircle China. They speak derisively of Japan as "Washington's hegemony assistant." Others in Beijing perceive just the opposite dynamic, arguing that Tokyo is manipulating Washington to fear China. Adherents of this viewpoint tend to perceive a stronger affinity between the interests of China and the United States than between Japan and the United States and argue that Washington is not well served by continuing to insist on a regional security architecture built for a different time and problem. Many in Beijing desire a U.S.-China condominium in Asia, whereby military cooperation between the two would supplant Cold War-vintage U.S. alliance structures.

This ambivalence about the U.S.-Japan alliance is reflected in China's continuing debate about whether the U.S. military presence in East Asia serves China's interests or not. This is a well-rehearsed debate among those Chinese who see the U.S. presence as helpful for containing Japanese militarism and those who see the U.S. as doing the wrong things to help restore Japan to some "normal" international role. The latter camp finds new evidence for its case in Washington's encouragement to Tokyo to increase Japan's capacity for military power projection, especially into the areas around Taiwan, and also to reduce constitutional restraints on the military. This latter camp also reflects an

increasing confidence that China can manage its Japan problem without the help of the United States. Adherents of this view accept the possibility of a nuclear-armed Japan as a possibility with which China can cope.

As much as they worry and complain about these perceived trends and flashpoints, planners in Beijing seem to spend little money or effort to deal with Japan as a military problem. Japan is only a minor factor in China's force modernization. As one senior PLA expert argued, "if the PLA can cope with the United States, it can cope with Japan." It is difficult to identify a single Chinese military system that was developed particularly with Japan in mind. The one significant exception is the force of medium-range nuclear-tipped missiles that are deployed for possible operations against Japan.

Moreover, within the PLA, there appears to be some confidence that Japan's rhetorical commitment to the defense of its interests in the area of Taiwan would not be followed in crisis and war by actual Japanese support to U.S. military operations there. According to this view, Japan's interest in Taiwan is "practical, not principled," meaning that it is a matter of convenience to motivate military investments by Japan but reflects no deep and abiding national interest in the issue under dispute.

PLA experts also tend to dismiss the actual operational significance of Japan's potential missile defense systems, on the argument that China will have sufficient numbers of missiles to overwhelm any such defense.

This characterization of China's thinking about Japan as a military problem reflects the cumulative wisdom of a small number of U.S. experts, as developed in a series of personal and professional interactions over many years. It also reflects an effort to interpret various recent Chinese documents, including for example *The Science of Military Strategy.* But it should not be understood as systematic. In fact, there may be significant gaps in the U.S. expert community's understanding of how China's expert community thinks about Japan and of how China's military planners actually prioritize threats. We cannot be as confident in these assessments as we would like to be, not least because of the absence of systematic exploration of these topics.[4]

Defense planning in Tokyo: anticipating China's rise

In Japan's Defense White Paper, China's rise is a top and explicit priority. In the mirror-image of the assessment in Beijing, defense planners in Tokyo argue that China's emerging military capabilities "surpass its legitimate needs for national defense." Japanese security experts speak increasingly about the need to come to terms with China's rise and to hedge against its consequences. But in the last couple of years there has also been a certain "centering" of Japanese opinion on the "China threat," with a loss of influence by both the hardest hardliners and the softest softliners. Japanese concerns about China's military ambitions emerge at a time of significant debate in Japan about how to modernize and transform the JSDF (how "muscular" should it seek to become?)

[4] In an effort to lay some foundations for this analysis, Eric McVadon prepared a paper for this workshop which provided a systematic review of Japan in China's military planning. This paper is available from the author or from the workshop organizers.

and indeed more broadly about Japan's role in a changing international system and in partnership with a United States deeply committed to a new "long war." Japan's thinking and debate about China are linked to these larger questions.

Some security experts in Japan worry about a potential divergence of U.S. and Japanese strategies vis-à-vis China. Some see Washington as tempted by Beijing's calls for a condominium strategy. Accordingly, they focus on how to participate in the step-by-step strengthening of the U.S.-Japan alliance as part of a broader strategy to keep the United States firmly engaged with Japan. But the prevailing pattern today is of convergence, not divergence.

Japanese military planners are focused on China's increasing capability to project power into the maritime environment (with longer-range aircraft optimized for anti-ship attack and a rapid increase in submarine operations) as well as China's focus on information warfare and other asymmetric capabilities. China's development of these capabilities has helped make Japanese leaders more receptive to Washington's efforts to strengthen the alliance. These Chinese capabilities press on a set of Japanese security concerns far broader than Taiwan and Japanese military planners now worry about flashpoints other than Taiwan, such as conflicts over energy resources in the East China Sea.

Despite these concerns, however, military experts in Japan seem to worry more about the intentions driving China's military buildup than they do about actual new operational capabilities. But there is one area where Japan cannot avoid a debate about real Chinese capabilities and real Japanese responses: missile defense. Tokyo must decide how much to invest in missile defense against the China threat, as opposed to the North Korean missiles. The China threat is more challenging, given the increased numbers and quality (range/speed) of Chinese missiles relative to the North Korean threat. It is important to recall that military spending in Japan remains below 1 percent of GDP and is under continued political pressure. Missile defense is eating into other military Japanese military modernization priorities. Regardless, the political leadership has made a significant commitment to the United States. A major missile defense investment would significantly slow Japan's development of a more joint force that can be used for the broader roles and missiles of the evolving alliance.

Some in Japan also debate whether Japan should develop some capacity for independent strategic strike. They argue that this is necessary primarily in managing the emergence of a North Korea well armed with an arsenal of medium-range missiles but would also be useful for counterbalancing China's improving missile force. Advocates for this type of capability see missile defense and the U.S. nuclear umbrella as not sufficiently reliable to allow Tokyo to stand up to Beijing's future efforts at coercion. A small handful of people embrace this argument as a case for an independent Japanese nuclear deterrent. Most reject the nuclear option but call for other strike capabilities, on the argument that these would be "more usable" than nuclear weapons and thus more effective dissuaders of Chinese coercion. The debate over the right to and need for a preemptive capability against North Korean missiles supports this argument.

It is necessary again to ask how confident we should be of these characterizations of thinking in a foreign capital. After all, in Tokyo as in Beijing, security policy debates within the government are conducted behind closed doors. It may be that some significant Japanese views about China have not been well conveyed to American interlocutors. Additionally, Japanese institutions could do more to invest in the creation of expertise on China – and this includes the Japan Defense Agency. The potential for significant shifts in Japanese strategic culture is widely recognized, and some major political shock or insult to their security environment may induce significant departures in their perceptions of that environment.

Defense planning in Washington: assuring Japan

Assurance emerged as a major defense strategy objective in the 2001 *Quadrennial Defense Review*. The desire to assure U.S. allies reflects a general desire to sustain their belief in the credibility of U.S. security guarantees and a specific desire to dampen any incipient pressures there might be to acquire nuclear deterrents of their own. Assurance of Japan is only in part about meeting the challenges of China's rise; it is also about dealing with the emerging threat from North Korea. Moreover, Washington seeks to more fully enlist Japan as a full partner in the effort to protect the international system from new challenges, especially the challenges from WMD proliferation and WMD terrorism. Accordingly, from Washington's perspective, the alliance with Japan is more broadly based than just the military dimension. Partnering with Japan in the political and economic realms and encouraging Japan to play a more significant regional and global role in these realms are also U.S. objectives.

In pursuit of these objectives, the United States and Japan have set out an agenda for transforming the alliance, as reflected in the February 2005 "two plus two" statement issued by the Security Consultative Committee. It is an ambitious agenda related to the use of collective hard power and soft power tools to help make East Asia more stable and also to meet some of the emerging global challenges. But the strategy for implementing it is perceived by some as weak. And Japan's actual capacity to contribute globally is quite small – as for example to peacekeeping, disaster relief, and other humanitarian operations. The two sides hope that, over time, the SDF's posture will evolve to make it more "joint" and more effective in operating with the United States. The realignment of U.S. bases in Japan is an important but not dominant aspect of this effort, and important questions remain about how this will actually be implemented. Widely interpreted in China as signaling a new Japanese commitment to the defense of Taiwan, the "two plus two" statement in fact simply repeats prior Japanese official commitments to the resolution of the Taiwan issue by peaceful means.

Despite the "two plus two" agreement, there is continued debate among American experts about just how much more the United States should ask of Japan in areas beyond its immediate territorial waters. How fully should it participate in the emerging global missile defense architecture? Should the formal regional restriction on the alliance be removed (the current Defense Guidelines limit the responsibilities of the alliance to the defense of Japan and the "Far East"). How far should constitutional reform go? Some Americans believe that the United States runs the risk of pushing forward on these issues simply because of momentum and not with a clear notion of what further changes in the alliance would serve U.S. interests.

Japanese experts too are debating where the alliance should be headed beyond the "two plus two" framework. Some articulate a desire to "use the United States" more effectively to blunt China's rise. Others talk about "entangling" the United States in the East China Sea dispute in a way that forces Washington's hand to clearly side with Tokyo. There is also a quiet but important Japanese debate about the credibility of extended U.S. nuclear deterrence. Some are unworried because the conventional balance in the region strongly favors the United States and Japan over China; others are worried because they see the balance shifting and doubt the willingness of the United States to trade Los Angeles for Tokyo.

An interesting sidebar in the workshop discussion asked: what does Japan have to do to assure the United States? In other words, what steps does it need to take to reassure decision-makers in Washington that the desired path to deeper cooperation is being taken? Among the suggestions from the group were the following: halt leadership visits to the Yasukuni Shrine, show more flexibility on territorial boundary disputes, find a solution with China to the resource dispute in the East China Sea, and take steps to re-build political relations with South Korea.

Another sidebar invoked the "responsible stakeholder" argument as elaborated by Deputy Secretary of State Robert Zoellick in the dialogue with China. Some in the United States, especially those who have dealt with Japan in the trade and finance realm, have seen Japan as less than fully willing to honor its responsibilities to the rules of the international system and to the preferences of the United States. They tend to perceive Japan not as a responsible stakeholder but as a free-rider. Might this perception grow in Washington, especially at a time when the U.S. policy community is no longer dominated by Japan specialists? This risk is real. But for the moment it is not substantial. The current Japanese government is doing a lot to support the desired transformation of the alliance. But whether Japan will be seen to be doing enough – and to be transforming quickly enough – will remain a politically volatile question.

Defense planning in Washington: dissuading and deterring China

The 2001 *QDR* introduced the concept of dissuasion to the defense community (more precisely, it reintroduced it after a long period in which nuclear deterrence came to dominate American strategic thought). The United States seeks to both deter China from unprovoked military action in the Taiwan Strait and elsewhere and to dissuade it from a choice to compete with the United States on a peer adversarial basis.

The strategy for deterring China from action in the Taiwan Strait seems clear enough – to so compose U.S. (and Taiwanese) military forces so that China cannot conclude that it has gained war-winning advantages with its modernization program. But the strategy for dissuading China might generously be described as a work in progress. The 2001 *QDR* said almost nothing about how to operationalize dissuasion. The 2006 *QDR* somewhat redefined the problem, with its focus on "rising powers at strategic crossroads" and the desire to persuade them to choose the path toward "responsible stakeholder." The core idea reflected there is to so compose U.S. military capabilities as to convince any foreign leader contemplating some form of military competition aimed at

gaining a significant advantage over the United States that this cannot result in success whatever the level of effort and investment made. Accordingly, the 2006 *QDR* sets out a program of investments in U.S. conventional and strategic capabilities aimed at imposing costs on adversaries, minimizing costs to the United States of their competitive developments, and sustaining U.S. scientific and technological advantages over potential competitors. At the conventional level of warfare, the *QDR* emphasizes capitalizing on enduring U.S. advantages in key operational areas such as long-range strike, stealth, air dominance, and undersea warfare. At the strategic level, it emphasizes tailoring the so-called New Triad to create a wider-range of conventional and non-kinetic strike options and to afford some capacity for protection from missile attack. How much of these New Triad capabilities might be enough for these purposes is unclear.

How these efforts to operationalize dissuasion might influence the decision-making calculus of China's military and civilian leadership is unclear. They might be decisive. They might be irrelevant: major powers may not be dissuadable and/or tailored dissuasion strategies may add little to the inherent, latent capability of the United States to compete with other major powers if they so choose. Alternatively, they might be counterproductive – by persuading them that the U.S. seeks not military power "second to none" (in the words of the *National Security Strategy*) but "absolute security" that enables it full freedom of action against any and all challengers (a notion also reflected in the *National Security Strategy*). This led us to speculate that the potential consequences of getting dissuasion wrong may be more impressive than the potential consequences of getting it right.

In contrast to the 2006 *QDR*, the spring 2006 "Annual Report to Congress on the Military Power of the People's Republic of China" seems to paint a picture of a China that has gone past the crossroads and down the path to competition. To be sure, it references the future choices China's leaders will have to make "as its power and influence grow." But the report depicts China as well embarked on a military buildup for regional contingencies including but not limited to Taiwan, for broader power projection, and for strategic coercion of the United States. The report calls on China's leaders to "adequately explain the purposes or desired end-states of their military expansion." This dovetails with Defense Secretary Rumsfeld's agenda for U.S.-China military-to-military relations and its focus on "demystifying one another."

These two different bodies of ideas in the 2006 *QDR* and the 2006 Annual Report seem poorly integrated. It is not clear how enhanced transparency contributes to dissuasion. Nor is it clear how to operationalize dissuasion so that Beijing's leaders choose deeper strategic cooperation as opposed to intensified military competition. Too often in the policy discussion of dissuasion and deterrence of China, it seems that the U.S. expert community has forgotten that the verbs are transitive – meaning they require an object to make sense. Deterring China *from what*? Dissuading China *from what*? The summary above suggests a precision to answers to these questions that often seems missing from the expert community discussion.

An interesting sidebar in this discussion was about whether it is China and not the United States that has a strategy for dissuasion and accordingly whether the United States should be pursuing a counter-dissuasion strategy instead of a dissuasion strategy. In other words, China may be well focused on persuading the United States not to choose

competition with China, by signaling its "peaceful rise," by hiding its military investments, by posturing in ways to suggest potent new asymmetric capabilities, and by co-opting or threatening U.S. partners in Asia. By this logic, the challenge to the United States is to embrace this competition despite all of the arguments in favor of cooperation and to guard against developments in the economic and political sphere that inhibit U.S. freedom of action in the security sphere.

There was also an important sidebar about the linkage between military modernization in China and the broader dynamics of economic, social, and political change. China's ability to sustain its security strategy is hostage to its continued economic growth, to domestic stability, and to civil-military relations. The United States should not simply extrapolate current defense investments and assume that China will have emerged as a potent military competitor a decade or two hence. In a basic sense, the reform effort in China has plucked all the "low hanging fruit" and the more difficult challenges lie ahead.

A closing point of discussion focused on how to balance efforts to operationalize deterrence with efforts to operationalize dissuasion. It seems possible that the two efforts could be badly misbalanced. Tailored deterrence strategies might so overtly posture U.S. forces to negate China's ability to defend its vital interests as to persuade its leaders to fund new types of military competition and more aggressively counterbalance U.S. interests globally. Call that a failure of dissuasion. Tailored dissuasion strategies that promise significant new gap-closing capabilities for the United States might persuade China's leaders to exploit a moment of opportunity over Taiwan before those new U.S. military capabilities reach the field. Call that a failure of deterrence. Balance is key, but how to achieve it seems like unexplored territory.

Defense planning in Washington: balancing assurance, dissuasion, and deterrence

Balance is also key in the twin efforts to assure Japan and dissuade/deter China. Are they balanced to cope with the potential for more intense Sino-Japanese military rivalry? Little thinking seems to have developed on this question so far.[5]

As with the preceding discussion of dissuasion and deterrence, it is possible to conceive outcomes that are undesirable from a U.S. perspective. If the United States allows the transformation strategy for the U.S.-Japan alliance to become increasingly focused on China as "the problem," leading to increasingly robust military capabilities directed against China, then leaders in Beijing may conclude that more dramatic efforts are needed to resist encirclement and containment. In the name of assuring Japan, the United States may end up motivating more intense Chinese competition. If the United

[5] A valuable exception: James J. Przystup and Phillip C. Saunders, "Visions of Order: Japan and China in U.S. Strategy," *Strategic Forum* No. 220, Institute for National Strategic Studies, National Defense University, June 2006.

States allows the strategies for dissuasion and deterrence of China to produce intensifying political conflict with Beijing, then leaders in Tokyo may conclude that the United States is drawing them into a renewed Cold War for hegemonic reasons of its own and in a way that harms Japan's economic, political, and security interests. In the name of dissuading and deterring China, the United States may end up sewing deeper debate in Japan about U.S. hegemonism and resistance to moving forward with the U.S. alliance.

These are worst case conjectures. The best case is that efforts will be mutually reinforcing: that two rising powers, one assured and the other dissuaded and deterred, will find that they are secure in a changing Asia and perceive the triangular relationship with the United States as serving their national interests. It is difficult to find any evidence that the route to this best case result has been sketched out analytically.

Crisis management in the East China Sea

On the second day of the workshop we utilized a tabletop exercise to think through the potential dynamics of a Sino-Japanese military incident at sea in the East China Sea and invoking questions of the U.S. response.

The scenario was scripted in the fall of 2006 and had the following main elements:

- Slow but steady escalation of tensions over the Chunxia gas field and competing territorial claims made by China and Japan.
- A collision between a Japanese frigate and a Chinese destroyer above the Chunxia gas field that causes loss of life on both sides and leaves both vessels afire and the Chinese vessel incapable of operating under its own power.
- Differing accounts of the actions immediately preceding the incident.
- A robust Chinese naval and air deployment including the best of its new maritime assets in the region.
- More modest Japanese deployments.
- The presence of 3 U.S. destroyers 18 hours from the incident site.
- A new Japanese prime minister committed to improving Sino-Japanese relations but not yet certain of how to do so and under some considerable public pressure to stand up to Chinese bullying in the East China Sea.
- A Chinese government under public pressure to protect Chinese sovereignty.
- A U.S. government facing the prospect of significant mid-term election losses but also committed to preserving the "responsible stakeholder" dialogue with China and to the assurance of Japan.

Workshop participants were divided into three teams to work through a series of questions about the crisis management strategies of Beijing, Tokyo, and Washington. They were asked a series of questions about the military and political strategies that would be formulated, the anticipated actions of others, rules of engagement, civil-military relations, and both red-lines and green-lines (the latter a reference to measures that could be taken to de-escalate conflict). The following key insights emerged.

First, despite the different national strategies adopted, they shared a common theme: balancing resolve and restraint. Each needed to demonstrate a commitment to defend its interests but each also needed to demonstrate restraint to others.

Second, each was confident that its messages of resolve and restraint would be correctly interpreted by the recipients, though the play of the game called this confidence into question. Efforts by China and Japan to signal resolve through military deployments and tough public statements incited public opinion in the other country such that it became more difficult for the leadership to demonstrate restraint. As public opinion became inflamed, leadership options narrowed.

Third, the Japan team took many more steps to demonstrate its resolve than anticipated by either of the other two teams. It quickly took steps to buttress the initial weak show of force and also had clear expectations of significant U.S. military engagement. The U.S. team failed to anticipate most Japanese expectations and demands, despite a serious effort to formulate a plan of action to assure Japan.

Fourth, the China team expected more even-handedness from the U.S. team than it got. The U.S. team sent a private message to China deeming it the provocateur which, in China's eyes, neglected Japanese recalcitrance in negotiating a fair settlement to the East Asian energy dispute.

Fifth, the U.S. team focused on public and private messages and opted not to treat the incident as military in nature. It bet that others would make a similar choice. And indeed, each team opted to treat the crisis as a humanitarian incident and to write rules of engagement and maintain close civilian control of the situation so as to avoid unwanted escalation. But this was criticized by some participants on the argument that the focus on rapid crisis de-escalation and termination seems to miss the entire point about rivalry. In other words, it may be that decision-makers in Beijing and Tokyo would manage such a crisis not to terminate it quickly but to teach a lesson to the other so that the Asian order to come reflects the proper balance of deference. We did wonder how different the national strategies might have been had Chinese and Japanese experts played their own national teams and whether there isn't an American bias for crisis de-escalation as opposed to crisis generation and manipulation.

The tabletop exercise drove home two main messages about current, real world capabilities. First, the lines of communication necessary to manage such a crisis seem badly underdeveloped. They depend too heavily on fragile and often short-lived personal connections. Second, in none of the three countries does there appear to be much "bench depth" that would be called on in the relevant institutions to help define strategies, analyze and assess interim developments, understand the context in which the other countries approach the crisis, and integrate with other relevant national partners. One participant lamented that the EP-3 incident should have been a wakeup call in this regard, but its impact in crisis planning seems to have been short-lived.

Next steps

The three workshops conducted in the first half of 2006 have now explored the different elements of strategic rivalry between China and Japan – historical, political, economic, and military. They have also touched episodically on policy implications for the United States. In a final workshop in late August, the study team will convene to distill key policy recommendations. It will also consider whether to undertake follow-on work, perhaps as part of a larger process that opens up the dialogue to experts from other countries, including Japan and China.

Disclaimer: This summary is the personal interpretation of the author. It attempts to capture a wide-ranging discussion among people of many different opinions and any suggestion of full agreement or consensus among the American experts would be misleading. An earlier draft of this summary was reviewed by other participants in the study effort, but the author alone is responsible for its final contents. The views expressed here should not be attributed to any of the cosponsoring institutions.

Conference Report Four:
"Implications for the United States"
by Brad Glosserman

The fourth workshop on the Sino-Japanese Rivalry, a series of meetings hosted by the Center for Naval Analyses, the Institute for Defense Analyses, the National Defense University's Institute for National Strategic Studies, and the Pacific Forum CSIS, was held in Honolulu, Hawaii, Aug. 25-26, 2006. Over 50 experts on Japan, China and U.S. foreign policy attended the meeting, which focused on the rivalry's implications for the U.S. and its interests, and attempted to fashion a U.S. response to it. In addition to substantive discussion of the issue, the meeting featured a tabletop exercise that explored how the three governments would respond to an incident at sea and the lessons that could be drawn from this episode.

Defining the Relationship

The workshop began with a review of previous meetings. Since those discussions have been summarized in other reports, they will not be repeated here. Instead, comments below identify key points that emerged during that review.

The Political Dimension

Recent increased tensions notwithstanding, relations between Japan and China have generally been positive since the end of World War II. This relationship was founded on common intellectual, social, and cultural origins, was leavened with generous dollops of aid from Japan to China (motivated by those feelings of kinship and some guilt from the war), and cemented by a common distrust of the Soviet Union. The bilateral relationship began to deteriorate in the 1990s, when their common enemy collapsed, China's historic economic resurgence took root and generated a new self confidence, and changes in Japan and China lifted old restraints on thinking about the other. In short, both countries became more willing to criticize the other. And, there are ample reasons for the two countries to clash: territorial disputes, rivalry for regional leadership, questions over history, to name but three.

As in previous meetings, much of the discussion turned on the degree to which visits by the Japanese prime minister to Yasukuni Shrine constitute a core problem for Sino-Japan relations or are a pretext: while the visits are "an affront to the feelings of 1.3 billion Chinese," many believe that if stopped, Beijing would come up with another complaint about Japanese behavior. While all participants agreed that there are plenty of sources of tension in their relationship, halting visits would end a visible problem and test the stated resolve of both governments to improve relations. At a minimum, top-level summitry could proceed.

In other words, the next Japanese prime minister has an opportunity to reframe the relationship. There was virtually unanimous agreement that Abe Shinzo would succeed Koizumi Junichiro as prime minister, so considerable time was spent discussing his outlook, influences, and likely actions. Abe is a nationalist, but others credit him with being a flexible and creative politician. While a breakthrough on relations with China

would be a feather in his cap, one participant said that Abe was anticipating long-term competition with China.

No one denied the existence of powerful nationalism in both countries, although there was some disagreement about its extent and influence. Traditional political elites in both countries are losing their grip on political debate, and new entrants to this discussion are usually from the grassroots and more inclined to take a harsh view of the other. Chinese feelings are well known, but there is a growing sense in Japan that the country has not received credit due for helping China in the postwar years or for its dedication to peace and rejection of war as an instrument of national power. Still, most participants agreed that neither government has the desire to fan the flames of nationalism; the question appears to be whether they can control it if they are whipped up.

The Economic Dimension

Most participants see the bilateral economic relationship as a shock absorber. The two economies are increasingly intertwined. This dampens tension between them, but questions persist as to how long "hot economics, cold politics" can be sustained. Although this will change over time, for now their economies remain complementary rather than competitive, and China has become Japan's largest trading partner. China does not want to see problems with Japan halt the flow of capital and technology that is critical to its continuing development. Its interest in stability has prodded Beijing to be a better citizen: it is behaving more like a responsible stakeholder on economic issues even though progress is uneven and the country still has a long way to go.

Chronic global imbalances are a source of concern and several participants speculated on the impact of a readjustment. For example, would Japan provide a convenient scapegoat in the event of rising social tensions in China resulting from an economic downturn? As in other meetings, rising energy demand in Japan and China was considered both a source of potential competition and an opportunity for cooperation. Increasing reliance on oil from the Middle East adds another factor to an already complicated political situation in that troubled region and explains the intense focus on territorial disputes in the seas adjacent to China. However, there is considerable uncertainty regarding estimates of the hydrocarbons in those areas. It would be extremely helpful to have authoritative projections of those reserves.

The Military Dimension

Increasingly, defense planners in both countries see the other as a competitor for political, economic, and military advantage in East Asia. Both sides worry about the intentions driving the other's security policy. China's modernization of the PLA is not transparent; Japan has yet to fully articulate its desired "end state" – what "normalcy" means for the country's political and military posture. Neither side believes the other's declarations.

Discussion of the military dimension of the Japan-China relationship focused on three points. The first was what can be called bureaucratic politics. There was some speculation about the degree of control over – or more accurately, the communications between – the People's Liberation Army (PLA) and other parts of the government and

party bureaucracy. Did diplomats know when Chinese submarines or ships were in Japanese waters in seeming violation of bilateral agreements regarding notification? Does the civilian leadership have the information it needs to handle crises if and when they occur? Do any gaps reflect a structural problem or President Hu Jintao's lack of military experience and credibility relative to his predecessors?

There is often an assumption of a unified Chinese strategy in dealing with Japan. Evidence suggests that elements of the foreign policy and security community are not necessarily working in unison. That has profound implications for crisis management. While there are fewer questions about civilian control over Japan's military, it was noted that its defense bureaucracy is changing. These new arrangements should be studied so that the U.S. can cultivate individuals who will staff these positions and so that it understands the chain of command in the event of a crisis.

Bureaucratic politics manifests itself in another context: who is driving weapons procurement? Most observers studying PLA modernization ask "how much is enough?" and how modernization relates to external threats. But "who" may be as important as "why" when assessing China's defense posture (a phenomenon not unknown in the U.S.). These bureaucratic questions are also important in discussing the notion of "dissuasion" in dealing with China. One speaker noted that defense planning is a Department of Defense driven (if not owned) process; the Department of State and the National Security Council have little input. But the coordination of options including deterrence, assurance, and dissuasion requires input from those other actors. The failure to do so complicates (if it doesn't render impossible) the construction of a coherent strategy.

One participant pointed out that U.S. strategy depends heavily on the military to implement its policy of dissuasion, even though there are a number of instruments of national power that are available: "when you have a hammer, every problem looks like a nail." More troubling are budget constraints that will lock the U.S. into existing responses. There will be little incentive (or ability) to contemplate alternatives as budgets get tighter.

A second focus of discussion was the role of the U.S.-ROK alliance. Although this workshop series is focused on China-Japan relations, several participants reminded the group that the Japan-Korea relationship is impacted by those relations as well as having an influence on them. Effective utilization of U.S. alliances with Japan and South Korea requires coordination between them, even if not officially. Yet many of the sources of tension between Beijing and Tokyo also exist between Seoul and Tokyo. And China appears eager to exploit them to drive a wedge between the two U.S. allies, and between the U.S. and its ally on the Korean Peninsula. All three governments (U.S., Japan, and the ROK) need to pay more attention to the developments in the other two capitals and the state of the alliances. The three need to study such concepts as pre-emptive strikes and deterrence and figure out how their individual strategies can be used to enhance common strategic objectives; at times, they seem to conflict.

The third topic was the role of the U.S.-Japan alliance and how its modernization impacts Japan-China relations. China appears to accept the alliance as a geopolitical fact of life – at every opportunity Chinese officials and analysts insist that Beijing has no

interest in kicking the U.S. out of the region – but they are also convinced that the U.S. is encouraging Tokyo to take a harder line against China. Modernization is OK, but China fears the alliance is becoming too comprehensive and exclusive, and its focus too centered on countering China. China wants the U.S. "to balance its bilateral relations better." That is problematic given the structural inequities in the trilateral relationship: Washington and Tokyo are allies; China is not.

Chinese unease is magnified by declarations by both governments that they have a stake in developments in the Taiwan Strait. Even though statements such as the Feb. 2005 "2+2" declaration reiterate long-term interests or sound benign – that the two governments seek a peaceful resolution of cross-Strait issues – any expression of concern, particularly by "the alliance," touches a core Chinese national interest.

The U.S. wants a more active and responsive partner in Japan. But there are worries that the U.S. is not sufficiently attuned to developments in Japan, in particular how Japanese see the alliance and whether those views are in accord with U.S. thinking. One view focuses on potential Japanese entanglement in U.S. foreign policy adventurism and manifests itself in a call for greater isolationism. This is a minority voice, but it has the potential to grow, given Japan's history of pacifism. Do attempts to strengthen the alliance feed this undercurrent of mistrust?

There are also security analysts in Japan who see the alliance as an instrument to assert Japanese interests, a perspective that also causes anxiety in China. Growing insecurity in Japan, the product of Chinese military modernization and North Korean missile tests, makes this an increasingly sensitive issue in Tokyo. This view is especially important since it goes to the heart of Japanese expectations of the U.S. in a crisis: will the U.S. be present when Japan calls? Most U.S. discussions of the alliance see the relationship from the other end of the telescope: what will Tokyo do when the U.S. requires its assistance? One participant argued the U.S. should be thinking more expansively about the alliance: how can it be used to dampen China-Japan tensions?

Crisis Management in the East China Sea

The first day concluded with a tabletop exercise that explored the dynamics of a military incident between China and Japan in the East China Sea.

The scenario was scripted in the spring 2007 and had the following main elements:

- Slow but steady escalation of tensions over the Chunxia gas field and competing territorial claims made by China and Japan.
- A collision between a Japanese frigate and a Chinese destroyer above the Chunxia gas field that causes loss of life on both sides and leaves both vessels afire and the Chinese vessel incapable of operating under its own power.
- Differing accounts of responsibility for the collision, including with regard to the competing claims and the two ships' actions immediately preceding the incident.
- A progressive Chinese naval and air deployment including the best of its new maritime assets in the region.
- More modest Japanese deployments.

- The presence of 3 U.S. destroyers 18 hours from the incident site.
- A new Japanese prime minister who seeks to improve Sino-Japanese relations and whose party feels the U.S. has not been adequately responsive to Japanese concerns about threats to its sovereignty.
- A Chinese government under public pressure to protect Chinese sovereignty.
- A U.S. government that experienced significant mid-term election losses but remains committed to preserving the "responsible stakeholder" dialogue with China and to the assurance of Japan.

This exercise was similar to that conducted in workshop three with minor modifications regarding deployment of Chinese military assets in response to the incident. As in the previous exercise, the group was divided into three teams to work through a series of questions about the military and political strategies each side would adopt, anticipated actions of others, messages that would be sent, rules of engagement, the acts that would precipitate departures from anticipated choices, and the impact of the strategic rivalry between Japan and China on the crisis management strategy. Individuals who had taken part in the first exercise were put in a different group for the second.

Core concerns differed among countries.

- The Japanese country team sought to demonstrate that it could handle the crisis on its own but wanted assurance from the U.S. that it would back Japan throughout the incident.
- The Chinese country team aimed to stop a pattern of Japanese escalation in contested waters (to protect national interests and to assuage public opinion) and to make Tokyo look bad in the eyes of the world.
- The U.S. team sought to de-escalate the crisis and then ensure that "the right lessons" were drawn: that the U.S.-Japan alliance is strong, that escalation by China would have a cost, that it is better for Japan to work through the alliance than alone, and that the region should see the U.S. as able to manage a crisis and as the most powerful actor in the region.
- Both the Japanese and Chinese teams also wanted to contain or de-escalate the crisis but attached equal or greater importance to not appearing to back down or appear weak vis-à-vis the other; the latter appeared to trump the first objective.

Several key points emerged from the discussion. First, communications between Tokyo and Beijing were less than optimal. It is unclear if there exist reliable channels of communication between the two countries in an emergency. Moreover, the Chinese team sought to minimize contact with Tokyo and marginalize it as a player. Finally, the Chinese team's attempt to signal its desire to control escalation – by the "partial deployment" of military assets after the incident – was unlikely to be interpreted as such by the U.S. and Japanese teams. The notion that assets could be deployed "halfway" was dismissed by naval specialists: "once a vessel is away from the pier, it is deployed."

Second, there was a fundamental difference in priorities between the Japanese and Chinese teams. As noted, the Chinese team sought to diminish Tokyo's role in this crisis and used the incident to reduce Japan's influence in the region, by painting it as an

irresponsible actor. For its part, the Japanese team wanted to demonstrate that it could handle such a situation without relying on its ally.

Third, while the Japanese and U.S. teams both saw the crisis as an opportunity to develop confidence building measures between Tokyo and Beijing, neither team saw the initiation of such measures as a priority.

Fourth, the results suggested that all three parties would attempt to exercise restraint, and to give others the opportunity to act with restraint. But there is good reason to think that each country's crisis management strategy could paint the other side into a corner in which restraint serves its interests poorly and some escalation seems like a reasonable risk. Successful avoidance of the risks of escalation would require a level of clear and consistent signaling among the sides that seems very unlikely. As a group we were left uncertain about what weight to assign those risks – but we were unanimous in our sense that they are being underestimated by policymakers.

China-Japan Rivalry: Implications for the U.S.

On the second day, we turned to the implications of this rivalry for the United States. The U.S., Japan, and China have shared interests and concerns in the region – e.g., shared growth and prosperity, fighting terrorism, preventing the spread of weapons of mass destruction, securing sea lanes and freedom of navigation. If tension between Tokyo and Beijing impedes the cooperation needed to accomplish them, then there is a problem. Ideally, however, the governments will recognize that cooperation is in their own national interest and that logic will prevail.

For the U.S., an important implication of rivalry is the diminution of Japanese power and influence in Asia. The U.S. and most governments in the Asia Pacific want Japan to be an active partner in regional affairs; the U.S.-Japan alliance is designed to encourage and maximize Japanese assets in the pursuit of shared bilateral interests. While most policy makers understand that there are many causes of the friction between Japan and China, there is a widespread public perception that Tokyo is primarily responsible for tensions between the two countries. There was anecdotal evidence that Southeast Asia is "pretty fed up with Japan." Tokyo must do more to combat this view.

Perceptions matter in another way. Asians (and some in the U.S.) argue that the U.S. is responsible for Japan's hard line against China, and that Washington is enabling Tokyo. The view persists no matter how often it is denied. This is an extremely damaging notion if, as some workshop participants argued, U.S. influence and authority in the region rest on its ability to manage security affairs in the region and promote stability. There was agreement that the U.S. should, as a diplomatic first principle, "do no harm," but some argued that Washington's refusal to publicly comment on some of the most controversial issues in Northeast Asia – territorial disputes, visits to Yasukuni Shrine – contributes to the erosion of its image and authority.

There was general agreement that the rivalry between Japan and China is manageable; economics would, in particular, "provide a concrete floor for the relationship." (Skeptics noted the prevalence of such beliefs before World War I.) There

was speculation that tensions might slow Asian integration or the creation of new security architectures, but it is unclear if that is a bad thing for the U.S. This view was challenged by those who asserted that the balance of power in the region is fluid and a lack of progress on regional integration was not necessarily in the U.S. interest if the alternative was more pronounced balancing between the U.S. and its allies on the one hand versus other nations. While China's rising "soft power" is the source of some angst in Washington and allied capitals, it was noted that Japan's pursuit of "principled multilateralism" had many adherents. Much less remarked, but equally important, were the efforts of other important regional actors, such as Australia and India, to seek common cause with Tokyo, or to respond positively to its overtures.

Recommendations for U.S. Policy

What then should the U.S. do? When dealing with Beijing, several participants called on Washington to be more responsive to Chinese concerns. (As a starting point, the U.S. needs to determine what core Chinese national security interests are and what the U.S. position on them is.) The most sensitive issue for China is Taiwan. While the U.S. and Japan feel the language of their February 2005 "2+2" statement – which encourages China to play a peaceful and constructive role in the region and identifies a peaceful resolution of issues between Taiwan and the PRC through dialogue as being a shared objective – is not provocative, Chinese disagree. One participant called it "quite confrontational" for Beijing. He argued that the U.S. is insensitive to Chinese concerns across a range of issues, especially when Japan is involved.

Japanese involvement in Taiwan issues is especially problematic for China. On the one hand, several speakers noted benefits from a U.S. perspective: a role for Japan in a Taiwan contingency complicates PLA planning and Tokyo's diplomacy helped swing European opinion when the EU contemplated lifting the embargo on arms sales to China. On the other hand, Taiwan is reaching out to Japan to strengthen ties between Taipei and Tokyo; there is talk in Taiwan about the U.S. and Japan as "allies." Nothing could be more inflammatory to Chinese ears and more certain to increase suspicions of the U.S.

U.S. East Asia policy has traditionally been aimed at "assuring" Japan and "dissuading" China. But, does China also need to be assured, albeit in ways that do not undercut the U.S.-Japan alliance? Many believed the U.S. should do more to assure China, whether the issue is Taiwan, legitimate Chinese national interests more generally, or the limits of the U.S.-Japan alliance. The Department of Defense and the Pacific Command face a particular challenge, insofar as their institutional responsibility is to prepare for war while simultaneously "engaging" China. It is unclear how well a "hedging strategy" reconciles the two – or if it can. A clearer definition of what constitutes hedging would be helpful.

Assurances to China must be balanced against the insecurity they might create in Japan, however. Tokyo has long harbored fears of abandonment, and they have spiked on several occasions. But Japanese thinking about the alliance – and about security affairs more generally – has evolved in recent years. Washington must understand these changes and recognize that they oblige the U.S. to see the alliance with Japan in new ways, too.

An ongoing U.S.-Japan strategic dialogue about the purpose of the alliance and core strategic concerns is one place to start. North Korean missile tests and the possibility of a nuclear test have triggered a noisy public debate in Japan about the country's capabilities and needs. The U.S. should be part of that discussion. At a minimum, the U.S. needs to understand what Japan is talking about, its terms of reference. And how the alliance fits into that debate. A radical change appears to have taken place. Tokyo now seems to think of the alliance as an instrument in its diplomatic toolbox, whereas traditionally the alliance has been considered a mere framework for diplomatic action in Tokyo and the U.S. has considered it one of the instruments of ***its*** foreign policy. Most significantly, as both table top exercises illuminated, the U.S must understand what Japan expects of it in a crisis and be prepared to respond.

Building Cooperative Trilateral Relations

There was no consensus when discussion turned to building cooperative trilateral relations. Participants identified a long list of areas where cooperation seemed possible. These included:

- policy planning coordination;
- financial talks on appropriate exchange rates and private sector concerns;
- trade security concerns and customs procedures;
- a "three E dialogue" on energy that examined cooperation on exploitation, efficiency and externalities;
- science and technology cooperation, including space cooperation;
- nonproliferation policy, such as views of international regimes and how to strengthen them, export controls, and national capacity building;
- planning for disasters, both natural and manmade (including WMD attacks and pandemics); and
- military search and rescue operations, and humanitarian intervention.

But the room was divided about the wisdom of forcing the issue. Most preferred that cooperation emerge organically from discussions among the three countries; it would be a mistake for the U.S. – if Washington could focus its attention on the region – to push three-way policy coordination. Rather, the U.S. should focus on "getting Japan right." This includes recommencing a strategic dialogue to address the conceptual questions identified in this summary.

To the degree that U.S. action is required, it was suggested that

- Washington use existing forums rather than create new ones;
- the U.S. aim to encourage the transformation of the Chinese regime so that it complies with global and systemic standards – i.e., becomes a "responsible stakeholder";
- it encourage Japan take a more active role in the trilateral relationship;
- efforts be made to include South Korea in cooperative programs.

Several participants saw the need to more deeply examine the impact of Japan-China tensions on the ROK, and vice-versa. While the workshop series focused on the China-Japan rivalry, no issue was discussed in which South Korea did not have an interest, and no trilateral action was contemplated in which ROK cooperation would not benefit. One participant asserted that "the best triangle is a square." Both Korean and Japanese security planners need a better understanding of what the other is thinking and how their respective relationships with the U.S. work. The U.S. would also benefit from better insight into the differences between the two and what efforts it might make to help ease them. Tensions between Tokyo and Seoul can drive Korea deeper into the Chinese camp, with clear implications for U.S. regional security interests. Having Japan as a "common enemy" likewise brings Seoul and Beijing closer together in unhelpful ways.

Finally, the U.S. should ensure that there is no confusion about its interests and expectations. Even though China asserts it does not seek to interfere in U.S.-Japan alliance relations, much less in the overall bilateral relationship, to eliminate any ambiguity, the U.S. should make clear to China – and Japan – that it will not sacrifice relations with Tokyo for the sake of good relations with Beijing and that it seeks cooperative relations between Tokyo and Beijing. It should assure Japan that Tokyo will not be abandoned, but that the U.S. also seeks positive relations between Tokyo and Beijing. It should also encourage Tokyo to better explain to the U.S. and the world what is meant by "normalcy" and to better articulate its interests and regional and global ambitions. When the U.S. has issues with Japanese policy or behavior, it should pick its disputes carefully, focusing on those that matter to U.S. interests and upon which U.S. intervention can have an impact. When the U.S. does intervene, it should do so quietly and behind the scenes.

The most significant lesson from our workshop series is the growing need for the U.S. to pay close attention to what is going on in Asia. Profound changes are occurring throughout the region – both within countries and in their relationships. Washington must be closely attuned to these developments and the processes behind them. The clash of interests and perspectives makes it difficult to accurately assess developments – and as our discussions revealed, there is unlikely to be any single authoritative interpretation of what is going on, the implications for the U.S., and what should be done. President Bush's "special relationship" with Prime Minister Koizumi has undoubtedly helped consolidate alliance relations in a number of important ways, but it has also had an impact on how the U.S. responds (or has failed to do so) during instances when Tokyo's actions undercut or at least complicated the achievement of U.S. policy objectives. It is not clear how the impending leadership change in Japan will impact this. The time for clear signals and serious future-oriented dialogue is now. Simply put, the U.S. must devote more time and resources to Asia as the region accumulates more wealth, influence, and weight in the U.S. strategic calculus.

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